

**91 EXPRESS LANES FUND
(An Enterprise Fund of the Orange
County Transportation Authority)**

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2017

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)

Financial Statements

For the Fiscal Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Transportation Authority
Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the 91 Express Lanes Fund, an enterprise fund of the Orange County Transportation Authority (OCTA), as of and for the year ended June 30, 2017, and the related notes to the 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 accounting principles generally accepted in the United States of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 91 Express Lanes Fund as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the 91 Express Lanes Enterprise Fund of OCTA and do not purport to, and do not, present fairly the financial position of OCTA as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of OCTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCTA's internal control over financial reporting and compliance.



Laguna Hills, California
October 31, 2017

**91 Express Lanes Fund
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2017**

As management of the 91 Express Lanes Fund (91 EL), an enterprise fund of the Orange County Transportation Authority, we offer readers of the 91 EL financial statements this narrative overview and analysis of the 91 EL's financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 9. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- At the end of fiscal year 2016-17, the total net position of the 91 EL was \$172,975 and consisted of net investment in capital assets of \$31,974; restricted net position of \$13,199; and unrestricted net position of \$127,802. Net position increased \$17,325 during fiscal year 2016-17, which represents an increase of 11% from the fiscal year 2015-16 ending net position. The increase is primarily due to operating revenues in excess of operating expenses offset by bond interest expense.
- In fiscal year 2016-17, total operating revenues increased by \$3,762, which represents a 7% increase from the fiscal year 2015-16, primarily due to an increase in total trips in addition to an increase in the collection of violation fees. Total operating expenses increased by \$13,188, which represents a 61% increase from the fiscal year 2015-16, primarily due to an increase in professional services paid for the pavement rehabilitation project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the 91 EL's financial statements. The financial statements are comprised of the fund financial statements and notes to the financial statements.

The statement of net position presents information on all of the 91 EL's assets, deferred outflows of resources, deferred inflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 91 EL is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the 91 EL's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The 91 EL fund financial statements can be found on pages 9-12 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13-30 of this report.

91 Express Lanes Fund

Management's Discussion and Analysis

91 Express Lanes Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the 91 EL's financial position. At June 30, 2017, the 91 EL's net position was \$172,975, an increase of \$17,325 from June 30, 2016. Our analysis below focuses on net position (Table 1) and changes in net position (Table 2) of the 91 EL's financial activities.

Table 1
91 Express Lanes Fund
Net Position

| | 2017 | 2016 |
|---|------------|------------|
| Current and other assets | \$ 142,721 | \$ 131,712 |
| Restricted assets | 23,998 | 23,874 |
| Capital assets, net | 4,506 | 3,738 |
| Intangible asset – toll road franchise, net | 125,454 | 128,041 |
| Total assets | 296,679 | 287,365 |
| Total deferred outflows of resources | 9,011 | 9,681 |
| Current liabilities | 20,444 | 22,955 |
| Long-term liabilities | 112,271 | 118,441 |
| Total liabilities | 132,715 | 141,396 |
| Net position: | | |
| Net investment in capital assets | 31,974 | 28,533 |
| Restricted | 13,199 | 13,075 |
| Unrestricted | 127,802 | 114,042 |
| Total net position | \$ 172,975 | \$ 155,650 |

In fiscal year 2016-17, total assets increased by \$9,314 which represents an increase of 3% from the fiscal year 2015-16, due to an increase in cash, investments and receivables. Refer to notes 4 and 5 for changes in capital and intangible assets. Total liabilities decreased by \$8,681 primarily due to a decrease in payables for the pavement rehabilitation project in addition to a decrease in bonds payable due to principal and interest payments during the fiscal year.

The 91 EL's net investment in capital assets was \$31,974 compared to \$28,533 in fiscal year 2015-16. The 91 EL's net position reflects its investment in capital assets (i.e., intangible assets; improvements; communications equipment; computer hardware and software; equipment, furniture and fixtures; and transponders), less any related outstanding debt used to acquire these assets. The 91 EL uses these capital assets to provide improved mobility for 91 EL customers and commuters along the State Route (SR) 91 corridor. The increase of \$3,441 in net investment in capital assets was primarily due to a reduction in related outstanding debt used to acquire capital assets in addition to an increase in capital assets offset by depreciation and amortization of assets.

91 Express Lanes Fund

Management's Discussion and Analysis

Restricted net position, representing resources subject to external restrictions on how they may be used, represented 8% of the total net position at June 30, 2017. The \$124 increase in restricted net position is related to investment activity in bond reserve accounts.

Unrestricted net position represents the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net position changed from \$114,042 at June 30, 2016 to \$127,802 at June 30, 2017. This increase of \$13,760 was primarily due to operating revenues in excess of operating expenses.

The analysis in Table 2 focuses on the changes in net position.

