

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

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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

Financial Statements

For the Fiscal Year Ended June 30, 2013

Contents

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Financial Statements:	
Statement of Fund Net Position.....	8
Statement of Revenues, Expenses and Changes in Fund Net Position.....	9
Statement of Cash Flows	10
Notes to the Financial Statements	12



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, 2013, 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 respective financial position of the 91 Express Lanes Fund and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements

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, 2013, and 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.

Implementation of new accounting standards

As discussed in Note 1, the 91 Express Lanes Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 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.

Vavrinik, Trine, Day & Co. LLP

Laguna Hills, California
October 31, 2013

**91 Express Lanes Fund
Management's Discussion and Analysis
(unaudited)
For the Fiscal Year Ended June 30, 2013**

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, 2013. We encourage readers to consider the information on financial performance presented in conjunction with the financial statements that begin on page 8. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- OCTA implemented GASB 65 during this fiscal year. The impact of this change in accounting principle was to write off the cost of issuance balance as of July 1, 2012 and to restate the beginning net position by \$2,621.
- Total net position of the 91 EL was \$88,716 and consisted of net investment in capital assets of \$14,620; restricted net position of \$20,383; and unrestricted net position of \$53,713.
- Net position increased \$18,078 during fiscal year 2012-13. The increase is primarily due to operating revenues in excess of operating expenses and a gain on derivative instrument, offset by bond interest expense.
- Nonoperating revenues (expenses) increased \$5,247 from the prior year primarily due to the gain on derivative instrument of \$1,312 in fiscal year 2012-13 compared to a loss of \$3,639 in fiscal year 2011-12.

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 fund 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 8-11 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 12-29 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, 2013, the 91 EL's net position was \$88,716, a \$18,078 increase from June 30, 2012. 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

	2013	2012
Current and other assets	\$ 63,054	\$ 53,908
Restricted assets	39,018	38,975
Capital assets, net	3,937	4,844
Intangible asset – toll road franchise, net	135,801	138,388
Total assets	<u>241,810</u>	<u>236,115</u>
Total deferred outflows of resources	<u>16,106</u>	<u>17,174</u>
Current liabilities	14,867	14,776
Long-term liabilities	154,333	167,875
Total liabilities	<u>169,200</u>	<u>182,651</u>
Net position:		
Invested in capital assets	14,620	13,685
Restricted	20,383	20,340
Unrestricted	53,713	36,613
Total net position, as restated	<u>\$ 88,716</u>	<u>\$ 70,638</u>

The 91 EL's net position invested in capital assets was \$14,620, compared to \$13,685 in 2012. The 91 EL's net position reflect 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 \$935 in net position invested in capital assets was primarily related to \$4,429 reduction in related outstanding debt used to acquire capital assets and continued depreciation.

Restricted net position, representing resources subjected to external restrictions on how they may be used, were 23% and 29% of the total net position at June 30, 2013 and 2012, respectively. The increase in restricted net position of \$43 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 \$36,613 at June 30, 2012 to \$53,713 at June 30, 2013. This increase of \$17,100 was primarily due to operating revenues in excess of operating expenses.

**91 Express Lanes Fund
Management's Discussion and Analysis**

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

Table 2
91 Express Lanes Fund
Changes in Net Position

	2013	2012
Revenues:		
Operating revenues:		
Tolls, fees, and fines	\$ 39,288	\$ 37,742
Total operating revenues	<u>39,288</u>	<u>37,742</u>
Operating expenses:		
Management and operational services	7,505	7,222
Administrative overhead	2,168	1,848
Other operating expenses	7	2,774
Insurance claims and premiums	312	308
Professional services	2,580	2,651
General and administrative	508	439
Depreciation and amortization	3,887	5,994
Total operating expenses	<u>16,967</u>	<u>21,236</u>
Operating income	<u>22,321</u>	<u>16,506</u>
Nonoperating revenues (expenses):		
Investment earnings	198	521
Investment gain/(loss) on derivative instrument	1,312	(3,639)
Interest expense	(5,773)	(6,464)
Other	21	93
Total nonoperating revenues (expenses)	<u>(4,242)</u>	<u>(9,489)</u>
Income before transfers	18,079	7,017
Transfers to OCTA funds	<u>(1)</u>	<u>(101)</u>
Changes in net position, as restated	18,078	6,916
Total net position—beginning, as restated	<u>70,638</u>	<u>63,722</u>
Total net position—ending	<u>\$ 88,716</u>	<u>\$ 70,638</u>

