San Joaquin Hills Transportation Corridor Agency

Toll Road Refunding Revenue Bonds
Series 1993 & 1997A
(Including Restructured 1997A Bonds)

Continuing Disclosure Report

For the Fiscal Year Ended June 30, 2013

Prepared pursuant to the Continuing Disclosure Certificate

San Joaquin Hills Transportation Corridor Agency
Toll Road Refunding Revenue Bonds
Series 1993 & Series 1997A
(Including Restructured 1997A Bonds)

CONTINUING DISCLOSURE REPORT
For the Fiscal Year Ended June 30, 2013

Introduction:

On October 21, 1997, the San Joaquin Hills Transportation Corridor Agency (the "agency") issued $1,448,274,315.10 aggregate principal amount of Toll Road Refunding Revenue Bonds (collectively referred to herein as the "1997A Bonds"). The 1997A Bonds were issued by the agency pursuant to a Master Indenture of Trust, dated as of September 1, 1997, between the agency and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"), as supplemented by a First Supplemental Indenture of Trust, dated as of September 1, 1997, between the agency and the Trustee, and a Second Supplemental Indenture of Trust, dated as of April 1, 2011, between the agency and the Trustee (such Master Indenture of Trust, as so supplemented, the "Master Indenture").

The 1997A Bonds were issued by the agency for the purpose of providing funds, together with certain other available funds, to refund certain indebtedness of the agency, as more fully described in the Official Statement for the 1997A Bonds dated September 26, 1997 (the "Official Statement").

Pursuant to Rule 15c2-12(b)(5) of the Securities and Exchange Commission, the agency has executed a Continuing Disclosure Certificate, dated as of October 21, 1997 and May 11, 2011 related to the 1997A Bonds and Restructured 1997A Bonds, respectively (the "Continuing Disclosure Certificate"). The Continuing Disclosure Certificate states that the agency shall provide not later than January 15 of each year to each Repository (as defined in the Continuing Disclosure Agreement) a Disclosure Report relating to the immediately preceding fiscal year. The Disclosure Report is to contain certain data related to the agency, the Toll Road, and the 1993, 1997A and Restructured 1997A Bonds.

The information contained in this report constitutes all disclosure required pursuant to the Continuing Disclosure Certificate. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Official Statement.

Disclosure Information:

Section 4.1 ~ Principal amount of Bonds outstanding in each Series.

As of June 30, 2013, the aggregate principal amount of Toll Road Revenue Bonds outstanding was $2,125,984,000 which included accreted amounts of $657,509,000. The bonds outstanding consist of the following series of bonds: $220,180,000 principal amount of Series 1993 Current Interest Bonds; $604,885,000 principal amount of Series 1997A Current Interest Bonds; $250,000,000 principal amount of Series 1997A Convertible Capital Appreciation Bonds; $480,301,000 principal amount of Series 1997A Restructured Convertible Capital Appreciation Bonds; and $570,618,000 principal amount of Series 1997A Capital Appreciation Bonds. Accreted amounts were calculated as of June 30, 2013. Additional information can be found in the agency's Audited Financial Statements.

Section 4.2 ~ Statement of the Reserve Fund Requirement, balance in the Reserve Fund and the instruments utilized to fund the Reserve Requirement.

Prior to the commencement of Fiscal Year 2014, the Agency believed that the Reserve Fund Requirement for the Bonds was to be determined without including Junior Lien Interest in the calculation of Maximum Annual Debt Service. Based on this belief, the Agency previously determined that the Reserve Fund Requirement to be was $225,684,500. However, in consultation with bond counsel, the Agency has subsequently concluded that Junior Lien Interest should be included in Maximum Annual Debt Service. As a result thereof, the Reserve Fund Requirement has been determined to be $268,996,835 and occurs in fiscal year 2033.

The total amount available to meet the Reserve Fund Requirement as of June 30, 2013 was $227,714,925. The components of this amount include $216,639,299 in the 1997 Reserve Fund, including interest of $1,963,799 which was transferred subsequent to year end in accordance with the Master Indenture, and $11,075,626 in the 1993 Reserve Fund. Based upon the original calculation of the Reserve Fund Requirement described above, certain deposits were made to the Toll Stabilization Fund related to fiscal years 2012 and 2013 that would have been made to the Reserve Fund if the Reserve Fund Requirement had been determined taking Junior Lien Interest into account in the calculation of Maximum Annual Debt Service. Those deposits, in an aggregate amount of $22,897,576, have since been transferred to the Reserve Fund with the result that the balance on deposit in the Reserve Fund is $250,612,501 (balance at June 30, 2013 plus the $22,897,576 transfer). The agency will continue to deposit surplus revenues in the Reserve Fund until the Reserve Fund Requirement has been met after which time the deposits of surplus revenues will be made to the Toll Stabilization Fund. The Toll Stabilization Fund is an additional reserve that can be used to pay principal and interest on the Bonds if necessary and has a balance of $17,305,648 (balance at June 30, 2013 less the $22,897,576 transfer). The Reserve Fund is funded with net revenues after the Operations and Maintenance, Interest and Principal accounts are funded. None of the Reserve Fund Requirement is funded with a letter of credit, surety bond, or insurance policy as allowed by the Master Indenture of Trust.

Section 4.3 ~ Statement of the Use and Occupancy Requirement, balance in the Use and Occupancy Fund, and the amount of the Use and Occupancy Fund Requirement that is funded with an insurance policy.