Table 2
91 Express Lanes Fund
Changes in Net Position

| | 2017 | 2016 |
|-------------------------------------|------------|------------|
| Revenues: | | |
| Operating revenues: | | |
| Tolls, fees, and fines | \$ 56,002 | \$ 52,240 |
| Total operating revenues | 56,002 | 52,240 |
| Operating expenses: | | |
| Management and operational services | 8,268 | 8,293 |
| Administrative overhead | 2,752 | 2,323 |
| Other operating expenses | 42 | 27 |
| Insurance claims and premiums | 324 | 334 |
| Professional services | 19,514 | 6,992 |
| General and administrative | 586 | 407 |
| Depreciation and amortization | 3,211 | 3,133 |
| Total operating expenses | 34,697 | 21,509 |
| Operating income | 21,305 | 30,731 |
| Nonoperating revenues (expenses): | | |
| Investment earnings | 434 | 1,692 |
| Interest expense | (5,460) | (5,670) |
| Other | 1,046 | 713 |
| Total nonoperating expenses | (3,980) | (3,265) |
| Changes in net position | 17,325 | 27,466 |
| Total net position — beginning | 155,650 | 128,184 |
| Total net position — ending | \$ 172,975 | \$ 155,650 |

91 EL's total operating revenues increased by 7%, while total operating expenses increased by 61%. Total traffic volume on the 91 EL during fiscal year 2016-17 was 14,384,133 trips reflecting an increase of 4% in comparison to fiscal year 2015-16 and contributed to an increase in revenue from toll road fees.

91 Express Lanes Fund

Management's Discussion and Analysis

In addition, operating revenues increased due to an increase in revenue collected from violators. The increase in operating expenses is primarily attributable to an increase of \$12,522 in expenses for professional services primarily related to the pavement rehabilitation project. This project consisted of repaving the 42 miles that make up the four-lane 10-mile 91 EL.

Capital Assets and Intangible Asset

Capital Assets

As of June 30, 2017, the 91 EL had \$4,506 net of accumulated depreciation, invested in a broad range of capital assets including: construction in progress, improvements, computer hardware and software, transponders, and equipment, furniture and fixtures (Table 3). The total increase in the 91 EL's capital assets for fiscal year 2016-17 was \$768, which was primarily due to leasehold improvements and to the implementation of a new communication system offset by depreciation.

Table 3
91 Express Lanes Fund
Capital Assets, net of depreciation and amortization

| | 2017 | 2016 |
|------------------------------------|----------|----------|
| Construction in progress | \$ 687 | \$ 1,372 |
| Improvements | 1,532 | 1,341 |
| Communication equipment | 1,233 | - |
| Computer hardware and software | 144 | 102 |
| Transponders | 887 | 890 |
| Equipment, furniture, and fixtures | 23 | 33 |
| Total capital assets, net | \$ 4,506 | \$ 3,738 |

The 91 EL has outstanding capital expense commitments, the most significant of which is \$929 for transponder purchases.

More detailed information about the 91 EL's capital assets is presented in note 4 to the financial statements.

Intangible Asset

Intangible asset activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------------------------------------|----------------------|------------|-----------|-------------------|
| Toll facility franchise | \$ 205,264 | \$ - | \$ - | \$ 205,264 |
| Less accumulated amortization | (77,223) | (2,587) | - | (79,810) |
| Total toll facility franchise, net | \$ 128,041 | \$ (2,587) | \$ - | \$ 125,454 |

91 Express Lanes Fund Management's Discussion and Analysis

More detailed information about the 91 EL's intangible asset is presented in note 5 to the financial statements.

Debt Administration

As of June 30, 2017, the 91 EL had \$109,130 in tax-exempt bonds outstanding compared to \$114,415 at June 30, 2016, as presented in Table 4. The reduction is due to principal payments issued in fiscal year 2016-17 in the amount of \$5,285.

Table 4
91 Express Lanes Fund
Outstanding Debt

| | 2017 | 2016 |
|------------------|------------|------------|
| Tax-exempt bonds | \$ 109,130 | \$ 114,415 |

Additional information on long-term debt can be found in note 6 to the financial statements.

Economic and Other Factors

The 91 EL makes up \$48,511 or 4% of OCTA's fiscal year 2017-18 revenue budget. In fiscal year 2017-18, toll revenue is forecasted to increase by 11.64% over the fiscal year 2016-17 budgeted value. This increase is due to a forecasted increase in trips due to the completion of the pavement rehabilitation and variable message signs replacement project which required closures. The average long term rate of growth for toll road revenues beyond fiscal year 2017-18 is 3.40%.

The majority of expenses related to the 91 EL within the fiscal year 2017-18 budget are on-going general costs related to day to day operations of the toll facility. Since the 91 EL is a fully electronic toll facility, motorists pay tolls through the convenient use of windshield mounted FasTrak® transponders that automatically deduct toll charges from a prepaid account. At the end of fiscal year 2016-17, there were 130,048 active customer accounts, with 196,997 transponders assigned to those accounts, which represent an increase of 10,266 and 14,475 respectively from fiscal year 2015-16.

OCTA, in concert with Caltrans and Riverside County Transportation Commission (RCTC), issued an annual SR-91 Implementation Plan to establish a program of projects eligible for funding by potential excess 91 EL toll revenue and other funds. The total cost for the first set of projects is approximately \$1,650,000. One of these projects is the initial SR-91 corridor improvement project that will widen the SR-91 by one general purpose lane in each direction east of Green River Road, adds collector-distributor roads and direct south connectors at Interstate-15 (I-15)/SR-91 and extends the 91 EL to I-15. Construction began in fiscal year 2013-14 and is expected to be completed in fiscal year 2017-18. This project requires close coordination with RCTC in order to minimize impacts to the 91 EL's operations.

