FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

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Independent Auditors' Report

The Honorable Board of Directors
Foothill/Eastern Transportation Corridor Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the Foothill/Eastern Transportation Corridor Agency (the agency), as of and for the years ended June 30, 2013 and June 30, 2012, and the related notes to the financial statements, which collectively comprise the agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foothill/Eastern Transportation Corridor Agency as of June 30, 2013 and June 30, 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3–8 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.

KPMG LLP

October 2, 2013

This discussion and analysis of the Foothill/Eastern Transportation Corridor Agency's (the agency) financial performance provides an overview of the agency's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the agency's financial statements.

Background

The agency was formed in 1986 as a joint powers authority by the County of Orange and cities in Orange County, California. The agency was created to plan, design, finance, construct, and operate the Foothill (State Route 241) and Eastern (State Route 241, State Route 261, and State Route 133) Toll Roads.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the Foothill and Eastern Transportation Corridors (State Route 241, State Route 261, and State Route 133), to serve Orange County's growing population. In the early 1980s, the corridor was envisioned as a free highway funded through state or federal gas-tax revenues, but with a shortage of gas-tax revenues to fund transportation improvements and increasing costs of building new roads, local officials began to study alternative ways to fund road projects.

In the mid-1980s, two state laws were passed authorizing the agency to collect tolls and development impact fees to fund road construction. With a pledged revenue stream from future tolls, the agency issued nonrecourse, toll-revenue bonds to fund road construction, rather than relying on the uncertainty of state gas-tax revenue. The agency also reached an agreement with the California Department of Transportation (Caltrans) to assume ownership, liability, and maintenance of the State Route 241, State Route 261, and State Route 133 Toll Roads as part of the state highway system. This agreement eliminated the need for the agency to seek additional funding sources for road maintenance.

In 1993, the first 3.2-mile segment of the Foothill (State Route 241) Toll Road opened to traffic, the first toll road in Southern California to use FasTrak®, an electronic toll collection system that allowed drivers to pay tolls without stopping at a toll booth. As of June 30, 2013 and 2012, on average 180,000 and 178,000, transactions were recorded on the State Route 241, State Route 261, and State Route 133 Toll Roads every weekday, serving as an important, time-saving alternative route to local freeways and arterial roads.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2013 (FY13) totaled $128,727 compared to $122,948 in the prior fiscal year, an increase of 4.7%.

Interest and principal payments of $89,395 and $15,705, respectively, on the agency's long-term debt were made in FY13 compared to $89,984 and $11,390, respectively, in the prior fiscal year. Accrual basis interest was $88,990 in FY13 compared to $89,689 in the prior fiscal year, and accretion on the agency's capital appreciation bonds and convertible capital appreciation bonds totaled $48,156 in FY13, compared to $45,390 in the prior fiscal year.

As of June 30, 2013 and 2012, the agency had $545,226 and $550,926, respectively, in restricted cash and investments governed under the 1995 and 1999 master indentures of trust. The agency also had $121,499 and $116,311 in unrestricted cash.

Total net position at June 30, 2013 and 2012 was $(1,433,088) and $(1,412,251). The net position results primarily from the recording of long-term debt, proceeds of which funded the construction of the corridors. Ownership was transferred to Caltrans upon completion. The net position is also a result of accretion recorded on the capital appreciation bonds, which was greater than principal payments made.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the agency's financial statements, which comprise the statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements.

The financial statements present the financial picture of the agency from the economic resources measurement focus using the accrual basis of accounting. These statements include the recordable assets of the agency as well as the liabilities. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statements of cash flows provide information about the agency's cash receipts, cash payments, and net changes in cash resulting from operating, capital and related financing, and investing activities during the reporting period.

The statements of net position and the statements of revenues, expenses, and changes in net position report the agency's net position and related changes in them. Net position is the difference between the recorded assets and liabilities. The recorded activities include all toll revenues and operating expenses related to the operation of the Foothill/Eastern Transportation Corridors. In addition, the agency's construction-related activities, including the design, construction, and mitigation on the Foothill/Eastern Transportation Corridors as well as all financing and administration costs, are reflected in the statements. The activities are financed by toll revenues, development impact fees, fees and fines, and investment income.

(Continued)

(In thousands)

Financial Analysis

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

		2013	2012	Percentage increase (decrease)	2011	Percentage increase (decrease)
Assets:						
Current assets	$	231,390	217,295	6.5%	202,757	7.2%
Capital assets, net		367,352	353,871	3.8	344,116	2.8
Other noncurrent assets		442,748	456,365	(3.0)	446,174	2.3
Total assets		1,041,490	1,027,531	1.4	993,047	3.5
Liabilities:						
Bonds payable		2,404,474	2,372,023	1.4	2,338,023	1.5
Other liabilities		70,104	67,759	3.5	65,440	3.5
Total liabilities		2,474,578	2,439,782	1.4	2,403,463	1.5
Total net position	$	(1,433,088)	(1,412,251)	1.5	(1,410,416)	0.1

The purpose of the agency is to plan, finance, design, and construct the remaining portions of the corridor system and to operate and collect tolls from the patrons of the corridors to extinguish the related long-term bond debt. The debt, issued in the form of tax-exempt bonds, was issued initially to construct the roads. Subsequent to completion, the roads are transferred to Caltrans. The net position results primarily from using bond proceeds to construct the corridors, which were then contributed to Caltrans, and from the accretion of interest on the outstanding bonds.