The 1997 Use and Occupancy Fund Requirement for any period while there are 1993 Bonds outstanding is zero. As of June 30, 2013, 1993 Bonds remained outstanding. In accordance with the 1993 Indenture, a Use and Occupancy Fund in the amount of $25,000,000 is required and $25,096,647 was held in the Use and Occupancy Fund as of June 30, 2013. The fund consists of $15,096,647 in cash and investments and an insurance policy with a face value of $10,000,000.

The insurance policy is an all risk policy, including earthquake and flood, on operating toll roads, specifically the bridges of San Joaquin Hills Transportation Corridor. Specific coverage includes costs to reconstruct, restore, repair or rehabilitate the bridges due to damage by an insured peril. The policy also includes business interruption and expediting expenses.

Section 4.4 ~ Table of Toll transactions and the amount of Tolls collected by the agency for each of the immediately preceding five fiscal years, together with a schedule of toll rates showing changes as of the end of the prior fiscal year.

Fiscal Year	Toll Transactions	% Change	Toll Revenue*	% Change
2013	24,984,196	(0.2)%	$110,398,000	7.1%
2012	25,424,605	(0.1)%	$102,543,000	6.3%
2011	25,451,120	0.6%	$96,427,000	1.7%
2010	25,308,372	(5.6%)	$94,782,000	3.1%
2009	26,810,468	(10.8%)	$91,957,000	(4.6%)

*Toll revenue includes fees and fines collected on violation transactions.

The toll rates as of June 30, 2013 compared to the prior fiscal year were as follows:

Location	Time/Type	Fiscal Year 2012	Fiscal Year 2013	$ Change
Mainline Plaza	Cash Off-Peak	$5.00	$5.50	$0.50
	Fastrak® Off-peak	$4.20	$4.60	$0.40
	Cash Peak	$5.75	$6.25	$0.50
	Fastrak Peak	$5.00	$5.50	$0.50
	Weekend Cash	$4.75	$5.25	$0.50
	Weekend Fastrak	$3.95	$4.35	$0.40
El Toro	Cash	$2.50	$2.75	$0.25
	Fastrak	$2.10	$2.30	$0.20
Newport Coast	Cash	$2.25	$2.50	$0.25
	Fastrak	$1.85	$2.05	$0.20
Aliso Creek	Cash	$2.00	$2.25	$0.25
	Fastrak	$1.60	$1.75	$0.15
La Paz	Cash	$1.75	$1.75	-
	Fastrak	$1.30	$1.30	-
Bonita Canyon	Cash	$1.25	$1.50	$0.25
	Fastrak	$0.80	$0.90	$0.10

Section 4.5 ~ Statistical data summarizing the use of the AVI collection system on the toll road, including the percentage of toll transactions using transponders and the overall level of accuracy of the toll collection system.

Fiscal Year	AVI Transactions	Total Transactions	AVI %
2013	20,123,522	24,984,196	80.5%
2012	20,041,533	25,424,605	78.8%
2011	19,989,244	25,451,120	78.5%
2010	19,952,845	25,308,372	78.8%
2009	18,619,538	26,810,468	69.4%

The Toll Road System maintains a single integrated toll collection and revenue management system ("TCARMS") using common transponders, a centralized computer system, and common personnel, with mechanisms for separate usage-based revenue collection and cost allocation among the Foothill/Eastern and San Joaquin Hills agencies.

The TCARMS was initially designed, operated and maintained by Lockheed Martin IMS, a New York corporation ("Lockheed"). Since late 2000, the operating services have been assumed by the Transportation Corridor Agencies' staff or by other third-party contractors.

The agency continues to ensure that the TCARMS system is well maintained and achieves a high level of accuracy in collecting toll transaction information. In order to monitor TCARMS accuracy, the agency has developed an independent automated traffic verification management system ("TVMS"). The TVMS allows for the agency to monitor transactions at all toll plazas and ramps twenty-four hours a day and seven days a week. The system counts all vehicles that drive through each of the toll plaza and ramp lanes independently from the TCARMS system. The information is available continuously for real time monitoring and a report is generated daily allowing for the counts made by TVMS to be routinely compared to those captured by TCARMS. Through regular use of this system, the agency has verified that the independent counts are consistent with TCARMS. Over the past three years, the agency has achieved an accuracy level greater than 99.75%.

Section 4.6 ~ Table of Revenues, Current Expenses, Adjusted Net Toll Revenues, and Debt Service Coverage

Fiscal Year	Transfers from 1993 Surplus Revenue Fund	Earnings from all 1997 Funds (excluding Rebate Fund)	Other Sources from Supplemental Indenture	**Total Revenues Series 1997A**
2013	$93,528,422	$4,975,629	$0	**$98,504,051**
2012	$86,624,892	$5,177,878	$0	**$91,802,770**
2011	$80,006,192	$6,106,142	$0	**$86,112,334**
2010	$74,344,362	$6,507,488	$0	**$80,851,850**
2009	$68,899,608	$5,993,765	$0	**$74,893,373**

During any period that there are Outstanding 1993 Bonds, Revenues, as defined in the Master Indenture of Trust dated September 1, 1997, are as reported above. Upon defeasance of the Outstanding 1993 Bonds, Tolls are included in the definition of Series 1997A Revenues.

The remaining information is presented on a combined basis, reflecting both the 1993 and 1997 Indentures.