91 Express Lanes Fund Management's Discussion and Analysis

Contacting 91 EL's Management

This financial report is designed to provide a general overview of the 91 EL's finances for all those with an interest in the government's finances and to demonstrate the 91 EL's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Finance and Administration Division at the Orange County Transportation Authority, 550 South Main Street, P.O. Box 14184, Orange, California 92863-1584.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Statement of Net Position
June 30, 2017

Assets

| | |
|---|--------------------|
| Current Assets: | |
| Cash and investments | \$ 127,945,089 |
| Receivables: | |
| Interest | 266,704 |
| Violations, net | 12,308,691 |
| Other, net | 1,450,657 |
| Due from other governments | 482,830 |
| Other assets | 267,204 |
| Total current assets | <u>142,721,175</u> |
| Noncurrent Assets: | |
| Restricted cash and investments: | |
| Cash equivalents | 23,997,732 |
| Capital assets, net: | |
| Nondepreciable | 687,000 |
| Depreciable | 3,818,237 |
| Intangible asset - toll road franchise, net | 125,454,596 |
| Total noncurrent assets | <u>153,957,565</u> |
| Total Assets | <u>296,678,740</u> |

Deferred Outflows of Resources

| | |
|---|------------------|
| Deferred charge on refunding | 9,011,185 |
| Total Deferred Outflows of Resources | <u>9,011,185</u> |

Liabilities

| | |
|---|--------------------|
| Current Liabilities: | |
| Accounts payable | 5,744,898 |
| Accrued interest payable | 2,027,934 |
| Due to other governments | 1,566,168 |
| Unearned revenue | 5,309,380 |
| Other liabilities | 270,600 |
| Bonds payable - due within one year | 5,525,000 |
| Total current liabilities | <u>20,443,980</u> |
| Noncurrent Liabilities: | |
| Bonds payable - due in more than one year | 112,271,320 |
| Total noncurrent liabilities | <u>112,271,320</u> |
| Total Liabilities | <u>132,715,300</u> |

Net Position

| | |
|----------------------------------|-----------------------|
| Net investment in capital assets | 31,973,224 |
| Restricted for: | |
| Debt service | 88,434 |
| Capital | 10,085,210 |
| Operating reserves | 3,025,563 |
| Unrestricted | 127,802,194 |
| Total Net Position | <u>\$ 172,974,625</u> |

See accompanying notes to the financial statements.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2017

| | |
|---|------------------------------|
| Operating revenues: | |
| Tolls, fees, and fines | \$ 56,001,766 |
| Operating expenses: | |
| Management and operational services | 8,268,244 |
| Administrative overhead | 2,751,677 |
| Other operating expenses | 42,235 |
| Insurance claims and premiums | 323,923 |
| Professional services | 19,514,243 |
| General and administrative | 586,041 |
| Depreciation and amortization | 3,211,142 |
| Total operating expenses | <u>34,697,505</u> |
| Operating income | <u>21,304,261</u> |
| Nonoperating revenues (expenses): | |
| Investment earnings | 433,583 |
| Interest expense | (5,459,875) |
| Other | 1,046,400 |
| Total nonoperating revenues (expenses) | <u>(3,979,892)</u> |
| Change in net position | 17,324,369 |
| Total net position - beginning | <u>155,650,256</u> |
| Total net position - ending | <u><u>\$ 172,974,625</u></u> |

See accompanying notes to the financial statements.

91 Express Lanes Fund
 (An Enterprise Fund of the Orange County Transportation Authority)
 Statement of Cash Flows
 For the Year Ended June 30, 2017

Cash flows from operating activities:

| | |
|--|-------------------|
| Receipts from customers and users | \$ 53,175,845 |
| Payments to suppliers | (28,375,515) |
| Payments for OCTA interfund services used | (2,751,677) |
| Miscellaneous revenue received | 148,000 |
| Net cash provided by operating activities | <u>22,196,653</u> |

Cash flows from noncapital financing activities:

| | |
|---|----------------|
| Reimbursements from other governments | 284,185 |
| Net cash provided by noncapital financing activities | <u>284,185</u> |

Cash flows from capital and related financing activities:

| | |
|---|---------------------|
| Principal payment on long-term debt | (5,285,000) |
| Interest paid on long-term debt | (5,513,526) |
| Acquisition and construction of capital assets | (1,105,538) |
| Net cash used for capital and related financing activities | <u>(11,904,064)</u> |

Cash flows from investing activities:

| | |
|--|----------------|
| Interest received | 344,180 |
| Net cash provided by investing activities | <u>344,180</u> |

| | |
|--|------------|
| Net increase in cash and cash equivalents | 10,920,954 |
|--|------------|

| | |
|--|-------------|
| Cash and cash equivalents at beginning of year | 141,021,867 |
|--|-------------|

| | |
|---|-----------------------|
| Cash and cash equivalents at end of year | <u>\$ 151,942,821</u> |
|---|-----------------------|

Reconciliation of cash and cash equivalents to statement of net assets:

| | |
|--|-----------------------|
| Cash and investments | \$ 127,945,089 |
| Restricted cash and investments | 23,997,732 |
| Total cash and cash equivalents | <u>\$ 151,942,821</u> |

See accompanying notes to the financial statements.