Current assets have increased this year mainly due to higher tolls, fees, and fines and development impact fee revenue collected during the year. Current assets increased in FY12 mainly due to higher tolls, fees, and fines revenue collected during the year.

Capital assets, net in FY13 and FY12 have increased mainly due to additions to construction in progress related to the preliminary design and environmental planning costs associated with the 241 completion project.

The increase in bonds payable at June 30, 2013 and 2012 results from the current year accretion on the capital appreciation bonds totaling $48,156 and $45,390, respectively, offset by a principal payment of $15,705 and $11,390, respectively.

(In thousands)

The following is a summary of the agency's revenues, expenses, and changes in net position for the years ended June 30, 2013, 2012, and 2011:

		2013	2012	Percentage increase (decrease)	2011	Percentage increase (decrease)
Operating revenues:						
Tolls, fees, and fines	$	128,727	122,948	4.7%	114,715	7.2%
Development impact fees		11,794	4,752	148.2	11,613	(59.1)
Other revenue		423	1,342	(68.5)	601	123.3
Grant revenue		147	376	(60.9)	—	—
Total operating revenues		141,091	129,418	9.0	126,929	2.0
Operating expenses		23,452	23,364	0.4	35,290	(33.8)
Operating income		117,639	106,054	10.9	91,639	15.7
Nonoperating expenses, net		(138,476)	(107,889)	28.4	(123,257)	(12.5)
Change in net position		(20,837)	(1,835)	1,035.5	(31,618)	(94.2)
Net position at beginning of year		(1,412,251)	(1,410,416)	0.1	(1,378,798)	2.3
Net position at end of year	$	(1,433,088)	(1,412,251)	1.5	(1,410,416)	0.1

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 91.2% of total revenue in FY13 compared to 95.0% of total revenue in FY12. Tolls, fees, and fines increased 4.7% and 7.2%, respectively, over the prior year primarily due to toll rate increases and an increase in fee and fine collections. Development impact fees were $11,794 in FY13 compared to $4,752 in FY12, an increase of 148.2% versus a decrease of 59.1% in FY12. Section 66484.3 of the California Government Code authorizes the Foothill/Eastern Transportation Corridor Agency, through its member agencies, to require by ordinance the payment of a development impact fee as a condition of approval of a final map or as a condition of issuing a building permit, for the purpose of deferring the actual estimated cost of constructing the Foothill and Eastern Transportation Corridors. Amounts collected fluctuate from year to year depending on the increase or decrease of development within the area of benefit.

Operating expenses were $23,452 in FY13 compared to $23,364 in FY12, an increase of .4%. Included in operating expenses are the noncash expenses for depreciation on fixed assets and contribution of capital to Caltrans. Operating expenses excluding contributions and depreciation increased $991 from $19,369 in FY12 to $20,360 in FY13.

(Continued)

(In thousands)

For FY13, nonoperating expenses, net consist of gain on sale of land of $575 offset by investment loss of $1,905 and interest expense of $137,146. For FY12, nonoperating expenses, net consist of investment income of $27,190, offset by interest expense of $135,079.

Interest expense comprises both interest payments and the change in accrued interest on long-term debt and accretion of bonds outstanding. The decrease in investment income of $29,095 is mostly due to unrealized loss resulting from an increase in interest rates.

Capital Assets, Net

The following table summarizes the capital assets, net of depreciation, at June 30:

		2013	2012	2011
Construction in progress	$	339,854	325,055	313,877
Right-of-way acquisitions, grading, or improvements		15,014	15,539	15,539
Furniture and equipment		12,484	13,277	14,700
Total capital assets	$	367,352	353,871	344,116

Construction in progress primarily represents improvements in progress related to the 241 completion project. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment includes facility and toll revenue equipment related to the corridor operations facility, transponders, toll and violations collection equipment, toll booths and buildings, and changeable message signs.

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

Debt Administration

The agency had outstanding bonds payable of $2,404,474, $2,372,023 and $2,338,023 at June 30, 2013, 2012, and 2011, respectively, an increase in FY13 and FY12 of $32,451 and $34,000 due to the accretion of principal on capital appreciation bonds of $48,156 and $45,390, offset by a principal payment of $15,705 and $11,390, respectively. All of the agency's toll revenue, less certain expenses, as defined in the indentures of trust, is pledged to repay these bonds. There were no changes to the debt structure during FY13 or FY12.

The agency has several debt covenants contained in the master indentures of trust. Management of the agency represents that the agency was in compliance with all of its covenants as of and for the years ended June 30, 2013 and 2012.

(Continued)

While tolls, fees, and fines revenue increased during FY13 and the agency continues to pay its operating costs and debt service, the agency made a proactive step in April 2009 to ensure that it met its required coverage ratio of 1.3x annual debt service in current and future years by establishing an escrow defeasance fund. Available surplus funds that are deposited with the trustee into the escrow fund can be used instead of toll revenues to pay debt service to assure that the debt service coverage ratio is met should revenues decline. During FY13 and FY12, $13,500 and $16,400, respectively, was transferred into the escrow defeasance fund and used to pay debt service.

Economic Factors

Conversion to All Electronic Tolling System (AET) progressed during the year. The agency expects to offer license plate account tolling in January 2014 and conversion to cashless tolling by May 2014. During FY13, implementation expenditures for AET included civil design, toll systems procurement, project management, and back-office development. Cashless tolling increases free-flowing traffic, ridership safety and eliminates backups at the cash plazas. AET provides lower operating costs and offers a wider range of payment options for customers.