91 EL's total operating revenues increased by 4%, while the total operating expenses decreased by 20%. The increase in operating revenues is primarily due to an increase in revenue from toll road fees and violations. The decrease in operating expenses is primarily attributable to a 35 year extension of the Franchise Agreement resulting in a decrease in amortization and to the implementation of GASB 65, which resulted in the elimination of the amortization of bond issuance costs and in the restatement of ending net position for fiscal year 2012 in the amount of \$2,621.

91 Express Lanes Fund Management's Discussion and Analysis

Nonoperating revenues (expenses) increased \$5,247 due to an investment gain on the termination of the derivative investment as well as a decrease in interest expense due to the termination of the interest rate swap.

Capital Assets and Intangible Asset

Capital Assets

As of June 30, 2013, the 91 EL had \$3,937 net of accumulated depreciation, invested in a broad range of capital assets including: improvements, communications equipment, computer hardware and software, transponders, and equipment, furniture and fixtures (Table 3). The total decrease in the 91 EL's capital assets for fiscal year 2012-13 was \$907, which was primarily due to depreciation.

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

	2013	2012
Improvements	1,855	2,029
Communications equipment	83	197
Computer hardware and software	927	1,380
Transponders	1,027	1,183
Equipment, furniture, and fixtures	45	55
Total capital assets, net	<u>\$ 3,937</u>	<u>\$ 4,844</u>

Major capital asset deletions during 2013 included \$467 for disposal of various communication equipment/systems. The 91 EL has outstanding capital expenditure commitments, the most significant of which is \$2,173 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, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Toll facility franchise	\$ 205,264	\$ -	\$ -	\$ 205,264
Less accumulated amortization	(66,876)	(2,587)	-	(69,463)
Total toll facility franchise, net	<u>\$ 138,388</u>	<u>\$ (2,587)</u>	<u>\$ -</u>	<u>\$ 135,801</u>

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

91 Express Lanes Fund Management's Discussion and Analysis

Debt Administration

As of June 30, 2013, the 91 EL had \$155,460 in tax-exempt bonds outstanding compared to \$160,705 at June 30, 2012, as presented in Table 4.

Table 4
91 Express Lanes Fund
Outstanding Debt

	2013	2012
Tax-exempt bonds	\$ 155,460	\$ 160,705

Additional information on long-term debt can be found in note 7 to the financial statements.

Economic and Other Factors

The 91 EL makes up \$39,436 or 3.2% of OCTA's fiscal year 2013-14 revenue budget. In fiscal year 2013-14, toll revenue is forecasted to decrease by 3.7% due to the addition of a 5th lane on the SR-91 corridor which will encourage patrons to use the general purpose lanes. However, the average long term rate of growth for toll road revenues beyond 2013-14 is 4.9%.

The majority of expenses related to the 91 EL within the fiscal year 2013-14 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 2012-13, there were 112,929 active customer accounts, with 168,507 transponders assigned to those accounts.

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 \$111,200. One of these projects is the addition of a westbound auxiliary lane on SR-91 beginning at the northbound SR-55 to the westbound SR-91 connector through the Tustin Avenue interchange. Construction is to begin in fiscal year 2013-14 and is expected to be completed in fiscal year 2014-15. This project requires close coordination with Caltrans in order to minimize impacts to the 91 EL's operations.