91 Express Lanes Fund
 (An Enterprise Fund of the Orange County Transportation Authority)
 Statement of Cash Flows (Continued)
 For the Year Ended June 30, 2017

**Reconciliation of operating income to net cash
 provided by operating activities:**

| | |
|---|----------------|
| Operating income | \$ 21,304,261 |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities: | |
| Depreciation expense | 624,449 |
| Amortization of Franchise Agreement | 2,586,693 |
| Amortization of prepaid expense | 3,784,785 |
| Amortization of prepaid insurance | 323,923 |
| Miscellaneous | 148,000 |
| Change in assets and liabilities: | |
| Violations receivables, net | (3,248,238) |
| Other receivables, net | (309,731) |
| Other assets | (345,727) |
| Accounts payable | 1,074,552 |
| Due to other governments | (4,478,362) |
| Unearned revenue | 732,198 |
| Other liabilities | (150) |
| Total adjustments | <u>892,392</u> |

Net cash provided by operating activities

\$ 22,196,653

Noncash capital, financing and investing activities:

| | |
|--|--------------|
| Amortization of bond premium | \$ (643,937) |
| Amortization of bond deferred charges | \$ 669,561 |
| Investment earnings (accrued interest) | \$ 93,295 |

See accompanying notes to the financial statements.

91 Express Lanes Fund
(An Enterprise Fund of the Orange County Transportation Authority)
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

1. Reporting Entity

On January 3, 2003, the Orange County Transportation Authority (OCTA) purchased from the California Private Transportation Company (CPTC) its interest in a Franchise Agreement for the 91 Express Lanes. See note 5 for further discussion of the service concession arrangement.

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

2. Summary of Significant Accounting Policies

The accounting policies of the 91 Express Lanes Fund are in conformity with generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

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

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

When both restricted and unrestricted resources are available for use, it is the 91 Express Lanes Fund's policy to use restricted resources first and then unrestricted resources as they are needed.

For the Fiscal Year Ended June 30, 2017

Cash and Investments

The 91 Express Lanes Fund participates in OCTA's Commingled Investment Pool. OCTA maintains cash and investments in accordance with an Investment Policy (Policy) adopted initially by OCTA's Board of Directors (Board) on May 8, 1995, and most recently amended on June 12, 2017. The Policy complies with, or is more restrictive than, the California Government Code (Code). At June 30, 2017, the investment portfolios were maintained at MUFG Union Bank, N.A. as custodial bank. OCTA's Commingled Investment Pool is managed by four private sector investment managers. Separate investment manager accounts are maintained for the proceeds of bond issues, with the earnings for each bond issue accounted for separately. Cash from other OCTA revenue sources is commingled for investment purposes in the OCTA Commingled Investment Pool, with investment earnings allocated to the different accounts based on average daily account balances.

OCTA holds investments that are measured at fair value on a recurring basis. OCTA categorizes the fair value measurements of its investments based on the hierarchy established by GAAP. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs-other than quoted prices included in Level 1-that are observable including quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active; Level 3 inputs are unobservable inputs. Refer to the OCTA Comprehensive Annual Financial Report (CAFR) for details on valuation techniques and fair value hierarchy.

Investments in U.S. government and U.S. agency securities, medium-term notes, repurchase agreements, variable and floating rate securities, mortgage and asset-backed securities and corporate notes are carried at fair value based on quoted market prices, except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date, which are carried at amortized cost which approximates fair value. The Orange County Treasury Investment Pool (OCIP) is carried at fair value based on the value of each participating dollar as provided by the OCIP. The state managed Local Agency Investment Fund (LAIF) is carried at fair value based on the value of each participating dollar as provided by LAIF.

The Policy requires that assets in the portfolio consist of the following investments, with maximum permissible concentrations based on book value, and may be more restrictive than applicable state statutes for the following investment types: OCTA notes and bonds, U.S. treasuries, federal instrumentality securities, federal agencies, State of California and local agency obligations, banker's acceptance, commercial paper, negotiable certificates of deposit, repurchase agreements, medium-term maturity corporate securities, money market funds, other mutual funds, mortgage or asset-backed securities, LAIF, OCIP, variable and floating rate securities and bank deposits. Investment agreements are also allowed for bond issues.

For the Fiscal Year Ended June 30, 2017

All investments are subject to a maximum maturity of five years, unless specific direction to exceed the limit is given by the Board and as permitted by the Code. OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of the Policy.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, OCTA considers all short-term investments with an initial maturity of three months or less to be cash equivalents. All deposits, commercial paper, money market funds, certificates of deposit, and the 91 Express Lanes Fund's share of the OCTA Commingled Investment Pool represent cash and cash equivalents for cash flow purposes.

Restricted Cash and Investments

Investments set aside in the Senior Lien Reserve Fund, Major Maintenance Reserve Fund, and Operating Reserve Fund are pursuant to the terms of the 2013 Indenture for the \$124,415,000 Toll Road Revenue Refunding Bonds and their use is limited by applicable debt covenants.

Permitted investments per the debt covenants include: government obligations, State of California and local agency obligations, banker's acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, money market funds, other mutual funds, investment agreements, OCIP, and variable and floating rate securities.

Receivables

Violations receivables include an estimate for outstanding unpaid violations that the 91 Express Lanes Fund anticipates to collect. For violations less than or equal to 90 days old, the receivable is based on a 12-month average of violations collected, and is recorded net of an allowance for uncollectible accounts of \$1,098,185 at June 30, 2017. For unpaid violations in excess of 90 days, the receivable is estimated using a three-year average of violations collected and is recorded net of uncollectible accounts as the majority is not considered probable of collection.