The agency continued to focus on customer incentives and promotions to maintain and build transactions and revenue and continued to offer promotions to attract new drivers and reward current customers throughout the year, including the promotions for "AAA and Costco," "drive a week free," "$5 Costco holiday new enrollment," "$30 converting cash users to FasTrak," and the "free toll for likes on Facebook and new account signups."

Based on FY13 traffic and revenue trends and estimated transactions for FY14, toll rate increases were implemented in FY14 at all locations except Oso and Los Alisos, which remain unchanged and Alton which will increase $0.75 for cash and $0.55 for FasTrak, by $0.25 for cash transactions and 5%, rounded to the nearest $0.05 for FasTrak transactions. Toll rate increases were implemented for FY13 at all locations except Oso and Los Alisos by $0.25 for cash transactions and 5%, rounded to the nearest $0.05, for FasTrak transactions.

During FY13 design and environmental work continued on the 241 Tesoro Extension that will lengthen the 241 by five and a half miles. In FY14, work will continue on the development of engineering plans, completion of environmental assessments, ongoing outreach and community input and development of a financial strategy for the extension. Upon completion of this work, the Board of Directors will be asked to approve the project, its financing and award a design-build contract amendment for its final design and construction. When completed, the 241 Tesoro Extension will provide a valuable alternative route for commuters and residents in the surrounding area. Long range planning efforts also continued related to the 241 completion project.

Contacting the Agency's Financial Management

This financial report is designed to provide a general overview of the agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Controller, Foothill/Eastern Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to http://www.thetollroads.com.

FOOTHILL/EASTERN TRANSPORTATION
CORRIDOR AGENCY

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

		2013	2012
Assets:			
Current assets:			
Cash and investments	$	121,499	116,311
Restricted cash and investments		102,478	94,561
Receivables:			
Accounts, net of allowance of $976 and $887		1,765	1,638
Fees		327	21
Interest		2,424	2,324
Total receivables		4,516	3,983
Due from San Joaquin Hills Transportation Corridor Agency		947	912
Other assets		1,950	1,528
Total current assets		231,390	217,295
Noncurrent assets:			
Restricted cash and investments		442,748	456,365
Capital assets, net		367,352	353,871
Total assets		1,041,490	1,027,531
Liabilities:			
Current liabilities:			
Accounts payable		7,984	5,842
Deferred revenue		13,984	13,556
Due to San Joaquin Hills Transportation Corridor Agency		3,433	3,215
Employee compensated absences payable		411	449
Interest payable		44,292	44,697
Current portion of bonds payable		25,160	15,705
Total current liabilities		95,264	83,464
Long-term bonds payable		2,379,314	2,356,318
Total liabilities		2,474,578	2,439,782
Net position:			
Invested in capital assets, net of related debt		(2,037,122)	(2,018,152)
Restricted		486,147	492,352
Unrestricted		117,887	113,549
Total net position	$	(1,433,088)	(1,412,251)

See accompanying notes to financial statements.

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Operating revenues:			
Tolls, fees, and fines	$	128,727	122,948
Development impact fees		11,794	4,752
Other revenues		423	1,342
Grant revenues		147	376
Total operating revenues		141,091	129,418
Operating expenses:			
Toll compliance and customer service		7,578	7,222
Toll systems		3,145	3,130
Salaries and wages		2,969	3,469
Toll collections		2,168	2,175
Depreciation		2,121	2,625
Professional services		1,702	305
Contribution of capital improvements to Caltrans		971	1,370
Toll facilities		811	784
Insurance		774	717
Marketing		655	1,002
Facilities operations, maintenance, and repairs		200	209
Other operating expenses		358	356
Total operating expenses		23,452	23,364
Operating income		117,639	106,054
Nonoperating revenue (expenses):			
Gain on sale of land		575	—
Investment (loss) income		(1,905)	27,190
Interest expense		(137,146)	(135,079)
Nonoperating expenses, net		(138,476)	(107,889)
Change in net position		(20,837)	(1,835)
Net position at beginning of year		(1,412,251)	(1,410,416)
Net position at end of year	$	(1,433,088)	(1,412,251)

See accompanying notes to financial statements.

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Cash received from toll road patrons	$	129,005	123,945
Cash received from development impact fees		11,488	4,754
Cash received from miscellaneous revenue		70	946
Cash received from property rental		352	396
Cash received from grant revenue		319	376
Cash payments to suppliers		(15,970)	(16,299)
Cash payments to employees		(3,013)	(3,344)
Net cash provided by operating activities		122,251	110,774
Cash flows from capital and related financing activities:			
Cash receipt for land/ROW		1,100	50
Cash payments for equipment		(1,068)	(1,391)
Cash payments for construction in progress		(15,691)	(10,879)
Cash payments for interest and principal		(105,100)	(101,374)
Net cash used in capital and related financing activities		(120,759)	(113,594)
Cash flows from investing activities:			
Cash received from interest, net of realized gains and losses		7,600	4,777
Cash payments for purchase of investments		(397,012)	(371,180)
Cash received from the maturity and sale of investments		399,064	340,094
Net cash provided/(used in) by investing activities		9,652	(26,309)
Net increase/(decrease) in cash and cash equivalents		11,144	(29,129)
Cash and cash equivalents at beginning of year		56,479	85,608
Cash and cash equivalents at end of year (note 4)	$	67,623	56,479
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	117,639	106,054
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		2,121	2,625
Contribution of capital improvements to Caltrans		971	1,370
Changes in operating assets and liabilities:			
Accounts receivable		(161)	(120)
Fees receivable		(306)	2
Accounts payable, less accounts payable for fixed assets and construction in progress		1,836	(101)
Deferred revenue		428	880
Due from San Joaquin Hills Transportation Corridor Agency		(35)	(49)
Due to San Joaquin Hills Transportation Corridor Agency		218	285
Other assets		(422)	(180)
Employee compensated absences payable		(38)	8
Total adjustments		4,612	4,720
Net cash provided by operating activities	$	122,251	110,774
Noncash transactions:			
Interest expense recorded for accretion of bonds outstanding	$	(48,156)	(45,390)
Unrealized (loss)/gain on investments		(13,215)	15,024
Amortization of discount/premium on investments		3,611	3,014

See accompanying notes to financial statements.