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, 2013

Assets	
Current Assets:	
Cash and investments	\$ 57,145,015
Receivables:	
Interest	92,352
Violations, net	4,481,401
Other, net	1,069,118
Other assets	267,120
Total current assets	<u>63,055,006</u>
Noncurrent Assets:	
Restricted cash and investments:	
Cash equivalents	39,017,588
Capital assets, net:	
Depreciable	3,936,580
Intangible asset - tollroad franchise, net	135,801,367
Total noncurrent assets	<u>178,755,535</u>
Total Assets	<u>241,810,541</u>
Deferred Outflows of Resources	
Deferred charge on refunding	16,106,073
Total Deferred Outflows of Resources	<u>16,106,073</u>
Liabilities	
Current Liabilities:	
Accounts payable	3,221,385
Accrued interest payable	1,629,590
Due to other governments	66,635
Unearned revenue	4,128,411
Other liabilities	295,994
Bonds payable - due within one year	5,525,000
Total current liabilities	<u>14,867,015</u>
Noncurrent Liabilities:	
Bonds payable - due in more than one year	154,333,429
Total noncurrent liabilities	<u>154,333,429</u>
Total Liabilities	<u>169,200,444</u>
Net Position	
Net investment in capital assets	14,620,383
Restricted for:	
Debt service	6,988,259
Capital	10,155,766
Operating reserves	3,238,771
Unrestricted	53,712,991
Total Net Position	<u>\$ 88,716,170</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, 2013

Operating revenues:	
Tolls, fees, and fines	<u>\$ 39,288,300</u>
Operating expenses:	
Management and operational services	7,504,955
Administrative overhead	2,167,631
Other operating expenses	6,558
Insurance claims and premiums	311,841
Professional services	2,579,731
General and administrative	508,628
Depreciation and amortization	<u>3,887,442</u>
Total operating expenses	<u>16,966,786</u>
Operating income	<u>22,321,514</u>
Nonoperating revenues (expenses):	
Investment earnings	198,090
Investment gain on derivative instrument	1,311,906
Interest expense	(5,773,239)
Other	<u>21,369</u>
Total nonoperating revenues (expenses)	<u>(4,241,874)</u>
Income before transfers	18,079,640
Transfers to other OCTA funds	<u>(1,177)</u>
Change in net position	18,078,463
Total net position - beginning, as restated	<u>70,637,707</u>
Total net position - ending	<u><u>\$ 88,716,170</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, 2013

Cash flows from operating activities:	
Receipts from customers and users	\$ 40,460,424
Payments to suppliers	(10,633,837)
Payments for OCTA interfund services used	(2,167,631)
Miscellaneous revenue received	21,369
	<u>27,680,325</u>
Net cash provided by operating activities	
Cash flows from noncapital financing activities:	
Transfers to OCTA funds	(1,177)
	<u>(1,177)</u>
Net cash used for noncapital financing activities	
Cash flows from capital and related financing activities:	
Principal payment on long-term debt	(5,245,000)
Interest paid on long-term debt	(5,447,188)
Acquisition and construction of capital assets	(393,139)
	<u>(11,085,327)</u>
Net cash used for capital and related financing activities	
Cash flows from investing activities:	
Interest received	168,423
Termination payment for derivative instrument	(7,764,090)
Gain/(loss) from derivatives	1,311,906
	<u>(6,283,761)</u>
Net cash used for investing activities	
Net increase in cash and cash equivalents	10,310,060
Cash and cash equivalents at beginning of year	85,852,543
	<u>85,852,543</u>
Cash and cash equivalents at end of year	<u>\$ 96,162,603</u>
Reconciliation of cash and cash equivalents to statement of net position:	
Cash and investments	\$ 57,145,015
Restricted cash and investments	39,017,588
	<u>39,017,588</u>
Total cash and cash equivalents	<u>\$ 96,162,603</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, 2013

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:

Operating income	\$	22,321,514
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation expense		1,300,749
Amortization of Franchise Agreement		2,586,693
Amortization of prepaid expense		257,138
Amortization of prepaid insurance		311,840
Miscellaneous		21,369
Change in assets and liabilities:		
Violations receivables, net		1,121,131
Other receivables, net		46,010
Other assets		(586,188)
Accounts payable		315,059
Due to other governments		(19,974)
Unearned revenue		10,684
Other liabilities		(5,700)
Total adjustments		5,358,811
Net cash provided by operating activities	\$	27,680,325

Noncash capital, financing and investing activities:

Amortization of bond premium	\$	(252,541)
Amortization of bond deferred refunding charges	\$	1,067,806

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
Year Ended June 30, 2013

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 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.

Cash and Investments

The 91 Express Lanes Fund participates in OCTA's Commingled Investment Pool. OCTA maintains cash and investments in accordance with the Annual Investment Policy (AIP) adopted

Year Ended June 30, 2013

initially by OCTA's Board of Directors (Board) on May 8, 1995, and most recently amended June 10, 2013. The AIP complies with, or is more restrictive than, the California Government Code (Code). At June 30, 2013, the investment portfolios were maintained at Union Bank 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 dollar account balances.