Other receivables include amounts due from other California toll road agencies related to their customers' use of the 91 Express Lanes, as well as amounts owed from customers, net of an allowance for uncollectible accounts of \$361,361 at June 30, 2017.

An estimated \$9.2 million of violation and customer receivables are not expected to be collected within one year. The 91 Express Lanes utilizes an outside collection agency to assist in the recovery of unpaid customer balances and violations exceeding 90 days.

Due from other Governments

Due from other governments include receivables due from other government agencies.

For the Fiscal Year Ended June 30, 2017

Other Assets

Other assets include prepaid expenses and refundable deposits.

Capital Assets

Capital assets include construction in progress, improvements, equipment, computer hardware, software, furniture and fixtures, and transponders. Capital assets are defined by the 91 Express Lanes Fund as assets with an initial, individual cost of more than \$5,000 and a useful life in excess of one year. It is also the 91 Express Lanes Fund's policy to capitalize transponder purchases, as they are considered a significant class of assets even though individually under \$5,000. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized.

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

| <u>Capital Asset Type</u> | <u>Useful Life</u> |
|-----------------------------------|--------------------|
| Improvements | 10-30 years |
| Equipment, furniture and fixtures | 3-10 years |
| Computer hardware and software | 3-5 years |
| Transponders | 5-7 years |

Intangible Asset – Toll Facility Franchise

OCTA purchased the interest in the Franchise Agreement for the toll facility from CPTC on January 3, 2003. The toll facility franchise is amortized over the remaining life of the Franchise Agreement through December 2065.

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. As of June 30, 2017, the 91 Express Lanes Fund only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

For the Fiscal Year Ended June 30, 2017

Due to other Governments

Due to other governments include payables due to other government agencies.

Risk Management

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

Net Position

Net position represents the difference between assets plus deferred outflow of resources and liabilities plus deferred inflow of resources and is classified into three categories:

- *Net investment in capital assets* - Reflects net position of the 91 Express Lanes Fund invested in capital assets and the intangible asset net of related debt. This net position is not accessible for other purposes.
- *Restricted net position* - Represents net position not accessible for general use, with the use subject to restrictions enforceable by third parties. The statement of net position includes restricted net position for the portion of debt attributable to unspent proceeds, restricted by the 2013 Toll Road Revenue Refunding Bonds Master Indenture of Trust for debt service, capital, and operating expenses.
- *Unrestricted net position* - Represents net position available for general use.

Use of Estimates

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

For the Fiscal Year Ended June 30, 2017

New Effective Accounting Pronouncements

In fiscal year 2016-17, OCTA implemented the following GASB Statements:

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for OCTA's fiscal year ending June 30, 2017. There was no current effect on the financial statements of the 91 Express Lanes Fund as a result of the implementation of this Statement.

GASB Statement No. 77

In August 2015, GASB issued Statement No. 77, Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current year revenues were sufficient to pay for current year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. This Statement is effective for OCTA's fiscal year ending June 30, 2017. There was no current effect on the financial statements of the 91 Express Lanes Fund as a result of the implementation of this Statement.

GASB Statement No. 80

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation

For the Fiscal Year Ended June 30, 2017

in which the primary government is the sole corporate member. This Statement is effective for OCTA's fiscal year ending June 30, 2017. There was no current effect on the financial statements of the 91 Express Lanes Fund as a result of the implementation of this Statement.

GASB Statement No. 81

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective for OCTA's fiscal year ending June 30, 2017. There was no current effect on the financial statements of the 91 Express Lanes Fund as a result of the implementation of this Statement.

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2017:

| | |
|--------------------------------------|-----------------------|
| Deposits: | |
| Petty cash | \$ 550 |
| Deposits | 5,375,291 |
| Total deposits | <u>5,375,841</u> |
| Investments: | |
| With OCTA Commingled Investment Pool | 122,694,360 |
| With trustee | 23,872,620 |
| Total investments | <u>146,566,980</u> |
| Total cash and investments | <u>\$ 151,942,821</u> |

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

| | |
|-----------------------------------|------------------------------|
| Unrestricted cash and investments | \$ 127,945,089 |
| Restricted cash and investments: | |
| Cash equivalents | <u>23,997,732</u> |
| Total cash and investments | <u><u>\$ 151,942,821</u></u> |

For the Fiscal Year Ended June 30, 2017

As of June 30, 2017, the 91 Express Lanes Fund had the following investments:

| Investment | Principal | Fair Value | Yield | Interest Rate Range | Maturity Range | Weighted Average Maturity (Years) |
|------------------------------------|----------------|----------------|---|---------------------------|--------------------|--|
| OCTA Commingled Investment Pool | \$ 122,614,520 | \$ 122,694,360 | Refer to the OCTA CAFR for information related to the OCTA Commingled Investment Pool. | | | |
| Held by trustee: | | | | | | |
| *Money Market Funds | 139 | 139 | 0.58% | 0.38%- 0.39% | 7/1/17 | 1 Day |
| *Commercial Paper | 23,872,481 | 23,872,481 | 1.10%- 1.14% | 0.00%- 1.01% | 7/19/17- 8/1/17 | .07 |
| Total investments | \$ 146,487,140 | \$ 146,566,980 | | | | |

Portfolio Weighted Average

2.0

*Money market funds and commercial paper are measured at amortized cost which approximates fair value.

