KPMG

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

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KPMG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Joaquin Hills Transportation Corridor Agency (the agency), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements as listed in the table of contents.

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, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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 Governmental Accounting Standards Board 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 audit 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 18, 2014

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, 2014 and 2013. 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 related 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 revenues, but with a shortage of gas-tax revenues to fund transportation improvements and increasing costs of building new roads, local officials began to study alternative ways to fund road projects.

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

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. At June 30, 2014 and 2013, averages of approximately 83,000 and 82,000 transactions, respectively, are recorded on the State Route 73 Toll Road every weekday, serving as an important, time-saving alternative route to Interstate 405 and Interstate 5 Freeways.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2014 (FY14) totaled \$129,103 compared to \$110,398 in fiscal year 2013, an increase of 16.9%.

Interest and principal payments of \$57,877 and \$36,890, respectively, were made on the agency's long-term debt in FY14 compared to \$57,877 and \$35,310, respectively, in the prior fiscal year. Accrual basis interest expense of \$115,446 in FY14 and \$116,007 in FY13 also included accretion on the agency's capital appreciation bonds of \$59,511 and \$58,130, respectively.

As of June 30, 2014 and 2013, the agency has \$370,829 and \$347,357, respectively, in restricted cash and investments subject to the 1993 and 1997 master indentures of trust. The agency also has \$23,651 and \$23,583, respectively, in unrestricted cash.

The agency's net position at June 30, 2014 and 2013 was \$(1,773,548) and \$(1,780,435), respectively. The negative net position results primarily because the agency's financial statements reflect 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.

(Continued)

(In thousands)

Overview of the Financial Statements

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

Financial Analysis

The following table summarizes the assets, liabilities, and net position of the agency as of June 30, 2014, 2013, and 2012:

	2014	2013	Percentage increase (decrease)	2012	Percentage increase (decrease)
Assets:					
Current assets	$ 99,031	93,489	5.9%	$ 86,735	7.8%
Capital assets, net	6,464	3,895	66.0	3,481	11.9
Other noncurrent assets	305,251	284,262	7.4	278,574	2.0
Total assets	410,746	381,646	7.6	368,790	3.5
Liabilities:					
Bonds payable	2,148,605	2,125,984	1.1	2,103,164	1.1
Other liabilities	35,689	36,097	(1.1)	36,670	(1.6)
Total liabilities	2,184,294	2,162,081	1.0	2,139,834	1.0
Net position	$ (1,773,548)	(1,780,435)	(0.4)	$ (1,771,044)	0.5

The increase in capital assets at June 30, 2014 is related to expenditures for All Electronic Tolling (AET). The agency completed its conversion to AET in May 2014 and now offers a wider range of payment options for customers. For customers who do not use FasTrak transponders, cashless tolling is based on license plate data. AET increases free-flowing traffic and ridership safety, and eliminates backups at toll plazas. It is expected that AET will also result in lower operating costs, and will reduce long-term maintenance and equipment replacement costs.

(Continued)

(In thousands)

The increases in bonds payable at June 30, 2014 and 2013 results from accretion on the capital appreciation bonds, offset by principal payments.

Following is a summary of the agency's revenues, expenses, and changes in net position for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	Percentage increase (decrease)	2012	Percentage increase (decrease)
Operating revenues:					
Tolls, fees, and fines	$ 129,103	110,398	16.9%	$ 102,543	7.7%
Development impact fees	3,807	8,711	(56.3)	5,580	56.1
Other revenue	7	23	(69.6)	—	100.0
Total operating revenues	132,917	119,132	11.6	108,123	10.2
Operating expenses	13,859	12,797	8.3	13,422	(4.7)
Operating income	119,058	106,335	12.0	94,701	12.3
Nonoperating expenses, net	(112,171)	(115,726)	(3.1)	(109,514)	5.7
Change in net position	6,887	(9,391)		(14,813)	
Net position at beginning of year	(1,780,435)	(1,771,044)	0.5	(1,756,231)	0.8
Net position at end of year	$ (1,773,548)	(1,780,435)	(0.4)	$ (1,771,044)	0.5

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 97.1% of total revenue in FY14 as compared to 92.7% in FY13. Tolls, fees, and fines increased 16.9% and 7.7%, respectively, over each of the two preceding years, primarily due to toll rate increases and increases in toll transactions. Development impact fees were $3,807 in FY14 compared to $8,711 in FY13, a decrease of 56.3%. 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 $13,859 in FY14 compared to $12,797 in FY13, an increase of 8.3%. Included in operating expenses is noncash depreciation expense on fixed assets of $842 in FY14, compared to $908 in FY13. Excluding depreciation, operating expenses were $13,017 in FY14 and $11,889 in FY13, an increase of $1,128.