(1) Reporting Entity

In recognition of the regional transportation needs in the County of Orange (County), the California State Legislature has enacted various amendments to the California Government Code to authorize the financing of bridges and major thoroughfares by joint powers agencies. Pursuant to such authorization, the Foothill/Eastern Transportation Corridor Agency (the agency) was created in January 1986 by a joint exercise of powers agreement. Current members are the County and the cities of Anaheim, Dana Point, Irvine, Lake Forest, Mission Viejo, Orange, Rancho Santa Margarita, San Clemente, San Juan Capistrano, Santa Ana, Tustin, and Yorba Linda (collectively, the member agencies). The purpose of the agency is to plan, design, construct, finance, administer funds for, and operate the Foothill and Eastern Transportation Corridors, including thoroughfares and bridges. The agency is governed by a Board of Directors comprising representatives from the member agencies. The agency has the power to, among other things, incur debt and establish and collect tolls.

These financial statements comprise the activities of the agency. There are no other organizations for which the agency is financially accountable or for which it is fiscally responsible. The agency and the San Joaquin Hills Transportation Corridor Agency (SJHTCA) are under common management and together are called the Transportation Corridor Agencies. However, each agency has an independent governing board.

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The agency records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged in business-type activities. This model allows all financial information for the agency to be reported in a single column in each of the accompanying financial statements.

The agency distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from the collection of tolls, fees, and fines on the corridors. The agency's operating expenses include contribution expense, depreciation, materials, services, and other expenses related to the operation of the corridors. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(b) Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. In the year ended June 30, 2012, the Agency implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting*

Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. In the year ended June 30, 2013, the Agency implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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

(c) Budget

Fiscal year budgets are prepared by the agency's staff for estimated revenues and expenses. The Board of Directors adopts the annual budget at the June board meeting for the fiscal year commencing the following July. The approval of the budget requires the consent of at least two-thirds of the Board Members. No expenditures in excess of the total budget for each board-designated category are made without the approval of at least two-thirds of the Board Members, at which time a revised and amended budget is required to be submitted to the Board of Directors. All budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. All budget appropriations lapse at year-end. Any budgeted expenses not incurred by each year-end must be reappropriated in the next fiscal year.

(d) Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(e) Investments

Investments in U.S. government securities, federal agency securities, and corporate notes are carried at fair value based on quoted market prices. Commercial paper is carried at amortized cost (which approximates fair value). Treasury mutual funds are carried at fair value based on the fund's share price.

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

(f) Receivables

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

(g) Capital Assets

Capital assets include construction in progress, environmental mitigation sites, easements, the corridor operations facility, transponders, toll and violations collection equipment, toll booths, buildings, changeable message signs, vehicles, and furniture. Right-of-way acquisitions, grading, or improvements include easements and environmental mitigation parcels. Furniture and equipment include transponders, toll and violations collection equipment, toll booths and buildings, vehicles, and leasehold improvements. Capital assets are defined by the agency as assets with an initial, individual cost of more than five thousand dollars, with the exception of transponders, which are valued in total, and an estimated useful life in excess of one year. Such assets are recorded at cost.

The Foothill/Eastern Transportation Corridors and the related purchases of right-of-way, for which title vests with the California Department of Transportation (Caltrans), are not included as capital assets because the agency does not have title to such assets or right-of-way. The costs of normal maintenance and repairs and mitigation that do not add value to the asset or materially extend asset lives are not capitalized.

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

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

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

(h) Deferred Revenue

Deferred revenue represents prepaid tolls collected from patrons using FasTrak®, an electronic toll collection system that allows drivers to pay tolls without stopping at a toll booth.

(i) Revenue Recognition

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

(j) Allocation of Common Costs

Expenses directly related to the agency were charged entirely to the agency, and those incurred on behalf of both the agency and SJHTCA were allocated between the two agencies based on the estimated benefit to each. In addition, the agency also has amounts due from SJHTCA related to SJHTCA FasTrak customers incurring tolls on the agency's corridors and other expenses and has amounts due to SJHTCA related to the agency's FasTrak customers incurring tolls on State Route 73. At June 30, 2013 and 2012, the agency has a net payable due to SJHTCA of $2,486 and $2,303, respectively, for such items.

(k) Net Assets

The agency's net assets are classified into the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, and improvement of those assets and assets contributed to Caltrans.

Restricted: Net assets subject to externally imposed conditions that can be fulfilled by the actions of the agency or by the passage of time. These net assets relate primarily to restricted bond proceeds and certain revenues collected.

Unrestricted: All other categories of net assets.