Investments in U.S. government and U.S. agency securities, medium-term notes, repurchase agreements, variable and floating rate securities, commercial paper, mortgage and asset-backed securities and corporate notes are carried at fair value based on quoted market prices, except for securities with a remaining maturity of one year or less at purchase date, which are carried at cost. Treasury mutual funds are carried at fair value based on each fund's share price. 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 AIP 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, bankers 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.

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 AIP.

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 mutual 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 Reserve Fund, Supplemental Reserve Fund, Major Maintenance Reserve Fund, and Operating Reserve Fund are pursuant to terms of the 2003 Indenture for the

Year Ended June 30, 2013

\$195,265,000 Toll Road Revenue Refunding Bonds and their use is limited by applicable debt covenants.

Permitted investments per the debt covenants include: government obligations, State of California and local agency obligations, bankers acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, money market funds, other mutual funds, investment agreements, 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 90 days old, the receivable is based on a twelve-month average of violations collected, and is recorded net of an allowance for uncollectible accounts of \$541,563 at June 30, 2013. For unpaid violations in excess of 90 days, the receivable is estimated using a 3-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 \$414,861 at June 30, 2013.

An estimated \$4 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.

Other Assets

Other assets include prepaid expenses and refundable deposits.

Capital Assets

Capital assets include 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.

Year Ended June 30, 2013

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 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/inflows of resources

In addition to assets, the statement of financial 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/expenditure) until then. OCTA 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

Interest Rate Swap

As a means of lowering borrowing costs on variable rate debt compared to fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps totaling \$100,000,000. The parity swaps were entered into to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%. On March 15, 2011, OCTA terminated one of the swaps with a notional amount of \$75,000,000. On January 30, 2013, OCTA terminated the remaining swap with a notional amount of \$25,000,000. Refer to note 6.

Year Ended June 30, 2013

Risk Management

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

Net Position

Net position represents the difference between assets and deferred outflow of resources and liabilities and 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 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 2003 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.

New Effective Accounting Pronouncements

In fiscal year 2013, OCTA implemented the following GASB Statements:

GASB Statement No. 60

In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. OCTA implemented this statement in fiscal year 2013. See note 5.

Year Ended June 30, 2013

GASB Statement No. 61

In November 2010, GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34. The objective of this Statement is to improve financial reporting for governmental financial reporting entities. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were a part of the primary government in certain circumstances. This statement does not apply to the 91 EL.

GASB Statement No. 62

In June 2011, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. OCTA has implemented this GASB for the fiscal year ending June 30, 2013. Refer to note 10 for more information.

GASB Statement No. 63

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This statement is effective for OCTA's fiscal year ending June 30, 2013. OCTA 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 and must be reported as a deferred outflow of resources. Refer to note 10 for more information on the effects of this restatement.

GASB Statement No. 65

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. OCTA has early implemented this GASB for the fiscal year ending June 30, 2013. Refer to note 10 for more information.

Year Ended June 30, 2013

3. Cash and Investments

Cash and investments are comprised of the following at June 30, 2013:

Deposits:	
Petty cash	\$ 550
Deposits	406,316
Total deposits	<u>406,866</u>
Investments:	
With OCTA Commingled Investment Pool	56,739,672
With trustee	39,016,065
Total investments	<u>95,755,737</u>
Total cash and investments	<u>\$ 96,162,603</u>

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

Unrestricted cash and investments	\$ 57,145,015
Restricted cash and investments:	
Cash equivalents	39,017,588
Total cash and investments	<u>\$ 96,162,603</u>

As of June 30, 2013, the 91 Express Lanes Fund had the following investments:

Investment	Fair Value	Principal	Interest Rate Range	Maturity Range	Weighted Average Maturity (Years)
OCTA Commingled Investment Pool	\$ 56,739,672	\$ 56,675,790	Discount, 0.125%-7.375%	7/1/13- 6/1/18	1.93
Held by trustee:					
Money Market Mutual Funds	2,745	2,745	Variable	7/1/13	1 Day
Certificates of Deposit	13,393,000	13,393,000	.12%	8/1/13	.09
Commercial Paper	25,620,320	25,620,320	Discount	8/1/13	.09
Total investments	<u>\$ 95,755,737</u>	<u>\$ 95,691,855</u>			