Net nonoperating expenses for FY14 include investment income of $3,275 and interest expense of $115,446. For FY13, the agency had investment income of $281 and interest expense of $116,007.

(Continued)

(In thousands)

Capital Assets, Net

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

		2014	2013	2012
Construction in progress	$	—	1,070	249
Right-of-way acquisitions, grading, or improvements		119	119	119
Furniture and equipment		6,345	2,706	3,113
Total capital assets, net	$	6,464	3,895	3,481

Construction in progress included expenditures related to the AET project prior to its completion in FY14. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes transponders, toll and violations collection equipment, toll booths and buildings, and changeable message signs.

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

Debt Administration

The agency had outstanding bonds payable of $2,148,605, $2,125,984, and $2,103,164 at June 30, 2014, 2013, and 2012. The net increases in 2014 and 2013 of $22,621 and $22,820, respectively, are attributable to accretion of principal on capital appreciation bonds totaling $59,511 and $58,130, offset by principal payments of $36,890 and $35,310. All of the agency's toll, fee, and fine revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. While toll revenue has generally increased over the last several years and the agency continues to pay its operating costs and debt service, revenue has not grown as fast as originally projected when the bonds were issued. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenue, including establishing the toll rate stabilization fund, implementing toll rate increases, defeasing debt with proceeds from the Orange County bankruptcy settlement, and reducing operational costs by competitively bidding the major operations related contracts.

During FY11, bondholders consented to amending the master indentures and approved a supplemental indenture to revise the agency's debt service coverage ratio requirement from 1.3x to 1.0x, with a requirement that the agency continue to optimize revenues and amend certain terms for $430 million of the convertible capital appreciation bonds. The bonds amended had original maturity dates in 2018, 2020, 2022, 2023, and 2024, and the changes approved included revision of the maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively. The amendment and the new supplemental indenture improved the agency's financial position by reducing coverage ratio requirements and reducing annual debt service payments for 13 years. As a result of the amendment, the agency may use cash available in reserves to meet the debt service coverage ratio requirement if needed; however, the agency is required to optimize net toll revenues on an annual basis. The supplemental indenture provides for a 10-year accretion period on the amended bonds; during this time, interest on the bonds accrues at the same rates that applied prior to the amendment. Subsequent to the accretion period, a portion of the interest payable on the amended bonds will be junior lien interest subordinate to the principal and interest on the outstanding bonds that were not amended.

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, 2014 and 2013.

Economic Factors

Based on toll rate recommendations from the agency's traffic consultant that are intended to maximize revenues while considering the effects of long-term diversion, toll rates were approved by the agency's Board of Directors for implementation effective July 1, 2014. The new toll rates are projected to result in a 4% increase in transactional toll revenue and reflect the following changes:

- Expansion of peak periods by one hour
- Addition of a peak hour rate at the Catalina View plaza, with a rate 10% greater than the prior peak rate
- Increases of 5% for peak period and 2% for nonpeak rate at Catalina View
- Increases of 3% to 5% at the other locations
- Rates for non-FasTrak transactions $1.00 greater than the FasTrak rates

The agency is exploring a transaction to capitalize on currently favorable market conditions and restructure its long-term debt obligations. The goals of this effort include reduction of maximum annual debt service and the debt service growth rate, freeing up additional cash flow, and creating a more favorable long-term financial position for the agency.