(l) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) Comparative Data

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

(Continued)

(In thousands)

(3) Development Impact Fees

The sources of development impact fees were the following for the years ended June 30, 2013 and 2012:

		2013	2012
City of Irvine	$	7,293	3,291
City of Tustin		904	256
City of Yorba Linda		789	209
City of Santa Ana		629	2
City of Lake Forest		537	673
County of Orange		527	44
City of San Juan Capistrano		468	30
City of Mission Viejo		214	112
City of Rancho Santa Margarita		203	49
City of San Clemente		192	56
City of Anaheim		25	30
City of Orange		8	—
City of Dana Point		5	—
	$	11,794	4,752

(4) Cash and Investments

Cash and investments as of June 30, 2013 and 2012 are classified in the accompanying financial statements as follows:

		2013	2012
Cash and investments	$	121,499	116,311
Current restricted cash and investments		102,478	94,561
Noncurrent restricted cash and investments		442,748	456,365
	$	666,725	667,237

(In thousands)

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

		Cash and cash equivalents	Investments	Total
Cash on hand	$	118	—	118
Demand deposits		15,343	—	15,343
Money market		27,697	—	27,697
Commercial paper		3,499	19,059	22,558
Federal agency securities		—	98,157	98,157
Investments held with trustee per debt agreements		20,966	481,886	502,852
Total	$	67,623	599,102	666,725

Cash and investments as of June 30, 2012 consist of the following:

		Cash and cash equivalents	Investments	Total
Cash on hand	$	118	—	118
Demand deposits		13,986	—	13,986
Money market		29,000	—	29,000
Commercial paper		—	7,404	7,404
Federal agency securities		—	105,347	105,347
Investments held with trustee per debt agreements		13,375	498,007	511,382
Total	$	56,479	610,758	667,237

(a) Cash Deposits

Custodial Credit Risk Related to Cash Deposits

The custodial credit risk for deposits is the risk that the agency will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. This risk is mitigated in that, of the total cash balance at June 30, 2013 and 2012, $118 was cash on hand, and $15,343 and $13,986, respectively, was insured by federal depository insurance and collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the agency's name.

At June 30, 2013 and 2012, the carrying amount of the agency's cash deposits was $15,343 and $13,986, respectively, and the corresponding bank balance was $15,944 and $14,490, respectively.

The difference of $601 and $504, respectively, was principally due to outstanding checks. The agency's petty cash fund and toll change funds totaled $118.

(b) Investments

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The agency mitigates these risks by holding a diversified portfolio of high-quality investments. The agency's investment policy sets specific parameters by type of investment for credit quality, maturity length, and maximum percentage investment. Both the policy and the agency's debt agreements state that, generally, all securities must be issued by companies with a long-term debt rating of at least "A" by two of the Nationally Recognized Statistical Rating Organizations (NRSRO) or at least "AA" by one NRSRO. The policy also indicates specific rating requirements for certain types of investments. Percentage limitations on specific types of securities are based on the purchase price of the security, as compared to the market value of the portfolio, at the time of purchase. The policy does not require sales in a portfolio for subsequent changes in market value of the total portfolio to avoid exceeding the prescribed allocation level.

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

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
U.S. Treasury bills, notes, and bonds	5 years	100	100	N/A
Federal agency and U.S. government-sponsored enterprise notes and bonds	5 years	100	35	N/A
Federal agency mortgage-backed securities	5 years	20	15	2nd highest ratings category by an NRSRO

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Certificates of deposit	5 years	100**	5	Long-term debt ratings in one of highest ratings categories by two NRSROs
Negotiable certificates of deposit	5 years	30	5	Long-term debt ratings in one of highest ratings categories by two NRSROs
Banker's acceptances	180 days	30	5	Drawn on and accepted by a bank that carries the highest short-term ratings category by one NRSRO
Commercial paper	270 days	25	10% of outstanding paper of an issuing corporation	Highest short-term rating by a NRSRO
Repurchase agreements	90 days	25	5	N/A
Medium-term maturity corporate notes	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
State of California Local Agency Investment Fund	N/A	Lesser of $50 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
Asset-backed securities	5 years	20	5	"AAA" by one NRSRO; issuer must have underlying rating of "A" or better from two NRSROs
Shares in a California common law trust	N/A	None	5	Highest rating category by an NRSRO
Money market mutual funds	N/A	20	5	Highest applicable rating by two NRSROs
Bonds or notes issued by any municipality in the State of California	5 years	30	5	One of the three highest rating categories by at least two NRSROs

(Continued)

FOOTHILL/EASTERN TRANSPORTATION CORRIDOR AGENCY

Notes to Financial Statements

June 30, 2013 and 2012

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Bonds or notes issued by any state	5 years	30	5	One of the three highest rating categories by at least two NRSROs

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

** Up to 100% as long as insured by Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA).

At June 30, 2013, 5% or more of the agency's investments were in the U.S. Resolution Funding Corporation (RFCO), the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank and the Federal Home Loan Bank as authorized by the agency's investment policy. These investments are 19%, 10%, 9%, 9%, and 6%, respectively, of the agency's total investments.

At June 30, 2012, 5% or more of the agency's investments were in the RFCO, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, and the Federal Farm Credit Bank as authorized by the agency's investment policy. These investments are 21%, 19%, 12%, 8%, and 8%, respectively, of the agency's total investments.

Investment of debt proceeds and toll revenues held by the agency's trustee are governed by provisions of the debt agreements, rather than by the general provisions of the California Government Code or the agency's investment policy. The following table identifies the investment types that are authorized for these moneys, and if noted, the specific rating requirements.

