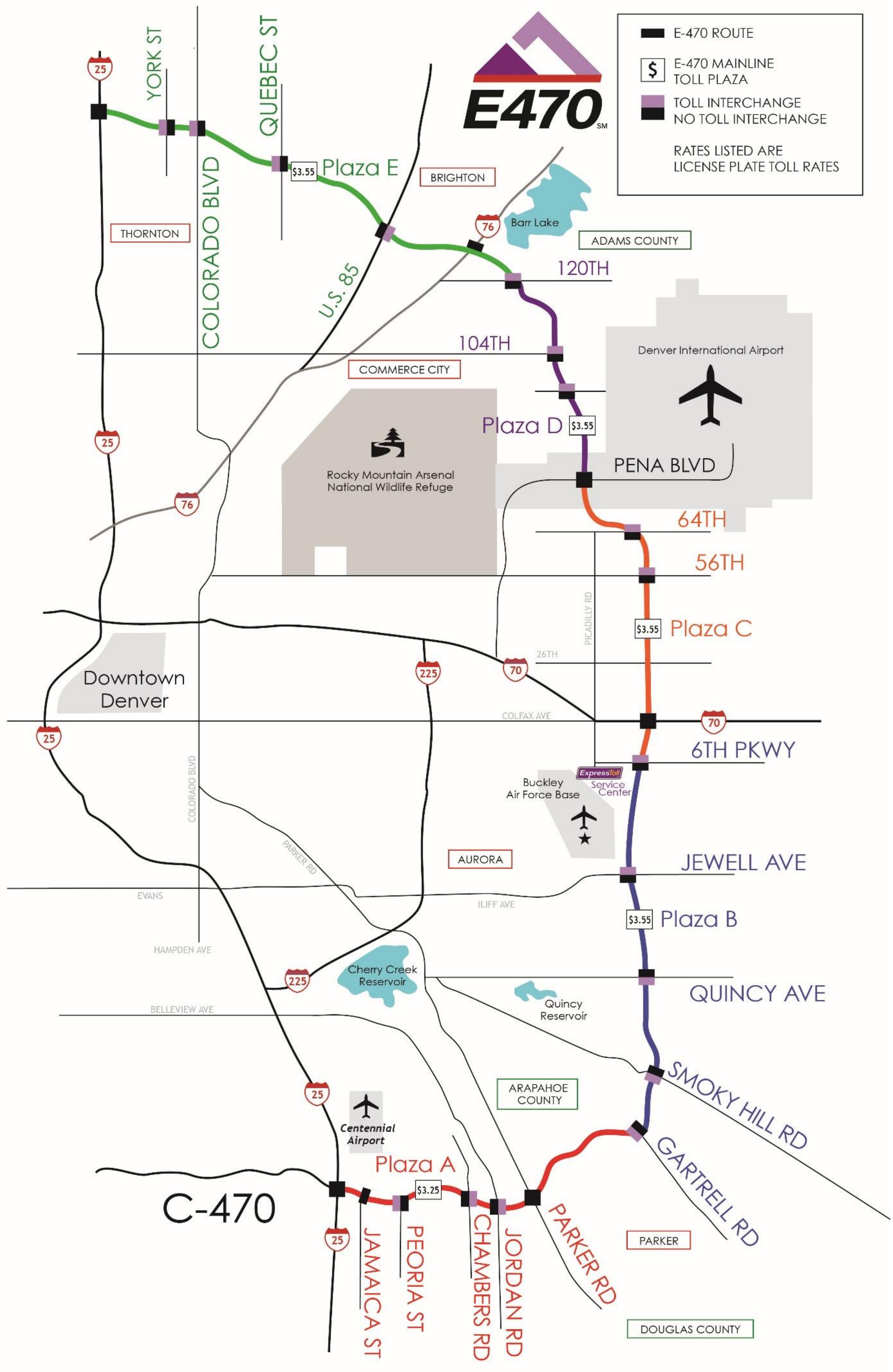
E470
Public Highway Authority

# E-470 PUBLIC HIGHWAY AUTHORITY

## 2016 BASIC FINANCIAL STATEMENTS
## DECEMBER 31, 2016 AND 2015

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

E470
E-470 ROUTE
E-470 MAINLINE TOLL PLAZA
TOLL INTERCHANGE
NO TOLL INTERCHANGE
RATES LISTED ARE LICENSE PLATE TOLL RATES
YORK ST
QUEBEC ST
COLORADO BLVD
Plaza E
$3.55
BRIGHTON
THORNTON
Barr Lake
ADAMS COUNTY
U.S. 85
120TH
104TH
COMMERCE CITY
Denver International Airport
Plaza D
$3.55
Rocky Mountain Arsenal National Wildlife Refuge
PENA BLVD
64TH
56TH
PICADILLY RD
Plaza C
$3.55
26TH
Downtown Denver
COLFAX AVE
6TH PKWY
ExpressToll Service Center
Buckley Air Force Base
COLORADO BLVD
PARKER RD
AURORA
JEWELL AVE
EVANS
ILIFF AVE
Plaza B
$3.55
HAMPDEN AVE
Cherry Creek Reservoir
QUINCY AVE
Quincy Reservoir
BELLEVIEW AVE
SMOKY HILL RD
ARAPAHOE COUNTY
Centennial Airport
GARTRELL RD
Plaza A
$3.25
C-470
JAMAICA ST
PEORIA ST
CHAMBERS RD
JORDAN RD
PARKER RD
PARKER
DOUGLAS COUNTY
25
76
225
70

**E-470 PUBLIC HIGHWAY AUTHORITY**

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The following is management's discussion and analysis of the financial performance and activity of the E-470 Public Highway Authority (the Authority or E-470), and is designed to provide an introduction and overview that may be used to interpret the basic financial statements as of and for the years ended December 31, 2016 and 2015. This discussion has been prepared by management covering complete data for a three-year period, and should be read in conjunction with the basic financial statements and notes thereto, which immediately follow this section.

**Authority Overview**

E-470 is a toll road that forms a semicircular beltway along the eastern perimeter of the Denver metropolitan area. The 75 mile-per-hour toll road extends 47 miles from State Highway C-470 at I-25, to I-25 at Northwest Parkway, a toll road managed by a separate highway authority. The toll road travels through three counties and five municipalities and provides easy access to Denver International Airport.