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

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 http://www.thetollroads.com.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Net Position

June 30, 2014 and 2013

(In thousands)

		2014	2013
Assets:			
Current assets:			
Cash and investments	$	23,651	23,583
Restricted cash and investments		65,578	63,095
Receivables:			
Accounts, net of allowance of $1,503 and $446		2,070	1,142
Fees		20	5
Interest		1,838	2,183
Total receivables		3,928	3,330
Due from Foothill/Eastern Transportation Corridor Agency		5,102	2,486
Other assets		772	995
Total current assets		99,031	93,489
Noncurrent assets:			
Restricted cash and investments		305,251	284,262
Capital assets, net		6,464	3,895
Total assets		410,746	381,646
Liabilities:			
Current liabilities:			
Accounts payable		2,179	1,289
Deferred revenue		6,329	5,683
Employee compensated absences payable		184	186
Interest payable		26,997	28,939
Current portion of bonds payable		37,513	35,842
Total current liabilities		73,202	71,939
Long-term bonds payable		2,111,092	2,090,142
Total liabilities		2,184,294	2,162,081
Net position:			
Invested in capital assets, net of related debt		(2,142,141)	(2,122,089)
Restricted		345,963	318,203
Unrestricted		22,630	23,451
Total net position	$	(1,773,548)	(1,780,435)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Operating revenues:			
Tolls, fees, and fines	$	129,103	110,398
Development impact fees		3,807	8,711
Other revenue		7	23
Total operating revenues		132,917	119,132
Operating expenses:			
Toll compliance and customer service		4,263	3,856
Salaries and wages		2,792	2,586
Toll systems		1,487	1,480
Toll collections		1,199	1,208
Depreciation		842	908
Professional services		463	888
Insurance		764	708
Facilities rent		361	352
Toll facilities		315	309
Marketing		807	125
Other operating expenses		566	377
Total operating expenses		13,859	12,797
Operating income		119,058	106,335
Nonoperating revenue (expenses):			
Investment income		3,275	281
Interest expense		(115,446)	(116,007)
Nonoperating expenses, net		(112,171)	(115,726)
Change in net position		6,887	(9,391)
Net position at beginning of year		(1,780,435)	(1,771,044)
Net position at end of year	$	(1,773,548)	(1,780,435)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION
CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Cash flows from operating activities:			
Cash received from toll road patrons	$	126,205	109,938
Cash received from development impact fees		3,792	8,724
Cash received from miscellaneous revenue		7	23
Cash payments to suppliers		(10,051)	(9,340)
Cash payments to employees		(2,762)	(2,611)
Net cash provided by operating activities		117,191	106,734
Cash flows from capital and related financing activities:			
Cash payments for acquisition of capital assets		(2,504)	(1,215)
Cash payments for interest and principal		(94,767)	(93,187)
Net cash used in capital and related financing activities		(97,271)	(94,402)
Cash flows from investing activities:			
Cash receipts for interest and dividends		6,790	5,571
Cash receipts from the maturity and sale of investments		169,266	280,373
Cash payments for purchase of investments		(205,096)	(302,067)
Net cash used in investing activities		(29,040)	(16,123)
Net decrease in cash and cash equivalents		(9,120)	(3,791)
Cash and cash equivalents at beginning of year		61,840	65,631
Cash and cash equivalents at end of year (note 4)	$	52,720	61,840
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	119,058	106,335
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		842	908
Changes in operating assets and liabilities:			
Accounts receivable		(928)	(380)
Fees receivable		(15)	13
Due to/from Foothill/Eastern Transportation Corridor Agency		(2,616)	(183)
Other assets		223	(191)
Accounts payable		(49)	148
Deferred revenue		646	102
Employee compensated absences payable		30	(18)
Total adjustments		(1,867)	399
Net cash provided by operating activities	$	117,191	106,734
Noncash transactions:			
Interest expense recorded for accretion of bonds outstanding	$	(59,511)	(58,130)
Change in unrealized gain/loss on investments		855	(4,942)
Amortization of discount/premium on investments		(4,020)	(681)

See accompanying notes to financial statements.

(1) Reporting Entity

In recognition of the regional transportation needs in the County of Orange (County), the California State Legislature has enacted various amendments to the California Government Code to authorize the financing of bridges and major thoroughfares by joint powers agencies. Pursuant to such authorization, the San Joaquin Hills Transportation Corridor Agency (the agency) was created in May 1986 by a joint exercise of powers agreement. Current members are the County and the cities of Aliso Viejo, Costa Mesa, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Newport Beach, San Clemente, San Juan Capistrano, and Santa Ana (collectively, the member agencies). The purpose of the agency is to plan, design, construct, finance, administer funds for, and operate the San Joaquin Hills Transportation Corridor. The agency 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 revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from the collection of tolls, fees, and fines on the corridor. The agency's operating expenses include depreciation, materials, services, and other expenses related to the operation of the corridor. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. During the year ended June 30, 2013, the