Investments authorized by debt agreements*	Specific rating requirement
Government obligations (including U.S. Treasury strips and RFCO strips)	N/A
Federal agency debt instruments	N/A
Municipal securities	One of the two highest rating categories by Moody's and S&P, and if rated by Fitch, in one of the two highest rating categories
Negotiable certificates of deposit insured by FDIC, Bank Insurance Fund (BIF), and Savings Association Insurance Fund (SAIF) or secured by government obligations	Two highest ratings by two NRSROs if insured by deposits, federal funds or bankers acceptance of any bank
Banker's acceptances	Prime-1 or A3 or better by Moody's, A-1 or A or better by S&P and, if rated by Fitch, F-1 or A or better
Commercial paper	Prime-1 or better by Moody's and A-1 or better by S&P and, if rated by Fitch, F-1 or better
Repurchase agreements	A or better by both Moody's and S&P and, if rated by Fitch, A or better
Medium-term maturity corporate notes	One of the three highest applicable rating categories, or approved in writing, by S&P, and, if rated by Fitch, rated in one of the three highest applicable rating categories
Money market mutual funds	AAAm-G, AAA-m, or AA-m by S&P and, if rated by Moody's, Aaa, Aa1, or Aa2 and, if rated by Fitch, AAA or AA
Investment agreements	N/A

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

At June 30, 2013 and 2012, all of the agency's investments held were rated at or above the minimum required rating per the agency's investment policy and debt agreements:

	June 30, 2013		June 30, 2012	
Investment type	**S&P**	**Moody's**	**S&P**	**Moody's**
U.S. Treasury bills	AA+	Aaa	AA+	Aaa
U.S. Treasury notes	AA+	Aaa	AA+	Aaa
U.S. Treasury strips	AA+	Aaa	AA+	Aaa
U.S. federal agency bonds	AA+	Aaa	AA+	Aaa
Money market funds	AAAm	—	AAAm	—
Commercial paper:				
ING	A-1	P-1	A-1	P-1
Reckitt Benckiser	—	—	A-1	P-1
Union Bank	A-1	P-1	—	—
Abbey National LLC	A-1	P-1	—	—
Natixis	A-1	P-1	—	—
Corporate notes – Medium term:			—	—
Bank of NY Mellon	A+	Aa3	—	—
Caterpillar	A-	A2	—	—
Metlife-Life Insurance Division	AA-	Aa3	AA-	Aa3
Metlife-Acquisition Financing Division	A-	A3	-	-
Barclays	—	—	A+	A2
General Electric Capital	AA+	A1	AA+	A1
Coca Cola	AA-	Aa3	A+	Aa3
Target	A+	A2	A+	A2
Walmart	AA	Aa2	AA	Aa2
NY Life	AA+	Aaa	—	—
Pepsi	A	A1	—	—
IBM	AA-	Aa3	—	—
Toyota	A	Aa3	—	—
Municipal bonds:				
San Francisco Bay Area Toll Authority	AA-	Aa3	—	—
California State Revenue	A	A1	—	—
Dallas Texas General Revenue	AA+	Aa1	—	—
Massachusetts State General Obligation	AA+	Aa1	—	—
New Mexico State	AAA	Aa1	—	—
New York State Development	AAA	*	—	—
University of California Regents Revenue	AA	Aa1	—	—

* Rated AA by Fitch

(In thousands)

Custodial Credit Risk

Custodial credit risk for investments is the risk that the agency will not be able to recover the value of investment securities that are in the possession of an outside party. All securities owned by the agency are deposited in the agency's trustee bank with the exception of a money market account, which is deposited in the agency's primary bank. Securities are not held in broker accounts.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The agency mitigates this risk by matching maturity dates, to the extent possible, with the agency's expected cash flow.

A summary of the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $27,697, commercial paper of $3,499, and investments held with trustee of $20,966, that are considered cash equivalents held at June 30, 2013 is as follows:

		Remaining maturity			
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 60 months**	**More than 60 months**
Federal agency securities	$ 216,504	68,540	86,744	61,220	—
RFCO strips	122,639	8,988	8,938	25,903	78,810
Corporate notes	91,153	37,324	39,524	14,305	—
U.S. Treasury notes	86,225	30,769	19,335	36,121	—
U.S. Treasury bills	50,143	50,143	—	—	—
Money market funds	27,697	27,697	—	—	—
Commercial paper	31,170	31,170	—	—	—
Municipal bonds	15,291	2,933	5,920	6,438	—
U.S. Treasury strips	8,448	—	—	—	8,448
Certificates of deposit	1,994	—	—	1,994	—
Total	$ 651,264	257,564	160,461	145,981	87,258

(In thousands)

A summary of the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $29,000 and investments held with trustee of $13,375, that are considered cash equivalents held at June 30, 2012 is as follows:

		Remaining maturity			
Investment type	**Fair value**	**12 months or less**	**13 to 24 months**	**25 to 60 months**	**More than 60 months**
Federal agency securities	$ 310,581	114,684	69,825	126,072	—
RFCO strips	135,100	8,973	8,911	26,145	91,071
U.S. Treasury notes	64,165	28,919	29,177	6,069	—
U.S. Treasury bills	48,048	48,048	—	—	—
Corporate notes	40,090	—	23,621	16,469	—
Money market funds	29,000	29,000	—	—	—
Commercial paper	16,991	16,991	—	—	—
U.S. Treasury strips	9,158	—	—	—	9,158
Total	$ 653,133	246,615	131,534	174,755	100,229