The toll road has been financed, constructed, operated, and governed by the Authority, which is a body corporate and political subdivision of the State of Colorado, established in January 1988 with all the powers, duties, and privileges permitted by the Public Highway Authority Law of the State, part 5 of article 4 of title 43, Colorado Revised Statutes, as amended (Public Highway Act). Under the Public Highway Act, the Authority has the power without voter approval, unless limited by the contract creating such authority, to construct, finance, operate, or maintain beltways and other transportation improvements; take private property by condemnation; establish, and collect tolls on any highway provided by the Authority; establish, and collect a highway expansion fee from persons developing property within the boundaries of the Authority; issue bonds, and pledge its revenues to payment of bonds; along with other powers as specified within the Public Highway Act.

The toll road was constructed and opened in segments from 1991 to 2003. Segment I of the toll road, I-25 South to Parker Road, was opened to traffic in June 1991. The northern portion of Segment II, 56$^{th}$ Avenue to 120$^{th}$ Avenue, and the southern portion of Segment III, Parker Road to Smoky Hill Road, opened to traffic in July 1998. In May 1999, the remaining portions of Segments II and III, Smoky Hill Road to 56$^{th}$ Avenue, were opened to link the already operational north and south sections of the E-470 toll road. Segment IV, the final segment of the E-470 toll road, was opened in two sections. The first, from 120$^{th}$ Avenue to U.S. Highway 85, opened in August 2002; the second, from U.S. Highway 85 to I-25 North, opened in January 2003. The four-lane toll road (with five miles consisting of six lanes) has been designed to accommodate future widening up to eight lanes and to allow for the addition of continuous recreation paths and future median mass transit.

The Authority consists of eight member jurisdictions, each of which has an elected official representative that sits on the Authority's board of directors as voting members (the board): Adams, Arapahoe, and Douglas counties, and the municipalities of Aurora, Brighton, Commerce City, Parker, and Thornton. The Authority also has nine nonvoting members including the cities of Arvada, Lone Tree, and Greeley, City and County of Broomfield, Weld County, Denver Regional Council of Governments (DRCOG), Regional Transportation District (RTD), Regional Air Quality Council (RAQC), and the Colorado Department of Transportation (CDOT). Appointments to the board are made annually for both voting and nonvoting members, and are made by the individual jurisdictions.

The Authority provides two options for toll payments – ExpressToll and License Plate Toll (LPT).