Agency implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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

(c) Budget

Fiscal year budgets are prepared by the agency's staff for estimated revenues and expenses. The Board of Directors adopts the annual budget at the June board meeting for the fiscal year commencing the following July. The approval of the budget requires the consent of at least two-thirds of the board members. No expenditures in excess of the total budget for each board-designated category are made without the approval of at least two-thirds of the board members, at which time a revised and amended budget is required to be submitted to the Board of Directors. All budgets are adopted on a basis consistent with U.S. 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 are stated at fair value, generally based on quoted market prices.

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

(f) Receivables

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

(g) Capital Assets

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

(In thousands)

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
Toll booths and 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) Deferred Revenue

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

(i) Revenue Recognition

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

(j) Allocation of Common Costs

Expenses directly related 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, 2014 and 2013, the agency had net receivables due from F/ETCA of $5,102 and $2,486, respectively.

(k) Net Position

The agency’s net position is classified within the following categories:

Invested in capital assets, net of related debt: 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.

(In thousands)

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

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

(l) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Comparative Data

Certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

(3) Development Impact Fees

The sources of development impact fees for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
City of Laguna Niguel	$ 1,251	340
City of Irvine	832	5,522
City of San Clemente	762	25
City of San Juan Capistrano	379	767
City of Laguna Hills	229	6
City of Newport Beach	158	1,714
City of Dana Point	97	29
County of Orange	75	285
City of Costa Mesa	15	4
City of Santa Ana	9	17
City of Aliso Viejo	—	2
	$ 3,807	8,711

(In thousands)

(4) Cash and Investments

Cash and investments as of June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

		2014	2013
Cash and investments	$	23,651	23,583
Current restricted cash and investments		65,578	63,095
Noncurrent restricted cash and investments		305,251	284,262
	$	394,480	370,940

Cash and investments as of June 30, 2014 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	1	—	1
Deposit accounts		2,750	—	2,750
Money market funds		3,243	—	3,243
U.S. Treasury securities		—	1,202	1,202
Federal agency securities		—	17,348	17,348
State and local bonds		—	4,868	4,868
Investments held with trustee per debt agreements:				
Money market funds		18,807	—	18,807
Commercial paper		—	17,684	17,684
U.S. Treasury securities		27,919	126,292	154,211
Federal agency securities		—	121,279	121,279
Corporate notes		—	26,588	26,588
State and local bonds		—	26,499	26,499
Total	$	52,720	341,760	394,480

(In thousands)

Cash and investments as of June 30, 2013 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	43	—	43
Deposit accounts		4,005	—	4,005
Money market funds		3,826	—	3,826
Commercial paper		2,799	5,378	8,177
Federal agency securities		—	14,588	14,588
Investments held with trustee per debt agreements:				
Money market funds		18,447	—	18,447
Commercial paper		1,500	15,994	17,494
U.S. Treasury securities		31,220	100,545	131,765
Federal agency securities		—	128,720	128,720
Corporate notes		—	16,276	16,276
State and local bonds		—	27,599	27,599
Total	$	61,840	309,100	370,940

(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, 2014 and 2013, the carrying amounts of the agency’s deposits were $2,750 and $4,005, respectively, and the corresponding bank balances were $3,117 and $3,784, respectively. The differences of $367 and $221, respectively, 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.

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	2nd 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

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
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
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 $50 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
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
Shares in a California common law trust	N/A	20	5	Highest rating category by an NRSRO

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Money market mutual funds	N/A	20	5	Highest applicable rating by two NRSROs
Bonds or notes issued by the State of California or by any local agency in the state	5 years	30	5	One of the three highest rating categories by at least two NRSROs
Bonds or notes issued by any 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).