Fiscal Year	Tolls	Earnings from certain 1993 Funds	Earnings from certain 1997 Funds	Federal LOC	Current Expenses	**Adjusted Net Toll Revenues**
2013	$110,398,014	$120,096	$4,876,779	$0	($11,056,273)	**$104,338,616**
2012	$102,542,765	$340,986	$5,101,442	$0	($11,187,348)	**$96,797,845**
2011	$96,427,176	$753,840	$5,956,558	$0	($11,669,847)	**$91,467,727**
2010	$94,782,358	$760,410	$6,104,233	$0	($12,000,684)	**$89,646,317**
2009	$91,957,325	$923,255	$5,326,731	$0	($12,657,670)	**$85,549,641**

Adjusted Net Toll Revenues includes earnings on the Debt Service Funds, the Reserve Funds and the Use & Occupancy Fund only.

Fiscal Year	Adjusted Net Toll Revenues	Gross Debt Service	Series 1993 Capitalized Interest	1997 Defeased Debt and Toll Stabilization Funds Utilized *	Annual Debt Service	**Debt Service Coverage** **
2013	$104,338,616	$93,187,269	$0	$0	$93,187,269	**1.12**
2012	$96,797,845	$90,132,269	$0	$0	$90,132,269	**1.07**
2011	$91,467,727	$98,782,268	$0	($32,900,000)	$65,882,268	**1.39**
2010	$89,646,317	$95,602,268	$0	($28,700,000)	$66,902,268	**1.34**
2009	$85,549,641	$90,707,268	$0	($27,500,000)	$63,207,268	**1.35**

*The agency utilized $32.9 million, $28.7 million and $27.5 million of Toll Stabilization Funds in Fiscal Years 2011, 2010 and 2009, respectively, which per the Master Indenture of Trust and Supplemental Indentures reduces the amount of annual debt service used for calculating debt service coverage.

**Coverage requirement amended from 1.3x to 1.0x in May 2011 with consent from bondholders.

Section 4.7 ~ Table of Development Impact Fees collected for each of the immediately preceding five fiscal years.

Fiscal Year ended June 30,	Development Impact Fees Accrued
2013	$8,711,000
2012	$5,580,000
2011	$1,764,000
2010	$452,000
2009	$985,000

Section 4.8 ~ A description of any material damage to the toll road or the toll collection system during the past fiscal year.

During the fiscal year ended June 30, 2013, no damage occurred to the Toll Road or the toll collection system, which, in the determination of the agency, resulted in a material reduction in Net Toll Revenues.

Section 5. Reporting of Significant Events

None to report

As of June 30, 2013, none of the following events have occurred with respect to either the 1993 or the 1997A Bonds:

- Principal and interest payment delinquencies
- Non-payment related defaults
- Optional, contingent or unscheduled bond calls
- Defeasances
- Rating Changes
- Adverse tax opinions or events affecting the tax exempt status of the 1993, 1997A or Restructured 1997A Bonds
- Unscheduled draws on the debt service reserves reflecting financial difficulties, as well as any draws on the 1993 Use and Occupancy Fund or the Use and Occupancy Fund
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitutions of credit or liquidity providers, or failure to perform
- Release, substitution or sale of property securing repayment of the 1993, 1997A or Restructured 1997A Bonds
- Damage to the Toll Road or the toll collection system that, in the determination of the agency, could result in a material reduction in Net Revenues
- Bankruptcy, insolvency, receivership or similar event of the agency
- The consummation of a merger, consolidation, or acquisition involving the agency or the sale of all or substantially all of the assets of the agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- Appointment of a successor or additional trustee or the change of name of a trustee, if material

Signature

The information set forth herein has been furnished by the agency and is believed to be accurate and reliable, but is not guaranteed as to accuracy and completeness. Statements contained in this Disclosure Report which involve estimates, forecasts, or other matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. Further, expressions of opinion contained herein are subject to change without notice and the delivery of this Disclosure Report will not, under any circumstances, create any implication that there has been no change in the affairs of the agency.

San Joaquin Hills Transportation Corridor Agency

By: Amy Potter

Amy Potter
Chief Financial Officer
January 15, 2014

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Joaquin Hills Transportation Corridor Agency (the agency), as of and for the years ended June 30, 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 San Joaquin Hills 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 San Joaquin Hills 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 and accompanying notes.

Background

The agency was formed in 1986 as a joint powers authority by the County of Orange and cities in Orange County, California. The agency was created to plan, design, finance, construct, and operate a 15-mile toll road, known as the San Joaquin Hills (State Route 73) Toll Road.

Planning began in the 1970s when local transportation studies identified the need for new highways, including the San Joaquin Hills Transportation Corridor (State Route 73), to serve Orange County's growing population. In the early 1980s, the corridor was envisioned as a free highway funded through state or federal gas-tax revenues, but with a shortage of gas-tax revenues to fund transportation improvements and increasing costs of building new roads, local officials began to study alternative ways to fund road projects.

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

In 1996, the State Route 73 Toll Road opened to traffic, the first publicly operated toll road in Southern California. At June 30, 2013 and 2012, on average, approximately 82,000 and 81,000 transactions, respectively, are recorded on the State Route 73 Toll Road every weekday, serving as an important, time-saving alternative route to Interstate 405 and Interstate 5 Freeways.

Financial Highlights

Tolls, fees, and fines collected in fiscal year 2013 (FY13) totaled $110,398 compared to $102,543 in the prior fiscal year, an increase of 7.7%.