ExpressToll is a state-of-the-art electronic system that allows drivers to pass through mainline tolling points and ramps on any Colorado toll facility without stopping or slowing below the prevailing speed limit. ExpressToll customers pay 20% less in tolls on E-470 compared to License Plate Toll customers due to a toll differential. ExpressToll currently operates with either the older Title 21 hard-case transponder, the windshield 6c sticker tag, or the newer switchable HOV transponder that allows tolls to be automatically deducted from a customer's prepaid account as the customer uses a toll facility.

LPT customers are all customers that do not have an ExpressToll account. LPT customers are generally billed on a monthly basis for all accumulated toll transactions through any tolling points (mainline and ramps) on any Colorado toll facility (except Northwest Parkway). Cameras photograph the front and rear license plates of all vehicles and, if the vehicle does not have an ExpressToll account, a statement (bill) is sent to the registered owner of the vehicle. No advance registration is required. LPT customers may also set up a managed account online to prepay tolls, leave a credit card on file, receive statements via e-mail, or pay for tolls prior to a statement being generated.

The Authority provides various back office tolling services to the Northwest Parkway (NWP), High Performance Transportation Enterprise (HPTE), a division of CDOT, and HPTE's concessionaire, Plenary Roads Denver, LLC (Plenary) for their tolled facilities in Colorado. Three managed lane facilities were opened in 2015 (US-36 Phase 1, reconfiguration of the I-25 Central managed lanes, and the I-70 Mountain Express Lane (MEXL)), and two managed lane facilities were opened in 2016 (US-36 Phase 2 and I-25 North Segment 2). E-470's tolling back office, labeled and marketed with the ExpressToll+ logo, serves all customers on managed toll facilities (HOV and Express lanes), allowing customers to manage only one account and ensuring a seamless customer experience, regardless of which Colorado toll facility is used. The Authority has provided several other services to HPTE and Plenary including, but not limited to, integrating and installing toll equipment, toll collection system enhancements and modifications, and system testing and go-live support. The Authority has been providing back office services to CDOT since 2006 and to the Northwest Parkway since 2004.

**2016 Financial Highlights**

- Transactions on the E-470 toll road experienced growth of 7% from 74.6 million transactions in 2015 to 80.0 million transactions in 2016. This was the highest annual traffic on record, and was the seventh straight year of traffic growth for the Authority. Traffic grew 12% from 66.4 million transactions in 2014 to 74.6 million transactions in 2015.
- Operating revenues increased 13% from 2015 to 2016 improving from $181.9 million to $206.2 million, the highest annual revenue on record. Operating revenues grew from $156.9 million to $181.9 million, or 16% from 2014 to 2015, respectively.
- Operating expenses, before depreciation, increased 16% from 2015 to 2016 from $41.4 million to $48.2 million. Operating expenses, before depreciation, increased 16% from 2014 to 2015 from $35.7 million to $41.4 million.
- Debt service coverage, a critical measurement of the Authority's annual operations, for fiscal year 2016 was 1.91 versus an original budgeted ratio of 1.60. Debt service coverage for fiscal year 2015 was 1.78 versus a budgeted 1.63, and was 1.71 versus a budgeted 1.48 in 2014.
- In September 2016, the Authority had a call opportunity of approximately $11.2 million in principal for the remaining outstanding 2006A Bonds. The Authority cash defeased the entire amount from unrestricted funds on the call date. This defeasance relieved debt service (principal and interest) in 2017 and 2018 of approximately $6 million per year, and helped the Authority get closer to achieving its debt management goal of level annual debt service within the next four years.
- The Authority began construction in 2016 on a significant multi-year widening project to expand E-470 from two lanes to three lanes in each direction of an 8 mile section of the roadway from Parker Road to Quincy Avenue. The Authority budgeted $44.9 million and expended $33.3 million in 2016. The Authority budgeted remaining costs of $49.8 million in 2017, with anticipated project completion by the end of 2017. The Capital Improvements Fund of the General Surplus account funds all costs of the widening project along with the Authority's entire five-year capital budget program.
- E-470's back office toll collection system processed approximately 20.2 million and 8.0 million tolled transactions on other roadways in 2016 and 2015, respectively, with the growth due to the opening of additional new managed lane facilities in 2016. The Authority completed installation, system enhancements, and final testing in 2016 for US-36 Phase 2 and I-25 North Segment 2, with successful commencement of tolling. Toll collection or system costs originally incurred by the Authority for services provided to other entities are charged to the applicable entity (CDOT, HPTE, Plenary, or NWP). Tolling services revenues to recover these costs in 2016 and 2015 totaled approximately $5.3 million and $2.3 million, respectively.
- The Authority's toll rate policy and schedule includes an annual incremental increase of the ExpressToll rate equating to $0.25 over a three year period. The previous policy was a $0.25 increase every three years based on the plan of finance and debt structure. The toll rate policy also recalculates the differential between ExpressToll and LPT toll rates at a 25% premium due to additional toll collection costs for LPT customers. In November 2015, the board of directors reaffirmed the toll rate increase for 2016 ExpressToll rates by $0.10 at all mainline tolling points and $0.05 at all ramp tolling points. The LPT rates were recalculated with the 25% premium over the new 2016 ExpressToll rates, and both were effective