Portfolio Weighted Average 1.86

Interest Rate Risk

OCTA manages exposure to declines in fair value from increasing interest rates by having an investment policy that limits maturities to five years while also staggering maturities. OCTA

Year Ended June 30, 2013

maintains a low duration strategy, targeting an estimated average portfolio duration of three years or less, with the intent of reducing interest rate risk. Portfolios with low duration are less volatile, therefore less sensitive to interest rate changes. In accordance with the AIP, amounts restricted for debt service reserves are invested in accordance with the maturity provision of their specific indenture, which may extend beyond five years.

As of June 30, 2013, the 91 Express Lanes Fund participated in OCTA's Commingled Investment Pool which had asset-backed securities totaling \$41,889,189 recorded in the pool. The underlying assets are consumer receivables that include credit cards, auto and home loans. The securities have a fixed interest rate and are rated AAA by at least two of the three nationally recognized statistical rating organizations.

As of June 30, 2013, OCTA's Commingled Investment Pool had the following variable rate notes:

Investment	Fair Value	Coupon Multiplier	Coupon Reset Date
American Express	\$ 1,008,687	LIBOR + 59 basis points	Quarterly
Apple	1,318,878	LIBOR + 5 basis points	Quarterly
Apple	1,085,324	LIBOR + 25 basis points	Quarterly
Bank of America	757,773	LIBOR + 82 basis points	Quarterly
BB&T Corporation	622,380	LIBOR + 70 basis points	Quarterly
Daimler Finance	722,513	LIBOR + 78 basis points	Quarterly
Goldman Sachs	651,697	LIBOR + 100 basis points	Quarterly
Goldman Sachs	1,079,917	LIBOR + 120 basis points	Quarterly
JP Morgan Chase	2,035,512	LIBOR + 90 basis points	Quarterly
Merck & Co Bonds	858,349	LIBOR + 36 basis points	Quarterly
NBC Universal	611,812	LIBOR + 53.7 basis points	Quarterly
Target	1,101,573	LIBOR + 17 basis points	Quarterly
Toronto Dominion	1,100,209	LIBOR + 18 basis points	Quarterly
VF Corporate Notes	500,565	LIBOR + 75 basis points	Quarterly
Total Variable Rate Notes	\$ 13,455,189		

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. OCTA's investment policy requires that a third party bank custody department hold all securities owned by OCTA. All

Year Ended June 30, 2013

trades are settled on a delivery versus payment basis through OCTA's safekeeping agent. At June 30, 2013, OCTA did not have any deposits or securities exposed to custodial credit risk and there was no securities lending.

Credit Risk

The AIP 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 F-1 (Fitch), while an issuer of long-term debt must be rated no less than an "A" by two of the three rating services. LAIF and OCTA's Commingled Investment Pool are not rated.

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, 2013. (NR means Not Rated):

Investments	S & P	Moody's	Fitch	% of 91 Express Lanes Portfolio
OCTA Commingled Investment Pool Held by trustee:				
Money Market Mutual Funds	NR	NR	NR	59.25%
Certificates of Deposit	AAA	Aaa	AAA	0.00%
Commercial Paper:				
General Electric	A-1	P-1	F1	13.99%
General Electric	A-1	P-1	NR	26.76%
Total				100.00%

Concentration of Credit Risk

At June 30, 2013, OCTA did not exceed the AIP maximum concentrations as stated below:

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and 91 Express Lanes 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.

Year Ended June 30, 2013

- 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.