Interest and principal payments of $57,877 and $35,310, respectively, on the agency's long-term debt were made in FY13 compared to $70,190 and $32,255, respectively, in the prior fiscal year. Accrual basis interest was $57,877 in FY13 and $57,877 in FY12. Accretion on the agency's capital appreciation bonds totaled $58,130 compared to $55,707 in the prior fiscal year.

As of June 30, 2013 and 2012, the agency has $347,357 and $337,311, respectively, in restricted cash and investments governed under the 1993 and 1997 master indentures of trust. The agency also has $23,583 and $21,350, respectively, in unrestricted cash.

Total net position at June 30, 2013 and 2012 was $(1,780,435) and $(1,771,044). The net position results primarily from the recording of long-term debt, proceeds of which funded the construction of the corridor.

(Continued)

(In thousands)

Ownership of the corridor was transferred to Caltrans upon completion. The net position is also attributable to accretion recorded on the capital appreciation bonds, which is 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, the statements of cash flows, and notes to the financial statements.

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

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

Financial Analysis

The following table summarizes the assets, liabilities, and net position of the agency as of June 30, 2013, 2012, and 2011:

	2013	2012	Percentage increase (decrease)	2011	Percentage increase (decrease)
Assets:					
Current assets	$ 94,436	86,735	8.9%	$ 87,104	(0.4)%
Capital assets, net	3,895	3,481	11.9	4,079	(14.7)
Other noncurrent assets	284,262	278,574	2.0	281,403	(1.0)
Total assets	382,593	368,790	3.7	372,586	(1.0)
Liabilities:					
Bonds payable	2,125,984	2,103,164	1.1	2,079,712	1.1
Other liabilities	37,044	36,670	1.0	49,105	(25.3)
Total liabilities	2,163,028	2,139,834	1.1	2,128,817	0.5
Total net position	$ (1,780,435)	(1,771,044)	0.5	$ (1,756,231)	0.8

(Continued)

(In thousands)

The purpose of the agency is to provide traffic relief to Orange County through the construction and operation of the toll road. The agency's primary focus is the operation of the facility and collection of tolls to extinguish the related long-term bond debt. The debt, issued in the form of tax-exempt revenue bonds, was issued initially to construct the toll road. Subsequent to completion, the road was transferred to Caltrans. The net position results primarily from using bond proceeds to construct the corridor, which was then contributed to Caltrans, as well as to fund noncapitalized expenses related to the corridors and from the accretion of interest on the bonds.

Current assets in FY13 mainly increased due to the transfer of funds to pay the July semiannual debt service.

The increase in capital assets at June 30, 2013 is due to All Electronic Tolling (AET) expenditures. AET is being implemented to improve net operating revenue, reduce long-term maintenance and equipment replacement costs, and offer more payment alternatives for toll road customers. The decrease in capital assets at June 30, 2012 is largely due to retirement and depreciation of equipment.

The increase in bonds payable at June 30, 2013 and 2012 results from accretion on the capital appreciation bonds totaling $58,130 and $55,707, respectively, offset by a principal payment of $35,310 and $32,255, respectively.

The decrease in other liabilities at June 30, 2012 was due to the reduction of interest payable as a result of the debt restructuring in FY11.

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	$ 110,398	102,543	7.7%	$ 96,427	6.3%
Development impact fees	8,711	5,580	56.1	1,764	216.3
Other revenue	23	—	100.0	—	—
Total operating revenues	119,132	108,123	10.2	98,191	10.1
Operating expenses	12,797	13,422	(4.7)	28,467	(52.9)
Operating income	106,335	94,701	12.3	69,724	35.8
Nonoperating expenses, net	(115,726)	(109,514)	5.7	(109,325)	0.2
Change in net position	(9,391)	(14,813)	(36.6)	(39,601)	(62.6)
Net position at beginning of year	(1,771,044)	(1,756,231)	0.8	(1,716,630)	2.3
Net position at end of year	$ (1,780,435)	(1,771,044)	0.5	$ (1,756,231)	0.8

Revenues for the agency consist primarily of tolls, fees, and fines, which comprised 92.7% of total revenue in FY13 as compared to 94.8% in FY12. Tolls, fees, and fines increased 7.7% and 6.3%, respectively, over the prior

(Continued)

(In thousands)

year primarily due to toll rate increases and an increase in fee and fine collection. Development impact fees were $8,711 in FY13 compared to $5,580 in FY12, an increase of 56.1% versus an increase of 216.3% in FY12. The increase in development impact fees is related to an upturn in residential and nonresidential development in Orange County within the area of benefit of the San Joaquin Hills Corridor.

Operating expenses were $12,797 in FY13 compared to $13,422 in FY12, a decrease of 4.7%. Also, included in operating expenses is the noncash expense of depreciation on fixed assets of $908 compared to $1,131 in FY12. Operating expenses, excluding depreciation, were $11,889 in FY13 and $12,291 in FY12, a decrease of $402.

Nonoperating expenses, net consist of investment income of $281, which is offset by interest expense of $116,007. For FY12, nonoperating expenses, net consist of investment income of $1,886 and arbitrage rebate refund of $2,184, offset by interest expense of $113,584. Interest expense comprises both interest payments on long-term debt and accretion of bonds outstanding.