January 1, 2016. These annual incremental toll increases support the Authority's debt management plan to achieve level debt service in the next four years.

The 2016 ExpressToll rate for a two-axle vehicle was $2.60 at mainline toll plaza A and $2.85 at mainline toll plazas B, C, D, and E. ExpressToll rates increase incrementally at the mainline toll plazas if the vehicle has more than two axles. All ramp tolling points charged a rate of $1.20 (regardless of axle count) for ExpressToll accounts. The 2016 LPT toll rate for a two-axle vehicle was $3.25 at mainline toll plaza A and $3.55 at mainline toll plazas B, C, D, and E. LPT toll rates also increase incrementally at the mainline toll plazas if the vehicle has more than two axles. All ramp tolling points charged a rate of $1.50 (regardless of axles) for LPT accounts.

**Summary of Operations**

The Authority's operating revenues, which include toll revenues, other toll-related fees, and tolling services revenues, for 2016 were $206.2 million, a 13% increase over the $181.9 million in 2015. Toll revenues, net of related bad debts, were $192.8 million and $173.0 million of total operating revenues in 2016 and 2015, respectively. This increase is primarily due to increased overall toll transactions of 7% from 2015 and an incremental toll increase beginning on January 1, 2016 for all tolling points. Toll revenues, net of related bad debts, for fiscal year 2016 was $14.0 million above the $178.8 million 2016 operating revenue budget. Traffic on E-470 during 2016 combined for 80 million transactions, with approximately 74% of the corresponding toll revenues coming from ExpressToll accounts. Operating revenues for 2015 were $181.9 million, a 16% increase over the $156.9 million in 2014. This increase is primarily due to increased overall toll transactions of 12% from 2014 and an incremental toll increase beginning on January 1, 2015 for all tolling points. Operating revenues for 2014 were $156.9 million, a 17% increase over 2013, which was also due to increased overall toll transactions and an incremental toll increase beginning on January 1, 2014.

Total operating expenses, before depreciation, for 2016 were $48.2 million, a 16% increase over the $41.4 million in 2015. The increase is primarily due to higher toll collection costs from the 7% increase in E-470 toll transaction volume in 2016, coupled with a 153% increase in tolled transactions incurred on other Colorado toll facilities. Costs incurred for other toll facilities are recovered and recorded as tolling services revenue. Costs such as call center and administrative law court labor, image processing, printing and postage on bills and notices, registered vehicle owner information retrieval, credit card fees, and E-470 pavement repairs accounted for $5.3 million of the overall $6.8 million increase from prior year. There were no other individually significant fluctuations. Total operating expenses, before depreciation, for 2015 were $41.4 million, a 16% increase over the $35.7 million in 2014. The increase is primarily due to higher toll collection costs from the 12% increase in E-470 toll transaction volume in 2015. Costs such as call center labor, image processing, printing and postage on bills, registered vehicle owner information retrieval, and credit card fees accounted for $2.8 million of the overall $5.7 million increase from prior year. There were no other individually significant fluctuations.

Senior Revenue Bond principal and interest payments from the senior debt service fund during 2016 and 2015 were $97.2 million and $91.1 million, respectively, on the Series 1997, 2004, 2006, 2007, 2010, 2014, and 2015 bonds, and includes the interest rate swap differentials. In 2016 and 2015, approximately $2.5 million in principal and interest was due and separately paid on the Series 2009 Vehicle Registration Fee (VRF) bonds. Debt service coverage for 2016 was 1.91, compared to 1.78 in 2015 and 1.71 in 2014. The Master and

Supplemental Bond Resolutions (Bond Resolutions) require producing net revenues of at least 1.30 times the aggregate senior debt service due for the year.