The investment of debt proceeds and toll revenues 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 insured by FDIC, Bank Insurance Fund (BIF), or Savings Association Fund (SAIF) or collateralized by U.S. government or federal agency obligations	N/A
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, rated in one of the three highest applicable rating categories
Money market mutual funds	AAAm-G, AAA-m, or AA-m by S&P and, if rated by Moody's, Aaa, Aa1, or Aa2 and, if rated by Fitch, AAA, or AA
Investment agreements	N/A

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

(Continued)

At June 30, 2014 and 2013, 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:

	June 30, 2014		**June 30, 2013**	
Investment type	**S&P**	**Moody's**	**S&P**	**Moody's**
U.S. Treasury bills	AA+	Aaa	AA+	Aaa
U.S. Treasury notes	AA+	Aaa	AA+	Aaa
U.S. federal agency bonds	AA+	Aaa	AA+	Aaa
Money market funds	AAAm	—	AAAm	—
Commercial paper:				
Abbey National LLC	—	—	A-1	P-1
ING	—	—	A-1	P-1
Natixis	A-1	P-1	—	—
Union Bank	—	—	A-1	P-1
Corporate notes – medium term:				
AT&T	A-	A3	A-	A3
Barclays Bank	AAA	Aaa	—	—
Berkshire Hathaway	AA	Aa2	—	—
Caterpillar	A	A2	A-	A2
General Electric Capital Corp	AA+	A1	—	—
Yale University	—	—	AAA	Aaa
Pepsi	—	—	A	A1
Metlife	—	—	AA-	Aa3
Toyota	AA-	Aa3	A	Aa3
State and local bonds:				
San Francisco Bay Area Toll Authority	AA	Aa3	AA-	Aa3
Florida State General Obligation	AA-	Aa3	AA-	Aa3
Indiana State Revenue	AA+	Aa1	AA+	Aa1
Missouri State Revenue	AAA	Aaa	AAA	Aaa
New Mexico State	—	—	AAA	Aa1
New York State Development	AAA	Aa1	AAA	*
Ohio State Revenue	AAA	Aa1	AAA	Aaa
University of California Regents Revenue	AA	Aa2	AA	Aal

* Rated AA by Fitch

(In thousands)

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.

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, 2014 that are governed by the agency's investment policy and its bond agreements, including money market funds of $22,050 and U.S. Treasury securities of $27,919 that are considered cash equivalents, is as follows:

		Remaining maturity (in years)			
Investment type	**Fair value**	**Less than one**	**One to two**	**Two to five**	**More than five**
Federal agency securities	$ 138,627	13,992	50,044	74,591	—
U.S. Treasury notes	101,598	9,851	58,792	32,955	—
Money market funds	22,050	22,050	—	—	—
U.S. Treasury bills	53,815	53,815	—	—	—
State and local bonds	31,367	4,053	24,288	3,026	—
Commercial paper	17,684	17,684	—	—	—
Corporate notes	26,588	—	5,633	20,955	—
Total	$ 391,729	121,445	138,757	131,527	—

At June 30, 2014, 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 National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation. Investments in these issuers represented 14%, 12%, and 6%, respectively, of the agency's total investments as permitted by the agency's investment policy and the applicable bond indentures.

(In thousands)

A summary of the agency's investments held at June 30, 2013 that are governed by the agency's investment policy and its bond agreements, including money market funds of $22,273, commercial paper of $4,299, and U.S. Treasury securities of $31,220 that are considered cash equivalents, is as follows:

			Remaining maturity (in years)			
Investment type		**Fair value**	**Less than one**	**One to two**	**Two to five**	**More than five**
Federal agency securities	$	143,308	46,539	12,482	84,287	—
U.S. Treasury notes		97,608	10,009	10,243	77,356	—
Money market funds		34,157	34,157	—	—	—
U.S. Treasury bills		27,599	1,990	4,086	21,523	—
State and local bonds		25,671	25,671	—	—	—
Commercial paper		22,273	22,273	—	—	—
Corporate notes		16,276	5,144	2,557	8,575	—
Total	$	366,892	145,783	29,368	191,741	—

At June 30, 2013, 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 National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank. Investments in these issuers represented 15%, 11%, 6%, and 6%, respectively, of the agency's total investments as permitted by the agency's investment policy and the applicable bond indentures.

(In thousands)

(5) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

		Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$	1,070	2,686	(3,756)	—
Right-of-way acquisitions, grading, or improvements		119	—	—	119
Furniture and equipment		9,433	4,505	(1,875)	12,063
		10,622	7,191	(5,631)	12,182
Accumulated depreciation		(6,727)	(842)	1,851	(5,718)
	$	3,895	6,349	(3,780)	6,464

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

Capital assets activity for the year ended June 30, 2013 was as follows:

		Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$	249	821	—	1,070
Right-of-way acquisitions, grading, or improvements		119	—	—	119
Furniture and equipment		9,976	501	(1,044)	9,433
		10,344	1,322	(1,044)	10,622
Accumulated depreciation		(6,863)	(908)	1,044	(6,727)
	$	3,481	414	—	3,895

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. They are transferred to Caltrans on an ongoing basis and recognized as contribution expense.