Capital Assets, Net

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

		2013	2012	2011
Construction in progress	$	1,070	249	—
Right-of-way acquisitions, grading, or improvements		119	119	119
Furniture and equipment		2,706	3,113	3,960
Total capital assets, net	$	3,895	3,481	4,079

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

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

Debt Administration

The agency had outstanding bonds payable of $2,125,984, $2,103,164, and $2,079,712 at June 30, 2013, 2012, and 2011, an increase of $22,820 and $23,452 due to the accretion of principal on capital appreciation bonds totaling $58,130 and $55,707, offset by a principal payment of $35,310 and $32,255. All of the agency's toll, fee, and fine revenue, less certain expenses, as defined in the indentures of trust, are pledged to repay these bonds. While toll revenue has generally increased over the last several years and the agency continues to pay its operating costs and debt service, revenue has not grown as fast as originally projected when the bonds were issued. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenue, including establishing the toll rate stabilization fund, implementing toll rate increases, defeasing debt

(Continued)

with proceeds from the Orange County bankruptcy settlement, and reducing operational costs by competitively bidding the major operations related contracts.

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

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.

Economic Factors

Conversion to 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 the traffic consultant's toll rate recommendation to maximize revenues while considering the effects of long-term diversion, toll rate increases of $0.50 for cash transactions and a 10% increase, rounded to the nearest $0.05 for FasTrak transactions at Catalina View, and increases of $0.25 for cash transactions and a 5% increase, rounded to the nearest $0.05, for FasTrak transactions at all ramp plazas except La Paz were implemented in July 2013.

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, San Joaquin Hills Transportation Corridor Agency, 125 Pacifica, Suite 100, Irvine, CA 92618 or to http://www.thetollroads.com.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Net Position

June 30, 2013 and 2012

(In thousands)

		2013	2012
Assets:			
Current assets:			
Cash and investments	$	23,583	21,350
Restricted cash and investments		63,095	58,737
Receivables:			
Accounts, net of allowance of $446 and $361		1,142	762
Fees		5	18
Interest		2,183	1,849
Total receivables		3,330	2,629
Due from Foothill/Eastern Transportation Corridor Agency		3,433	3,215
Other assets		995	804
Total current assets		94,436	86,735
Noncurrent assets:			
Restricted cash and investments		284,262	278,574
Capital assets, net		3,895	3,481
Total assets		382,593	368,790
Liabilities:			
Current liabilities:			
Accounts payable		1,289	1,034
Deferred revenue		5,683	5,581
Due to Foothill/Eastern Transportation Corridor Agency		947	912
Employee compensated absences payable		186	204
Interest payable		28,939	28,939
Current portion of bonds payable		35,842	34,316
Total current liabilities		72,886	70,986
Long-term bonds payable		2,090,142	2,068,848
Total liabilities		2,163,028	2,139,834
Net position:			
Invested in capital assets, net of related debt		(2,122,089)	(2,099,683)
Restricted		318,203	307,458
Unrestricted		23,451	21,181
Total net position	$	(1,780,435)	(1,771,044)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS TRANSPORTATION CORRIDOR AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Operating revenues:			
Tolls, fees, and fines	$	110,398	102,543
Development impact fees		8,711	5,580
Other revenue		23	—
Total operating revenues		119,132	108,123
Operating expenses:			
Toll compliance and customer service		3,856	3,688
Salaries and wages		2,586	2,846
Toll systems		1,480	1,468
Toll collections		1,208	1,210
Depreciation		908	1,131
Professional services		888	976
Insurance		708	657
Facilities rent		352	396
Toll facilities		309	316
Marketing		125	179
Other operating expenses		377	555
Total operating expenses		12,797	13,422
Operating income		106,335	94,701
Nonoperating revenue (expenses):			
Investment income		281	1,886
Arbitrage rebate refund		—	2,184
Interest expense		(116,007)	(113,584)
Nonoperating expenses, net		(115,726)	(109,514)
Change in net position		(9,391)	(14,813)
Net position at beginning of year		(1,771,044)	(1,756,231)
Net position at end of year	$	(1,780,435)	(1,771,044)

See accompanying notes to financial statements.

SAN JOAQUIN HILLS 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	$	109,938	102,508
Cash received from development impact fees		8,724	5,584
Cash received from miscellaneous revenue		23	—
Cash payments to suppliers		(9,340)	(9,919)
Cash payments to employees		(2,611)	(2,788)
Net cash provided by operating activities		106,734	95,385
Cash flows from capital and related financing activities:			
Cash received from arbitrage rebate refund		—	2,184
Cash payments for equipment		(432)	(343)
Cash payments for construction in progress		(783)	(177)
Cash payments for interest and principal		(93,187)	(102,445)
Net cash used in capital and related financing activities		(94,402)	(100,781)
Cash flows from investing activities:			
Cash received from interest, net of realized gains and losses		5,571	6,384
Cash payments for purchase of investments		(302,067)	(234,766)
Cash received from the maturity and sale of investments		280,373	254,404
Net cash (used in)/provided by investing activities		(16,123)	26,022
Net (decrease)/increase in cash and cash equivalents		(3,791)	20,626
Cash and cash equivalents at beginning of year		65,631	45,005
Cash and cash equivalents at end of year (note 4)	$	61,840	65,631
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	106,335	94,701
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		908	1,131
Changes in operating assets and liabilities:			
Accounts receivable		(380)	42
Fees receivable		13	5
Due from Foothill/Eastern Transportation Corridor Agency		(218)	(285)
Other assets		(191)	(73)
Accounts payable, less accounts payable for fixed assets and construction in progress		148	(351)
Deferred revenue		102	161
Due to Foothill/Eastern Transportation Corridor Agency		35	49
Employee compensated absences payable		(18)	5
Total adjustments		399	684
Net cash provided by operating activities	$	106,734	95,385
Noncash transactions:			
Interest expense recorded for accretion of bonds outstanding	$	(58,130)	(55,707)
Unrealized loss on investments		(4,942)	(3,762)
Amortization of discount/premium on investments		(681)	(844)