Issuer/Counter-Party Diversification Guidelines for OCTA's 91 Express Lanes Debt

OCTA can purchase all or a portion of the Orange County Transportation Authority's Toll Road Revenue Refunding Bonds (91 Express Lanes) Series B Bonds maturing December 15, 2030 providing the purchase does not exceed 25% of the Maximum Portfolio and is 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, 2013:

<u>Issuer</u>	<u>Amount</u>	<u>% of 91 Express Lanes Portfolio</u>
Bank of the West (Certificates of Deposit)	\$ 13,393,000	13.99%
General Electric (Commercial Paper)	\$ 25,620,320	26.76%

Investment in State Investment Pool

OCTA is a voluntary participant in LAIF which is regulated by the California Government Code. The Investment Advisory Board provides oversight for LAIF, consisting of five members as designated by statute, which includes the Treasurer of the State of California. The fair value of OCTA's investment in this pool is reported in the accompanying financial statements based upon OCTA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Year Ended June 30, 2013

4. Capital Assets

Capital asset activity for the 91 Express Lanes Fund for the year ended June 30, 2013 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Improvements	\$ 3,208,531	\$ 8,352	\$ -	\$ 3,216,883
Communications equipment	3,021,080	-	-	3,021,080
Computer hardware and software	3,282,211	49,874	-	3,332,085
Transponders	4,535,207	327,590	(466,875)	4,395,922
Equipment, furniture and fixtures	156,949	7,323	-	164,272
Total capital assets, being depreciated	14,203,978	393,139	(466,875)	14,130,242
Less accumulated depreciation for:				
Improvements	(1,178,927)	(183,524)	-	(1,362,451)
Communications equipment	(2,824,236)	(114,423)	-	(2,938,659)
Computer hardware and software	(1,902,375)	(502,426)	-	(2,404,801)
Transponders	(3,352,241)	(483,596)	466,875	(3,368,962)
Equipment, furniture and fixtures	(102,009)	(16,780)	-	(118,789)
Total accumulated depreciation	(9,359,788)	(1,300,749)	466,875	(10,193,662)
Total capital assets, being depreciated, net	\$ 4,844,190	\$ (907,610)	\$ -	\$ 3,936,580

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

Year Ended June 30, 2013

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.

Intangible asset activity for the year ended June 30, 2013 was as follows:

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Toll facility franchise	\$ 205,263,668	\$ -	\$ -	\$ 205,263,668
Less accumulated amortization	(66,875,608)	(2,586,693)	-	(69,462,301)
Total toll facility franchise, net	<u>\$ 138,388,060</u>	<u>\$ (2,586,693)</u>	<u>\$ -</u>	<u>\$ 135,801,367</u>

6. Interest Rate Swap

As a means of lowering borrowing costs on variable rate debt compared to fixed rate bonds at the time of issuance in November 2003, OCTA entered into two parity interest rate swaps in connection with its \$195,265,000 Toll Road Revenue Refunding Bonds. The parity swaps were entered into to effectively change OCTA's variable rate bonds to a synthetically fixed rate of 4.06227%. The Series 2003-B-1 swap was for \$75,000,000 and the counterparty was Lehman Brothers Special Funding Incorporated. The Series 2003-B-2 swap was for \$25,000,000 and the counterparty was Bear Stearns Capital Markets Incorporated. On May 30, 2008, JP Morgan completed its acquisition of The Bear Stearns Companies Incorporated. As a result of the merger, JP Morgan assumed the \$25,000,000 interest rate swap between OCTA and Bear Stearns Capital Markets Incorporated. On March 15, 2011, OCTA terminated the \$75,000,000 interest rate swap.

Year Ended June 30, 2013

On January 30, 2013, OCTA terminated the \$25,000,000 interest rate swap. The investment gain on the derivative was \$1,311,906.

7. 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 have a mandatory tender date of August 15, 2013. On May 13, 2013, the board approved the restructuring of the bonds prior to the mandatory tender date. Refer to note 11.

Year Ended June 30, 2013

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

Issuance date	11/12/03
Original issue amount	\$195,265,000
Cash reserve requirements	\$38,019,585 *
Cash reserve balance	\$39,017,588
Interest rate	1.55% to 5.375%
Maturity	December 2030
Principal payment date	August 15
Balance as of 06/30/13	\$155,460,000
Unamortized premium	\$4,398,429
Deferred amount on refunding	(\$16,106,073)

* Pursuant to the 2003 Toll Road Revenue Refunding Bonds Master Indenture of Trust, four reserve funds are maintained with required balances as follows: Reserve Fund \$12,634,792; Supplemental Reserve Fund \$12,634,793; Major Maintenance Reserve Fund \$10,000,000; and Operating Reserve Fund \$2,750,000. At June 30, 2013, all reserve requirements have been satisfied.