As of June 30, 2017, the 91 Express Lanes Fund had \$122,694,360 invested in the OCTA's Commingled Investment Pool (CIP). OCTA's CIP investments are carried at fair value except for money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at purchase date carried at amortized cost which approximates fair value.

Deposits and withdrawals in the OCTA's CIP are made on the basis of \$1.00 (cost basis) and not fair value. Accordingly, the 91 Express Lanes Fund's investment in the OCTA's CIP at June 30, 2017 is uncategorized, not defined as a Level 1, Level 2, or Level 3 input.

Refer to the OCTA CAFR for fiscal year 2016-17 for details on valuation techniques, fair value hierarchy, interest rate risk, variable rate notes and custodial credit risk related to the OCTA's CIP underlying investments.

Credit Risk

The Policy sets minimum acceptable credit ratings for investments from any of the three nationally recognized rating services: Standard & Poor's Corporation (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F1 (Fitch), while an issuer of long-term debt must be rated no less than an "A" by two of the three rating services. OCTA's CIP is not rated.

For the Fiscal Year Ended June 30, 2017

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of fair value of the 91 Express Lanes Fund's portfolio at June 30, 2017. (NR means Not Rated):

| Investments | S&P | Moody's | Fitch | % of 91 Express Lanes Portfolio |
|---------------------------------|------|---------|-------|---------------------------------|
| OCTA Commingled Investment Pool | NR | NR | NR | 83.71% |
| Held by trustee: | | | | |
| Money Market Funds | AAAm | Aaa | AAA | 0.00% |
| Commercial Paper | | | | |
| BNP Paribas | A-1 | F1 | F1 | 8.86% |
| Bank of Tokyo | A-1 | F1 | NR | 7.43% |
| Total | | | | <u>100.00%</u> |

Concentration of Credit Risk

At June 30, 2017, OCTA did not exceed the Policy maximum concentrations as stated below:

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and OCTA Debt

- 5% for any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities.

Issuer/Counter-Party Diversification Guidelines For Federal Agencies, Federal Instrumentalities and Repurchase Agreements

- 35% for any one Federal Agency or Federal Instrumentalities.
- 50% for any one repurchase agreement counter-party name if the maturity/term is less than or equal to 7 days.
- 35% for any one repurchase agreement counter-party name if the maturity/term is greater than 7 days.

For the Fiscal Year Ended June 30, 2017

Issuer/Counter-Party Diversification Guidelines for OCTA's Debt

OCTA can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

The following is a summary of the concentration of credit risk by issuer as a percentage of the fair value of the 91 Express Lanes Fund's portfolio at June 30, 2017:

| Issuer | Amount | % of 91 Express Lanes Portfolio |
|----------------------------------|---------------|------------------------------------|
| BNP Paribas (Commercial Paper) | \$ 12,985,591 | 8.86% |
| Bank of Tokyo (Commercial Paper) | \$ 10,886,890 | 7.43% |

4. Capital Assets

Capital asset activity for the 91 Express Lanes Fund for the year ended June 30, 2017 is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------|--------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 1,371,643 | \$ - | \$ (684,643) | \$ 687,000 |
| Total capital assets, not being depreciated | 1,371,643 | - | (684,643) | 687,000 |
| Capital assets, being depreciated: | | | | |
| Improvements | 3,195,925 | 299,894 | (45,355) | 3,450,464 |
| Communications equipment | 2,983,042 | 1,394,612 | - | 4,377,654 |
| Computer hardware and software | 3,015,529 | 75,563 | (210,831) | 2,880,261 |
| Transponders | 4,306,194 | 306,343 | (332,018) | 4,280,519 |
| Equipment, furniture and fixtures | 161,925 | - | - | 161,925 |
| Total capital assets, being depreciated | 13,662,615 | 2,076,412 | (588,204) | 15,150,823 |

For the Fiscal Year Ended June 30, 2017

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|------------|-------------------|
| Less accumulated depreciation for: | | | | |
| Improvements | (1,854,617) | (109,679) | 45,355 | (1,918,941) |
| Communications equipment | (2,983,042) | (161,338) | - | (3,144,380) |
| Computer hardware and software | (2,913,407) | (34,297) | 210,831 | (2,736,873) |
| Transponders | (3,416,480) | (309,080) | 332,018 | (3,393,542) |
| Equipment, furniture and fixtures | (128,795) | (10,055) | - | (138,850) |
| Total accumulated depreciation | (11,296,341) | (624,449) | 588,204 | (11,332,586) |
| Total capital assets, being depreciated, net | 2,366,274 | 1,451,963 | - | 3,818,237 |
| Total capital assets, net | \$ 3,737,917 | \$ 1,451,963 | \$ 684,643 | \$ 4,505,237 |

5. Service Concession Arrangements – Toll Facility Franchise

On January 3, 2003, OCTA purchased from the California Private Transportation Company (CPTC) its interest in a Franchise Agreement for a toll facility on a 10-mile segment of the Riverside Freeway/State Route (SR) 91 between the Orange/Riverside County line and the Costa Mesa Freeway/SR-55. The purchase was enabled by State Assembly Bill (AB) 1010 (Correa), passed by the California legislature and signed by the governor in September 2002. The legislation provided the authority for OCTA to collect tolls and pay related financing costs until 2030, and eliminated non-compete provisions in the Franchise Agreement for needed improvements on the SR-91. The Franchise Agreement with the State of California's Department of Transportation (Caltrans) had granted CPTC the right to develop and construct the toll facility and to operate it for 35 years under a lease arrangement. Caltrans retains legal title to the real property components of the toll facility.