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

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

(b) ***Basis of Accounting***

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. 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 easements and environmental mitigation parcels, toll and violation collection equipment, transponders, toll booths, buildings, changeable message signs, vehicles, furniture, and construction in progress. 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, changeable message signs, 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 San Joaquin Hills Transportation Corridor 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 to the value of 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 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 F/ETCA were allocated between the two agencies based on the estimated benefit to each. In addition, the agency also has amounts due from F/ETCA related to F/ETCA FasTrak customers incurring tolls on the agency's corridor and has amounts due to F/ETCA related to the agency's FasTrak customers incurring tolls on State Routes 241, 261, and 133 and other expenses. At June 30, 2013 and 2012, the agency has a net receivable due from F/ETCA 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 the assets transferred 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.

(In thousands)

(3) Development Impact Fees

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

		2013	2012
City of Irvine	$	5,522	2,660
City of Newport Beach		1,714	1,723
City of San Juan Capistrano		767	164
City of Laguna Niguel		340	94
County of Orange		285	644
City of Dana Point		29	45
City of San Clemente		25	115
City of Santa Ana		17	—
City of Laguna Hills		6	93
City of Costa Mesa		4	1
City of Aliso Viejo		2	40
City of Laguna Woods		—	1
	$	8,711	5,580

(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	$	23,583	21,350
Current restricted cash and investments		63,095	58,737
Noncurrent restricted cash and investments		284,262	278,574
	$	370,940	358,661

(In thousands)

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

		Cash and cash equivalents	Investments	Total
Cash on hand	$	43	—	43
Demand deposits		4,005	—	4,005
Money market		22,273	—	22,273
Commercial paper		2,799	5,378	8,177
Federal agency securities		—	14,588	14,588
Investments held with trustee per debt agreements		32,720	289,134	321,854
Total	$	61,840	309,100	370,940

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

		Cash and cash equivalents	Investments	Total
Cash on hand	$	43	—	43
Demand deposits		3,748	—	3,748
Money market		32,058	—	32,058
Commercial paper		1,999	3,795	5,794
Federal agency securities		—	14,495	14,495
Investments held with trustee per debt agreements		27,783	274,740	302,523
Total	$	65,631	293,030	358,661

(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, $43 was cash on hand, and $4,005 and $3,748, respectively, were 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 $4,005 and $3,748, respectively, and the corresponding bank balance was $3,784 and $3,677, respectively. The difference of $221 and $71 was principally due to outstanding deposits. The agency's petty cash fund and toll change funds totaled $43.

(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 and debt agreements also indicate specific rating requirements for certain types of investments. Percentage limitations on specific types of securities shall be based on the purchase price of the security as compared to the market value of the portfolio at the time of purchase and 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
Certificates of deposit	5 years	100**	5	Long-term debt rating in one of highest ratings categories by two NRSROs

(In thousands)

Authorized investment type	Maximum maturity	Maximum percentage of portfolio*	Maximum percentage investment in one issuer	Specific rating requirement
Negotiable certificates of deposit	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
Banker's acceptances	180 days	30	5	Drawn on and accepted by a bank that carries the highest short-term ratings category by one NRSRO
Commercial paper	270 days	25	10% of outstanding paper of an issuing corporation	Highest short-term rating by an NRSRO
Repurchase agreements	90 days	25	5	N/A
Medium-term maturity corporate notes	5 years	30	5	Long-term debt rating in one of highest ratings categories by two NRSROs
State of California Local Agency Investment Fund	N/A	Lesser of $50 million or 15% of portfolio	5	N/A
County or local agency investment pools	N/A	15	5	N/A
Asset-backed securities	5 years	20	5	"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

(In thousands)

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

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

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

At June 30, 2013, 5% or more of the agency's investments were in the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank as authorized by the agency's investment policy. These investments are 15%, 11%, 6%, and 6%, respectively, of the agency's investments.

At June 30, 2012, 5% or more of the agency's investments were in the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank as authorized by the agency's investment policy. These investments are 20%, 18%, 10%, and 6%, respectively, of the agency's 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 table below 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 Resolution Funding Corporation (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 Federal Deposit Insurance Corporation (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

Investments authorized by debt agreements*	Specific rating requirement
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	
	S&P	Moody's	S&P	Moody's
Investment type:				
U.S. Treasury bills	AA+	Aaa	AA+	Aaa
U.S. Treasury notes	AA+	Aaa	AA+	Aaa
U.S. federal agency bonds	AA+	Aaa	AA+	Aaa
Money market funds	AAAm	—	AAAm	—
Commercial paper:				
ING	A-1	P-1	—	—
General Electric Capital	—	—	A-1+	P-1
Abbey National LLC	A-1	P-1	—	—
Union Bank	A-1	P-1	—	—
Corporate notes–medium term:				
AT&T	A-	A3	A-	A2
Caterpillar	A-	A2	A-	A2
Yale University	AAA	Aaa	AAA	Aaa
General Electric Capital	—	—	AA+	A1
Pepsi	A	A1	—	—
Metlife	AA-	Aa3	—	—
Toyota	A	Aa3	—	—

(Continued)

	June 30, 2013		June 30, 2012	
	S&P	Moody's	S&P	Moody's
Municipal bonds:				
San Francisco Bay Area Toll Authority	AA-	Aa3	—	—
Florida State General Obligation	AA-	Aa3	—	—
Indiana State Revenue	AA+	Aa1	—	—
Missouri State Revenue	AAA	Aaa	—	—
New Mexico State	AAA	Aa1	—	—
New York State Development	AAA	*	—	—
Ohio State Revenue	AAA	Aaa	—	—
University of California Regents Revenue	AA	Aa1	—	—

*Rated AA by Fitch

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.