(5) Capital Assets

Capital assets consist of the following at June 30, 2013:

	Balance at beginning of year	**Additions**	**Transfers/ deletions**	**Balance at end of year**
Construction in progress	$ 325,055	15,770	(971)	339,854
Right-of-way acquisitions, grading, or improvements	41,526	—	(1,318)	40,208
Furniture and equipment	31,295	1,328	(2,140)	30,483
	397,876	17,098	(4,429)	410,545
Impairment loss on right-of-way acquisitions, grading, or improvements	(25,987)	—	793	(25,194)
Furniture and equipment accumulated depreciation	(18,018)	(2,121)	2,140	(17,999)
	$ 353,871	14,977	(1,496)	367,352

(In thousands)

Capital assets consist of the following at June 30, 2012:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 313,877	13,430	(2,252)	325,055
Right-of-way acquisitions, grading, or improvements	41,526	—	—	41,526
Furniture and equipment	32,195	1,202	(2,102)	31,295
	387,598	14,632	(4,354)	397,876
Impairment loss on right-of-way acquisitions, grading, or improvements	(25,987)	—	—	(25,987)
Furniture and equipment accumulated depreciation	(17,495)	(2,625)	2,102	(18,018)
	$ 344,116	12,007	(2,252)	353,871

Impairment of Capital Assets

In fiscal year 2005, the agency adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This resulted in recording a noncash impairment loss on right-of-way acquisitions, grading, or improvements of $25,987 related to mitigation parcels held that will ultimately be conveyed to other owners for no consideration and excess parcels that have lost value due to accessibility or other factors. This write-down did not reflect any physical change to the properties; rather it was to reflect the development cycle of mitigation assets.

Transfer of Ownership/Deletions

Ownership of the Foothill/Eastern Transportation Corridor construction, right-of-way acquisitions, grading, and improvements were transferred to Caltrans during the year ended June 30, 1999 upon satisfaction of all conditions contained within the Cooperative Agreements between the agency and Caltrans. For the years ended June 30, 2013 and 2012, the agency incurred expenditures for improvements and enhancements to major thoroughfares already transferred to Caltrans. The improvements and enhancements are covered by separate project-specific Cooperative Agreements with Caltrans and are transferred on an ongoing basis. The balance of construction in progress represents capital improvements in progress, primarily the 241 completion project. Upon completion, these capital assets will also be transferred to Caltrans and recognized as a contribution expense.

(In thousands)

(6) Long-Term Obligations

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

		Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1999 Toll Road Refunding Revenue Bonds:						
Current Interest Bonds	$	712,080	—	(15,705)	696,375	25,160
Capital Appreciation Bonds		789,923	48,156	—	838,079	—
Convertible Capital Appreciation Bonds		690,030	—	—	690,030	—
Series 1995A (fixed rate) Senior Lien Toll Road Revenue Bonds:						
Current Interest Bonds		179,990	—	—	179,990	—
Total bonds payable	$	2,372,023	48,156	(15,705)	2,404,474	25,160

The following is a summary of changes in long-term obligations during the year ended June 30, 2012:

		Balance at beginning of year	Additions/ accretions	Reductions	Balance at end of year	Due within one year
Series 1999 Toll Road Refunding Revenue Bonds:						
Current Interest Bonds	$	723,470	—	(11,390)	712,080	15,705
Capital Appreciation Bonds		744,533	45,390	—	789,923	—
Convertible Capital Appreciation Bonds		690,030	—	—	690,030	—
Series 1995A (fixed rate) Senior Lien Toll Road Revenue Bonds:						
Current Interest Bonds		179,990	—	—	179,990	—
Total bonds payable	$	2,338,023	45,390	(11,390)	2,372,023	15,705

Toll Road Revenue Bonds

In August 1999, the agency issued serial, term, and capital appreciation toll road refunding revenue bonds (1999 Refunding Bonds) in the aggregate principal amount of $1,588,144 consisting of current interest bonds in the principal amount of $831,965, convertible capital appreciation bonds in the principal amount of $388,223, and capital appreciation bonds in the principal amount of $367,956. The 1999 Refunding Bonds are subordinate to the remaining 1995 Unrefunded Bonds of $179,990 and are collateralized by net revenues, as defined in the master indentures, consisting primarily of toll revenues less current expenses.

(Continued)

(In thousands)

The 1995 Unrefunded Bonds are current interest bonds. Interest on the bonds is payable semiannually at a rate of 5.00% and is capitalized through January 1, 2032. The bonds mature on January 1, 2035. The bonds are subject to early redemption, at the option of the agency, beginning January 1, 2005 by payment of accrued interest and principal with no premium.

Interest on the 1999 current interest bonds is payable semiannually at rates ranging from 4.38% to 5.75%. The bonds mature in annual installments from January 15, 2004 to January 15, 2040. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2010 by payment of accrued interest, principal, and a premium of up to 1.00%.

The 1999 capital appreciation bonds accrue interest at rates ranging from 5.63% to 6.09%, compounded semiannually. The bonds mature in annual installments from January 15, 2017 to January 15, 2038. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2010 by payment of accrued interest, principal, and a premium of up to 2.00%.

The 1999 convertible capital appreciation bonds accrue interest at rates ranging from 5.80% to 5.88% compounded semiannually. Interest is payable semiannually based on accreted amounts commencing on January 15, 2010. The bonds mature in annual installments from January 15, 2020 to January 15, 2029. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 1.00%.