In September 2008, the Governor of California approved Senate Bill (SB) 1316 (Correa) as an update to the provisions of AB 1010. SB 1316 authorized OCTA to assign its franchise rights, interests and obligations in the Riverside County portion to the Riverside County Transportation Commission (RCTC), thereby allowing RCTC to add two toll lanes and a regular lane in each direction on the SR-91 from the Orange County line to Interstate 15. In addition, the bill authorized the terms of the franchise to expire no later than December 31, 2065. SB 1316 also required OCTA and RCTC to enter into an agreement providing for the coordination of their respective tolling facilities if RCTC was to construct and operate the toll facilities on the Riverside County portion of the SR-91 franchise.

In December 2011, the Board approved the assignment of OCTA's franchise rights, interests and obligations in the Riverside County portion of the SR-91 franchise to RCTC. The Board also approved the extension of the expiration date to 2065 and a cooperative agreement between OCTA and RCTC that details the joint operation for the 91 Express Lanes extension.

For the Fiscal Year Ended June 30, 2017

Intangible asset activity for the year ended June 30, 2017 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|------------------------------------|----------------------|----------------|-----------|-------------------|
| Toll facility franchise | \$ 205,263,668 | \$ - | \$ - | \$ 205,263,668 |
| Less accumulated amortization | (77,222,379) | (2,586,693) | - | (79,809,072) |
| Total toll facility franchise, net | \$ 128,041,289 | \$ (2,586,693) | \$ - | \$ 125,454,596 |

6. Bonds Payable

Taxable Senior Secured Bonds

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

Toll Road Revenue Refunding Bonds

On November 12, 2003, OCTA issued \$195,265,000 in Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-A, Series 2003-B-1 and Series 2003-B-2 to refund the \$135,000,000 taxable 7.63% Senior Secured Bonds and to reimburse OCTA for a portion of its payment of the costs of acquiring the Toll Road and certain other property and interests associated with the Toll Road. The \$95,265,000 Series 2003-A Bonds were issued as fixed rate bonds. The \$75,000,000 Series 2003-B-1 Bonds and the \$25,000,000 Series 2003-B-2 Bonds (collectively the "Series 2003-B Bonds") were issued as adjustable rate bonds.

On November 24, 2008, OCTA remarketed the \$100,000,000 Series 2003-B Bonds, which were purchased by the Orange County Investment Pool (OCIP). In connection with the mandatory tender of the Series 2003-B Bonds required by the Indenture, the interest rate was converted to a Long Term Interest Rate equal to the OCIP Rate. On December 20, 2010, OCTA entered into a new transaction with OCIP for the Series 2003-B Bonds at a 1.55% rate. The Series 2003-B Bonds had a mandatory tender date of August 15, 2013.

On July 30, 2013, OCTA issued \$124,415,000 in Senior Lien Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2013 to refund the outstanding Toll Road Revenue Refunding Bonds (91 Express Lanes) Series 2003-A, Series 2003-B-1 and Series 2003-B-2. OCTA refunded the outstanding Series 2003-A Bonds to reduce its total debt service payments over the life of the bonds and refunded the Series 2003-B-1 and Series 2003-B-2 Bonds to address the mandatory tender date of August 15, 2013 for the existing private placement with the OCIP. The refunding

For the Fiscal Year Ended June 30, 2017

resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,366,861. The transaction resulted in a reduction of debt service payments of \$26,916,929 over 18 fiscal years and an economic gain (difference between the present values of the debt service payments of the original 2003 and 2013 debt) of \$19,271,945. The Series 2013 Bonds were issued as fixed rate bonds. The transaction closed on August 8, 2013.

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

| | |
|------------------------------|---------------|
| Issuance date | 07/30/2013 |
| Closing date | 08/08/2013 |
| Original issue amount | \$124,415,000 |
| Cash reserve requirements | \$23,798,450* |
| Cash reserve balance | \$23,997,732 |
| Interest rate | 2%-5% |
| Maturity | December 2030 |
| Principal payment date | August 15 |
| Balance as of 06/30/17 | \$109,130,000 |
| Unamortized premium | \$8,666,320 |
| Deferred amount on refunding | \$(9,011,185) |

The Toll Road Revenue Refunding Bonds have ratings of "A1" by Moody's, "A" from Fitch, and "AA-" by Standard & Poor's.