(In thousands)

A summary of all the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $22,273, commercial paper of $2,799, and investments held with trustee of $32,720, 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**
Federal agency securities	$	143,308	46,539	12,482	84,287
U.S. Treasury notes		97,608	10,009	10,243	77,356
U.S. Treasury bills		34,157	34,157	—	—
Municipal bonds		27,599	1,990	4,086	21,523
Commercial paper		25,671	25,671	—	—
Money market funds		22,273	22,273	—	—
Corporate notes		16,276	5,144	2,557	8,575
Total	$	366,892	145,783	29,368	191,741

A summary of all the agency's investments governed by both the agency's investment policy and its bond agreements, including money market funds of $32,058, commercial paper of $1,999, and investments held with trustee of $27,783, 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**
Federal agency securities	$	192,155	90,122	52,452	49,581
U.S. Treasury notes		62,297	26,216	1,709	34,372
U.S. Treasury bills		39,093	39,093	—	—
Money market funds		32,058	32,058	—	—
Corporate notes		23,473	15,210	—	8,263
Commercial paper		5,794	5,794	—	—
Total	$	354,870	208,493	54,161	92,216

(Continued)

(In thousands)

(5) Capital Assets

Capital assets activity consists of the following at June 30, 2013:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ 249	821	—	1,070
Right-of-way acquisitions, grading, or improvements	5,231	—	—	5,231
Furniture and equipment	9,976	501	(1,044)	9,433
	15,456	1,322	(1,044)	15,734
Impairment loss on right-of-way acquisitions, grading, or improvements	(5,112)	—	—	(5,112)
Furniture and equipment accumulated depreciation	(6,863)	(908)	1,044	(6,727)
	$ 3,481	414	—	3,895

Capital assets activity consists of the following at June 30, 2012:

	Balance at beginning of year	Additions	Transfers/ deletions	Balance at end of year
Construction in progress	$ —	249	—	249
Right-of-way acquisitions, grading, or improvements	5,231	—	—	5,231
Furniture and equipment	10,403	284	(711)	9,976
	15,634	533	(711)	15,456
Impairment loss on right-of-way acquisitions, grading, or improvements	(5,112)	—	—	(5,112)
Furniture and equipment accumulated depreciation	(6,443)	(1,131)	711	(6,863)
	$ 4,079	(598)	—	3,481

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 $5,112 related to mitigation parcels held that will ultimately be conveyed to other owners for no consideration. This write-down did not reflect any physical change to the properties; rather it was to reflect the development cycle of mitigation assets.

(In thousands)

Transfer of Ownership

Ownership of the San Joaquin Hills Transportation Corridor was transferred to Caltrans during the year ended June 30, 1997, upon satisfaction of all conditions contained within the Cooperative Agreement between the agency and Caltrans. Subsequent to the transfer, 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 recognized as a contribution expense when transferred to Caltrans.

(6) Long-Term Obligations

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

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

(Continued)

(In thousands)

The following is a summary of changes in general 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 1997A Toll Road Refunding Revenue Bonds:					
Current Interest Bonds	$ 604,885	—	—	604,885	—
Convertible Capital Appreciation Bonds	250,000	—	—	250,000	—
Restructured Convertible Capital Appreciation Bonds	430,000	23,932	—	453,932	
Capital Appreciation Bonds	574,647	31,775	(32,255)	574,167	34,316
Series 1993 Senior Lien Toll Road Revenue Bonds:					
Current Interest Bonds	220,180	—	—	220,180	—
Total bonds payable	$ 2,079,712	55,707	(32,255)	2,103,164	34,316

(a) Toll Road Revenue Bonds

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

Interest on the 1997A current interest bonds is payable semiannually at rates ranging from 5.25% to 5.50%. The bonds mature in annual installments from January 15, 2028 to January 15, 2030. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2007 by payment of accrued interest, principal, and a premium of up to 2.00%.

In May 2011, bondholders consented to amending the master indentures and approved a supplemental indenture to amend certain terms of $430 million of the convertible capital appreciation bonds (Restructured Bonds) that had original maturity dates in 2018, 2020, 2022, 2023, and 2024. The primary change in terms for these bonds was to extend the originally scheduled maturity dates to 2037, 2038, 2040, 2041, and 2042, respectively.

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

The 1997A convertible capital appreciation bonds not amended by the supplemental indenture accrue interest at rates ranging from 5.60% to 5.75% compounded semiannually. Interest is payable semiannually based on accreted amounts commencing on July 15, 2007. The bonds mature in installments on January 15 of the years 2016, 2017, 2019, and 2021. The bonds are subject to early redemption, at the option of the agency, beginning January 15, 2014 by payment of accrued interest, principal, and a premium of up to 2.00%.

The 1997A capital appreciation bonds accrue interest at rates ranging from 4.20% to 5.67% compounded semiannually. The bonds mature in annual installments from January 15, 2000 to January 15, 2036.