(In thousands)

(6) Long-Term Obligations

Following is a summary of changes in long-term obligations during the year ended June 30, 2014:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1997A toll road refunding revenue bonds:					
Current interest bonds	$ 604,885	—	—	604,885	—
Convertible capital:					
Appreciation bonds	250,000	—	—	250,000	—
Restructured convertible capital appreciation bonds	480,301	27,900	—	508,201	
Capital appreciation bonds	570,618	31,611	(36,890)	565,339	37,513
Series 1993 Senior Lien toll road revenue bonds:					
Current interest bonds	220,180	—	—	220,180	—
Total bonds payable	$ 2,125,984	59,511	(36,890)	2,148,605	37,513

Following is a summary of changes in long-term obligations during the year ended June 30, 2013:

	Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1997A Toll Road refunding revenue bonds:					
Current interest bonds	$ 604,885	—	—	604,885	—
Convertible capital:					
Appreciation bonds	250,000	—	—	250,000	—
Restructured convertible capital appreciation bonds	453,932	26,369	—	480,301	
Capital appreciation bonds	574,167	31,761	(35,310)	570,618	35,842
Series 1993 Senior Lien Toll road revenue bonds:					
Current interest bonds	220,180	—	—	220,180	—
Total bonds payable	$ 2,103,164	58,130	(35,310)	2,125,984	35,842

(Continued)

(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. The 1997 bonds are subordinate to the remaining outstanding 1993 bonds of $220,180 and are collateralized by net revenues, as defined in the master indentures, consisting primarily of toll revenues less current expenses.

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

In May 2011, bondholders consented to amending the master indentures and approved a supplemental indenture to amend certain terms of $430 million of the convertible capital appreciation bonds (Restructured Bonds) that had 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.

After payment of the interest due on July 15, 2011, the Restructured Bonds ceased to bear interest and a 10-year accretion period through July 15, 2021 began during which interest on the bonds accrues at the same rates, ranging from 5.65% to 5.75% compounded semiannually, that had applied prior to the amendment. Commencing January 15, 2022, interest on the accreted value of the bonds will be payable semiannually. A portion of the interest payable is junior lien interest that is subordinate to the principal and other interest payable on the remainder of the 1997 bonds. The bonds mature in annual installments from January 15, 2037 to 2042 and are subject to early redemption from mandatory sinking fund payments beginning January 15, 2037 by payment of accrued interest and principal with no premium.

The 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 is payable semiannually based on accreted value of the bonds on that date. The bonds mature in installments on January 15 of the years 2016, 2017, 2019, and 2021. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 2.00%.

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

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

(In thousands)

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

Following is a summary of the annual debt service requirements by fiscal year for the agency's long-term debt obligations as of June 30, 2014:

		Principal	Interest(1)	Junior lien interest(1)	Total
2015	$	37,513	58,985	—	96,498
2015		53,346	56,766	—	110,112
2017		58,459	54,030	—	112,489
2018		3,086	52,624	—	55,710
2019		68,271	51,031	—	119,302
2020–2024		130,257	384,204	—	514,461
2025–2029		615,468	339,629	216,562	1,171,659
2030–2034		596,952	401,300	216,561	1,214,813
2035–2039		343,712	398,507	86,625	828,844
2040–2042		241,541	143,504	—	385,045
	$	2,148,605	1,940,580	519,748	4,608,933

(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.

(In thousands)

Following is a summary of the annual debt service requirements by fiscal year for the agency's long-term debt obligations as of June 30, 2013:

		Principal	Interest(1)	Junior lien interest(1)	Total
2014	$	35,842	58,926	—	94,768
2015		35,549	60,948	—	96,497
2016		53,171	56,941	—	110,112
2017		58,278	54,211	—	112,489
2018		2,923	52,787	—	55,710
2019–2023		178,705	337,661	—	516,366
2024–2028		459,898	418,517	173,249	1,051,664
2029–2033		689,301	316,493	216,562	1,222,356
2034–2038		294,477	468,152	129,937	892,566
2039–2042		317,840	233,332	—	551,172
	$	2,125,984	2,057,968	519,748	4,703,700

(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.