*Pursuant to the 2013 Toll Road Revenue Refunding Bonds Master Indenture of Trust, three reserve funds are maintained with required balances as follows: Senior Lien Reserve Fund \$10,798,450; Major Maintenance Reserve Fund \$10,000,000; and Operating Reserve Fund \$3,000,000. At June 30, 2017, all reserve requirements have been satisfied.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2017, are as follows:

| Year ending June 30, | Principal | Interest | Total |
|----------------------|----------------|---------------|---------------|
| 2018 | \$ 5,525,000 | \$ 5,269,700 | \$ 10,794,700 |
| 2019 | 5,810,000 | 4,986,325 | 10,796,325 |
| 2020 | 6,110,000 | 4,688,325 | 10,798,325 |
| 2021 | 6,420,000 | 4,375,075 | 10,795,075 |
| 2022 | 6,750,000 | 4,045,825 | 10,795,825 |
| 2023-2027 | 39,315,000 | 14,667,750 | 53,982,750 |
| 2028-2031 | 39,200,000 | 3,986,663 | 43,186,663 |
| Total | \$ 109,130,000 | \$ 42,019,663 | \$151,149,663 |

For the Fiscal Year Ended June 30, 2017

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2017, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|-----------------------------|----------------------|-------------|----------------------|----------------------|------------------------|
| Tax-exempt bonds | \$114,415,000 | \$ - | \$(5,285,000) | \$109,130,000 | \$5,525,000 |
| Unamortized premium | 9,310,257 | - | (643,937) | 8,666,320 | - |
| Total long-term liabilities | <u>\$123,725,257</u> | <u>\$ -</u> | <u>\$(5,928,937)</u> | <u>\$117,796,320</u> | <u>\$5,525,000</u> |

Pledged Revenue

The 91 Express Lanes debt issuance outstanding is repaid and secured by the pledging of certain revenues, as defined in the debt agreement. The amount and term of the remainder of this commitment is indicated in the debt service to maturity table. The purpose for which the proceeds of the debt issuance were utilized is disclosed in the debt description. Pursuant to the 2013 Toll Road Revenue Refunding Bonds Master Indenture of Trust, the 91 Express Lanes Fund will covenant to fix and prescribe toll rates for each type of vehicle and each time of day sufficient to produce adjusted net toll revenues for each fiscal year at least equal to 1.3 times annual debt service on Senior Lien Bonds and Parity Obligations and at least equal to 1.0 times annual debt service on all bonds. Adjusted net toll revenues includes tolls and investment earnings on specified reserve accounts minus operating expenses, excluding depreciation and interest expense.

Pledged revenue for the year ended June 30, 2017, was as follows:

| Pledged Revenue | Annual Amount of Net Pledged Revenue | Annual Debt Service Payments | Pledged Revenue Coverage | Required Debt Coverage |
|--------------------------------------|---|---------------------------------|-----------------------------|---------------------------|
| 91 Express Lanes Net Toll Road | \$25,002,475 | \$10,798,525 | 2.32 | 1.30 |

7. Commitments and Contingencies

Operator Agreement

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

For the Fiscal Year Ended June 30, 2017

year. The agreement carried two two-year extension options through January 2, 2015. On June 27, 2011, the OCTA Board of Directors approved a subsequent amendment to the operating agreement with Cofiroute, which authorized the addition of two five-year extension options beginning July 1, 2011 through June 30, 2016 for the first extension term and beginning July 1, 2016 through June 30, 2021 as the second extension term. The second extension term was approved on May 9, 2016. Cofiroute is responsible for the day-to-day operations of the toll facility.

On May 24, 2013 OCTA completed a three-party agreement expiring on June 30, 2021, with Riverside County Transportation Commission (RCTC) and Cofiroute for operations of the 91 Express Lanes. This will help ensure streamlined consistent inter-county travel for motorists on the original 10-mile span of the 91 Express Lanes and the new eight miles extension into Riverside County.

Purchase Commitments

The 91 Express Lanes has various outstanding contracts. Total purchase commitments at June 30, 2017 were \$57,303,552, the most significant are with Cofiroute and RCTC for the operations of the 91 Express Lanes and with Caltrans for pavement rehabilitation.

Lease Commitments

The 91 Express Lanes Fund is committed under two non-cancelable leases for office space. These leases are considered for accounting purposes to be operating leases. Lease expenses for the year ended June 30, 2017 were \$432,703.

Future minimum payments for these leases approximate the following:

| | |
|------------------------------|---------------------|
| For the year ending June 30, | |
| 2018 | \$ 399,466 |
| 2019 | 347,433 |
| 2020 | 336,496 |
| 2021 | 346,596 |
| 2022 | 356,998 |
| 2023-2031 | 3,345,570 |
| Total | <u>\$ 5,132,559</u> |

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On April 13, 2015 the OCTA Board of Directors approved a 15-year lease extension for the 91 Express Lanes Anaheim office. A portion of the lease will be funded by RCTC per agreement between OCTA and RCTC entered into in December 2011. The lease extension was executed on July 22, 2015.

8. Effect of New Pronouncements:

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for OCTA's fiscal year ending June 30, 2018. OCTA has not determined the effect of this Statement.

GASB Statement No. 83

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. This Statement is effective for OCTA's fiscal year ending June 30, 2019. OCTA has not determined the effect of this Statement.

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GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This Statement is effective for OCTA's fiscal year ending June 30, 2020. OCTA has not determined the effect of this Statement.

GASB Statement No. 85

In March 2017, GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for OCTA's fiscal year ending June 30, 2018. OCTA has not determined the effect of this Statement.

GASB Statement No. 86

In May 2017, GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for OCTA's fiscal year ending June 30, 2018. OCTA has not determined the effect of this Statement.

For the Fiscal Year Ended June 30, 2017

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for OCTA's fiscal year ending June 30, 2021. OCTA has not determined the effect of this Statement.