Interest on the remaining 1993 current interest bonds is payable semiannually at a rate of 5.00%. The bonds mature on January 1, 2033. The bonds are subject to early redemption, at the option of the agency, beginning January 1, 2003 by payment of accrued interest and principal with no premium.

The master indentures 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.

(Continued)

(In thousands)

The following is a summary of the agency's annual debt service requirements by fiscal year for the 1993 senior lien toll road revenue bonds and the 1997A toll road refunding revenue bonds as of June 30, 2013:

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

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

The following is a summary of the agency's annual debt service requirements by fiscal year for the 1993 senior lien toll road revenue bonds and the 1997A toll road refunding revenue bonds as of June 30, 2012:

	Principal	Interest[1]	Junior lien interest[1]	Total
2013	$ 34,316	58,871	—	93,187
2014	33,982	60,786	—	94,768
2015	33,688	62,809	—	96,497
2016	53,005	57,107	—	110,112
2017	58,106	54,383	—	112,489
2018–2022	167,590	295,884	—	463,474
2023–2027	312,704	479,938	129,937	922,579
2028–2032	610,824	363,661	216,562	1,191,047
2033–2037	419,306	404,526	173,249	997,081
2038–2042	379,643	336,010	—	715,653
	$ 2,103,164	2,173,975	519,748	4,796,887

[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 $657,509 and $618,891, respectively, related to accreted principal on convertible capital appreciation bonds and capital appreciation bonds.

A portion of the Series 1997A toll refunding bonds was used to purchase U.S. government securities, which were placed in an irrevocable escrow fund to be used for the debt service payments related to the refunded portion of the 1993 bonds. As of June 30, 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 $798,664 and $738,380, respectively.

(b) Debt Compliance

While the agency has historically and currently been able to pay its operating costs and debt service payments, actual revenues continue to run below revenues projected by an independent traffic and revenue consultant at the time of financing. Since 2000, the agency has taken numerous measures to help bridge the gap between actual and projected revenues, including establishing the toll rate stabilization fund, which is an indentured fund designed primarily for payment of future debt service, implementing toll rate increases, defeasing debt with proceeds from the settlement of the Orange County bankruptcy, and reducing operational costs by competitively bidding the major operations related contracts. Since the bonds were issued, the agency has achieved the required coverage ratio through current year revenues and the use of its toll rate stabilization fund, including amounts received from F/ETCA mitigation payments as described below. In May 2011, the agency amended the master indentures and restructured $430 million of its convertible capital appreciation bonds as discussed in note 6(a) and changed the debt service coverage ratio from 1.3x to 1.0x with the ability to use cash available in reserves to meet the debt service coverage ratio requirement, while being required to optimize net toll revenues on an annual basis.

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

In addition, F/ETCA committed to provide loans, subject to the terms of the Agreement, on an as-needed basis, up to $1,040,000 to assist the agency in achieving its debt service coverage of 1.3x. The Agreement was amended on March 1, 2011 to reflect the modification of the agency's debt service coverage ratio from 1.3x to 1.0x. 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 the agency has a surplus in revenues that exceeds the amount needed to meet the debt coverage requirement. All principal and accrued interest is due and payable on January 1, 2037 to the extent that the agency has toll stabilization and surplus revenue funds available to pay all amounts due. At June 30, 2013 and 2012, no amounts had been borrowed.

The Agreement was designed to meet the near-term needs of each agency while preserving the flexibility to continue to pursue alternatives. The Agreement provides that F/ETCA loans will be made only to the extent that surplus revenues are available and all findings and determinations required by law are met, including California Government Code Section 66484.3, paragraph (f), which requires that the following findings must be met before F/ETCA can make a loan: 1) F/ETCA will benefit mutually financially by sharing and/or loaning revenues with the agency, 2) F/ETCA possesses adequate financial resources to fund all costs of construction of existing and future projects that it plans to undertake prior to the final maturity of the loan, and 3) the funding of the loan will not materially impair its financial condition or operations during the term of the loan. The agency's obligation to repay the loans is, in turn, secured by and payable only from its toll stabilization and surplus revenue funds. The Agreement also stipulates that F/ETCA will not be obligated to make loans to the agency prior to securing the necessary funds for constructing the 241 completion project unless F/ETCA has determined that it will not build the project. F/ETCA is also not required to increase toll rates to ensure sufficient revenues are available and that any liens or revenue pledges required in order to finance the 241 completion project and complete certain other capital projects would have priority over loans to the agency. If the commencement and diligent pursuit of the construction of the 241 completion project does not occur by December 31, 2015, the mitigation payments will be added to the principal amount of the loan.

(7) Commitments and Contingencies

(a) Toll Collection and Revenue Management System Agreements

The agency and F/ETCA 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) Corridor Operations Facility Lease

In January 2000, the agency relocated to the Corridor Operations Facility and signed a lease agreement with F/ETCA. Future minimum payments at June 30, 2013 due to F/ETCA under the terms of the lease agreement through June 30, 2014 are $361. Future minimum payments are based on the fair market rental value and adjust annually.

(c) Project Costs

The agency has a commitment to Caltrans to provide a maintenance facility for State Route 73. At June 30, 2013, the agency has earmarked $7,928, in order to fulfill the commitment.

(d) Litigation

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

(e) Risk Management

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

(8) Employees' Retirement Plan

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

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 $333, $343, $354 and $373 to the plan for the year ended June 30, 2013, 2012, 2011, and 2010, respectively.