Annual debt service requirements on the tax-exempt bonds as of June 30, 2013, are as follows:

Year ending June 30	Principal	Interest	Total
2014	\$ 5,525,000	\$ 4,217,356	\$ 9,742,356
2015	5,815,000	3,926,588	9,741,588
2016	6,130,000	3,613,031	9,743,031
2017	6,460,000	3,282,544	9,742,544
2018	6,800,000	2,942,969	9,742,969
2019-2023	39,525,000	9,601,792	49,126,792
2024-2028	49,660,000	4,747,650	54,407,650
2029-2031	35,545,000	850,291	36,395,291
Total	\$155,460,000	\$33,182,221	\$188,642,221

The interest rate used to determine the future annual debt service requirements for the Series 2003-B Bonds was the 1.55% OCIP rate at June 30, 2013. As rates vary, bond interest payments will vary.

Year Ended June 30, 2013

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Tax-exempt bonds	\$160,705,000	\$ -	\$5,245,000	\$155,460,000	\$5,525,000
Unamortized premium	4,650,970	-	252,541	4,398,429	-
Total long-term liabilities	\$165,355,970	\$ -	\$5,497,541	\$159,858,429	\$5,525,000

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 2003 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. 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, 2013, was as follows:

Description of Pledged Revenue	Annual Amount of Net Pledged Revenue	Annual Debt Service Payments	Pledged Revenue Coverage
91 Express Lanes Net Toll Road Revenue	\$26,271,899	\$10,225,511	2.57

8. Transfers to Other OCTA Funds

For the year ended June 30, 2013, the 91 Express Lanes Fund transferred \$1,177 to OCTA's Local Transportation Authority (LTA) Fund for the Riverside Freeway (SR-91) Eastbound Project right-of-way capital expenditures and support services.

9. 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

Year Ended June 30, 2013

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 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 authorizes 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. Cofiroute is responsible for the day-to-day operations of the toll facility.

Purchase Commitments

The 91 Express Lanes has various outstanding contracts. Total purchase commitments at June 30, 2013 were \$34,631,374, the most significant is with Cofiroute as noted above.

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, 2013 were \$ 371,783.

Future minimum payments for these leases approximate the following:

For the year ending June 30:	
2014	\$ 317,144
2015	316,198
2016	323,987
2017	332,033
2018	82,280
2019	20,731
Total	<u>\$ 1,392,373</u>

Year Ended June 30, 2013

10. Cumulative Effect of a Change in Accounting Principle

During the fiscal year, OCTA implemented GASB 65, Items Previously Reported as Assets and Liabilities. It was determined that debt issuance costs do not meet the definition of an asset or a deferred outflow and should be recognized as an outflow of resources in the reporting period in which they are incurred. The impact of this change in accounting principle was to write off the cost of issuance balance as of July 1, 2012 and to restate the beginning net position by \$2,621,329.

Also, the implementation of GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, resulted in the reclassification of deferred refunding charges as explained below:

	FY 2012 Previously Presented	Restatement	FY 2012 Restated
Deferred charge on refunding	\$ -	\$ 17,173,879	\$ 17,173,879
Unamortized bond issuance cost	2,621,329	(2,621,329)	-
Tax-exempt bonds	143,531,121	17,173,879	160,705,000
Net position unrestricted	39,233,750	(2,621,329)	36,612,421
Net position beginning of the year	63,722,315	(2,621,329)	61,100,986

11. Subsequent Events

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 Orange County Investment Pool. The Series 2013 Bonds were issued as fixed rate bonds and had a true interest cost of 3.83 percent. The transaction closed on August 8, 2013.

12. Effect of New Pronouncements:

GASB Statement No. 66

In March 2012, GASB issued Statement No. 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No 62,

Year Ended June 30, 2013

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement is effective for OCTA's fiscal year ending June 30, 2014.

GASB Statement No. 67

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement is effective for OCTA's fiscal year ending June 30, 2014.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for OCTA's fiscal year ending June 30, 2015.

GASB Statement No. 69

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement is effective for OCTA's fiscal year ending June 30, 2015.

GASB Statement No. 70

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. Additionally, this Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. This statement is effective for OCTA's fiscal year ending June 30, 2014.