Included in principal at June 30, 2014 and 2013 is $695,663 and $657,509, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

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, 2014 and 2013, the amounts of the refunded bonds outstanding, which were previously eliminated from the financial statements as a result of the refunding, were $813,712 and $798,664, respectively.

(b) Debt Compliance

Although actual revenues have been below the levels projected by an independent traffic and revenue consultant when the bonds were issued, the agency has been able to pay its operating costs and debt service payments. Further, the agency has taken numerous measures to help bridge the gap between actual and projected revenues, including establishing the toll rate stabilization fund, an indentured fund designed primarily for payment of future debt service; implementing toll rate increases; defeasing debt with proceeds from the settlement of the Orange County bankruptcy; and reducing operational costs by competitively bidding major contracts related to operations. The agency has achieved its required debt service coverage ratio through current year revenues and the use of the toll rate stabilization fund, including amounts received from F/ETCA mitigation payments as described below. In connection with the amendment of the master indenture discussed above in note 6(a), the debt service coverage ratio was modified from 1.3x to 1.0x and allowance was made for the use of cash available in reserves to meet the debt service coverage ratio requirement, along with a requirement to optimize net toll revenues on an annual basis.

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 completion project. All scheduled payments totaling $120,000 were made by F/ETCA as of June 2009.

In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as needed basis, up to $1,040,000 to assist the agency in achieving its debt service coverage ratio. Payments of accrued interest and outstanding principal will begin in the fiscal year when the agency has a surplus in revenues that exceeds the amount needed to meet its debt service coverage ratio requirement. All principal and accrued interest will be due and payable on January 1, 2037, to the extent that the agency has toll stabilization and surplus revenue funds available to pay the amounts due. At June 30, 2014 and 2013, no amounts had been borrowed.

The Agreement was designed to meet the near term needs of each agency while preserving the flexibility to continue to pursue alternatives. The Agreement provides that F/ETCA loans will be made only to the extent that surplus revenues are available and all findings and determinations required by law are met, including California Government Code Section 66484.3, paragraph (f), which requires that the following findings must be met before F/ETCA can make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenues with the agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) 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 is, in turn, secured by and payable only from its toll stabilization and surplus revenue funds. The Agreement also stipulates that F/ETCA will not be obligated to make loans to the agency prior to securing the necessary funds for constructing the 241 completion project unless F/ETCA has determined that it will not build the project. F/ETCA is also not required to increase toll rates to ensure sufficient revenues are available and that any liens or revenue pledges required in order to finance the 241 completion project and complete certain other capital projects would have priority over loans to the agency. If the commencement and diligent pursuit of the construction of the 241 completion project does not occur by June 30, 2015, the mitigation payments will be added to the principal amount of the loan.

On August 14, 2014, the agency’s Board of Directors and the Board of Directors of F/ETCA approved an agreement that would provide for termination of the Mitigation Payment and Loan Agreement concurrently with the closing of a refinance transaction proposed by the agency. If the transaction does not close by July 1, 2015, the Agreement would not be terminated. The termination agreement also provides 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. Interest accrual based on the average annual yield of the State of California Pooled Money Investment Account would commence upon closing of the refinance transaction and interest would be payable annually beginning January 15, 2025.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

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

(b) Corridor Operations Facility Lease

In January 2000, the agency relocated to the Corridor Operations Facility and signed a lease agreement with F/ETCA. 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, 2014 and 2013 of $361 and $352, respectively. The agency's commitment for the year ending June 30, 2015 is $386.

(c) Commitment

The agency has agreed with Caltrans to provide a maintenance facility for State Route 73. As of June 30, 2014, 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 at levels in accordance with the agency's master indentures of trust.

(8) Employees' Retirement Plan

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

(Continued)

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. At July 1, 2015, a final 2% reduction will occur, resulting in no payment by the agency toward the employees' required contributions. The agency also makes required employer contributions, as a percentage of each employee's covered salary, which will continue to be paid into the plan. The agency has contributed $360, $333, $343, and $354 to the plan for the years ended June 30, 2014, 2013, 2012, and 2011, respectively.