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

The following is a summary of the agency’s annual debt service requirements by fiscal year for the 1995 senior lien toll road revenue bonds and the 1999 toll road refunding bonds as of June 30, 2013:

	Principal	Interest[1]	Total
2014	$ 25,160	87,918	113,078
2015	30,205	86,452	116,657
2016	42,990	84,579	127,569
2017	40,081	92,213	132,294
2018	44,693	96,371	141,064
2019–2023	344,407	455,514	799,921
2024–2028	492,391	461,514	953,905
2029–2033	419,321	699,969	1,119,290
2034–2038	421,406	874,246	1,295,652
2039–2040	543,820	32,284	576,104
	$ 2,404,474	2,971,060	5,375,534

[1] Includes payments on January 1 and January 15 of such fiscal year and July 1 and July 15 of the next fiscal year.

(In thousands)

The following is a summary of the agency's annual debt service requirements by fiscal year for the 1995 senior lien toll road revenue bonds and the 1999 toll road refunding bonds as of June 30, 2012:

		Principal	Interest[1]	Total
2013	$	15,705	88,990	104,695
2014		25,160	87,918	113,078
2015		30,205	86,452	116,657
2016		42,990	84,579	127,569
2017		37,917	94,377	132,294
2018–2022		282,783	487,516	770,299
2023–2027		429,964	488,666	918,630
2028–2032		500,415	594,297	1,094,712
2033–2037		410,011	839,351	1,249,362
2038–2040		596,873	256,061	852,934
	$	2,372,023	3,108,207	5,480,230

(1) Includes payments on January 1 and January 15 of such fiscal year and July 1 and July 15 of the next fiscal year.

Included in principal at June 30, 2013 and 2012 is $771,930 and 723,774, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

The net proceeds of the 1999 Refunding Bonds plus additional 1995 series moneys were used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded bonds. As of June 30, 2013 and 2012, the amount of the refunded bonds outstanding, which were previously eliminated in the financial statements as a result of the refunding, was $706,471 and $657,873, respectively.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

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

(b) Project Costs

As of June 30, 2013, the agency has outstanding commitments and contracts for improvements on existing construction of approximately $15,213.

(c) Litigation

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

(d) Risk Management

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

(e) Mitigation Payment and Loan Agreement

On November 10, 2005, the agency's Board of Directors, with the Board of Directors of the SJHTCA, entered into a Mitigation Payment and Loan Agreement (the Agreement). The terms of the Agreement call for the agency to make payments totaling $120,000 over four years to the SJHTCA to mitigate for anticipated loss of revenue due to the construction of the 241 completion project. All scheduled payments totaling $120,000 were made to the SJHTCA as of June 2009.

In addition, the agency committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, to SJHTCA up to $1,040,000 to assist SJHTCA in achieving its debt service coverage of 1.3x. The Agreement was amended on March 1, 2011 to reflect the modification of the SJHTCA's debt service coverage ratio from 1.3x to 1.0x. The Agreement provides that the agency loans will be made only to the extent that surplus revenues are available and all findings and determinations required by law are met, including California Government Code Section 66484.3, paragraph (f), which requires that the following findings must be met before the agency can make a loan: 1) the agency will benefit mutually financially by sharing and/or loaning revenues with SJHTCA, 2) the agency possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) the funding of the loan will not materially impair its financial condition or operations during the term of the loan. The Agreement also stipulates that the agency will not be obligated to make loans to SJHTCA prior to securing the necessary funds for constructing the 241 completion project unless the agency has determined that it will not build the project. The agency is also not required to increase toll rates to ensure sufficient revenues are available and that any liens or revenue pledges required in order to finance the 241 completion project and certain other capital projects would have priority over loans to the SJHTCA. If the commencement and diligent pursuit of the construction of the 241 completion project does not occur by December 31, 2015, the mitigation payments will be added to the principal of the loan. Accrued interest will not count toward the $1,040,000 principal limitation. Payments of accrued interest and outstanding principal will begin in the fiscal year when SJHTCA has a surplus in revenues that exceeds the amount needed to meet the debt coverage requirement. All principal and accrued interest will be due and payable on January 1, 2037 to the extent that SJHTCA has surplus revenues available to pay all amounts due. At June 30, 2013 and 2012, no amounts were outstanding on the loan.

(Continued)

(8) Corridor Operations Facility Lease

In January 2000, the agency, along with SJHTCA, relocated to the corridor operations facility. At that time, a lease agreement was executed between the agency (lessor) and SJHTCA (lessee). The lease agreement expires at the earliest occurrence of 1) dissolution of the agency, 2) sale of the facility, or 3) dissolution of the SJHTCA. Future minimum lease payments receivable from SJHTCA under the lease agreement at June 30, 2013 are $361 through June 30, 2014. Future minimum payments are based on the fair market rental value and adjust annually.

(9) Employees' Retirement Plan

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

Plan members contribute a percentage of their annual covered salary at actuarially determined rates based on the age of entry into the plan. For employees who were hired prior to January 1, 2013, the agency paid up to 7% of the employee's required contribution through June 30, 2013. However, as of July 1, 2013 this pickup is reduced 2.5%, and at July 1, 2014 will be reduced another 2.5% and at July 1, 2015 the final 2% reduction will occur, resulting in no pickup by the agency for the employee's required contribution. The agency required contribution, which is a percentage of each employee's covered salary, will continue to be paid into the plan. The agency has contributed 100% of its required contributions of approximately $773, $766, $800 and $806 to the plan for the year ended June 30, 2013, 2012, 2011, and 2010, respectively.