**Overview of Basic Financial Statements**

The Authority only engages in business-type activities. These activities are intended to recover all related costs through user fee charges (tolls) to external customers for services provided. The Authority reports its business-type activities in a single enterprise fund, meaning that its activities are operated and reported like a private-sector business. The Authority's basic financial statements include comparative statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. Also included are the notes to the basic financial statements that provide more detailed information. These basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The Authority's net position is comprised of the following components:

- *Net investment in capital assets* – Consists of the Authority's investment in capital assets (e.g., land, buildings, equipment, and infrastructure), net of accumulated depreciation, and deferred outflows of resources, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. The Authority uses these capital assets to provide services to the public; consequently, these assets are not available for future spending.
- *Restricted for debt service* – Represents resources that are subject to external restrictions on how they may be used, and consists of restricted assets reduced by restricted liabilities whereby these restricted liabilities will generally be liquidated with the restricted assets reported.
- *Unrestricted* – Represents resources that may be used to meet the Authority's ongoing obligations to the public and creditors, and are not included in the determination of net investment in capital assets or restricted for debt service components of net position.

## Financial Results and Analysis

**Summary of Net Position**

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Current assets: | | | | |
| Current unrestricted assets | $ | 173,713,062 | 161,615,456 | 187,953,107 |
| Current restricted assets | | 53,800,534 | 57,498,869 | 55,925,506 |
| Total current assets | | 227,513,596 | 219,114,325 | 243,878,613 |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation | | 594,941,616 | 591,458,677 | 617,894,782 |
| Other noncurrent assets | | 194,651,266 | 169,902,709 | 187,495,674 |
| Total noncurrent assets | | 789,592,882 | 761,361,386 | 805,390,456 |
| Total assets | | 1,017,106,478 | 980,475,711 | 1,049,269,069 |
| Deferred outflows of resources | $ | 88,443,295 | 98,594,860 | 107,600,113 |
| Total assets and deferred outflows of resources | $ | 1,105,549,773 | 1,079,070,571 | 1,156,869,182 |
| Current liabilities: | | | | |
| Current liabilities payable from unrestricted assets | $ | 35,345,984 | 26,346,644 | 20,901,840 |
| Current liabilities payable from restricted assets | | 85,673,375 | 85,568,458 | 75,669,135 |
| Total current liabilities | | 121,019,359 | 111,915,102 | 96,570,975 |
| Noncurrent liabilities | | 1,468,762,891 | 1,499,674,427 | 1,610,658,638 |
| Total liabilities | | 1,589,782,250 | 1,611,589,529 | 1,707,229,613 |
| Total net position | | (484,232,477) | (532,518,958) | (550,360,431) |
| Total liabilities and net position | $ | 1,105,549,773 | 1,079,070,571 | 1,156,869,182 |

The largest portion of the Authority's assets is noncurrent. Approximately 58% and 60% of the total assets are capital assets (e.g., infrastructure, buildings, equipment, and other), net of accumulated depreciation as of December 31, 2016 and 2015, respectively. The Authority uses these capital assets to provide services, and consequently, these assets are not available to liquidate liabilities or for other future spending. The acquisition of capital assets was primarily financed from revenue bond proceeds, with more recent capital assets financed with unrestricted funds. Noncurrent bonds payable was approximately 97% and 96% of total noncurrent liabilities in 2016 and 2015, respectively. Total current liabilities were $121.0 million and $111.9 million at the end of 2016 and 2015, respectively. Of the total current liabilities, $85.9 million (71%) and $85.8 million (77%) for 2016 and 2015, respectively, were current bonds payable, current notes payable, and related accrued interest payable. These liabilities are to be paid from current assets and the subsequent year's operating and nonoperating revenue as allowed under the Bond Resolutions.

*Capital Assets*

Total capital assets (gross) including construction in progress increased from $1,098 million in 2015 to $1,137 million in 2016. Accumulated depreciation reduced the year-end capital asset balances to $594.9 million in 2016 and $591.5 million in 2015. During 2016, the Authority expended approximately $40.0 million on capital projects, and successfully completed capital projects totaling $14.1 million, which were closed from construction in progress to their respective capital asset accounts. The major projects completed include a 4 mile section of the widening project comprised of one southbound lane from Gartrell Road to Parker Road, fiber upgrades, new VMS signs, and various enhancements to the Authority's toll collection system and technical environment. During 2015, the Authority expended approximately $9.0 million on capital projects, and successfully completed capital projects totaling $11.4 million, which were closed from construction in progress to their respective capital asset accounts. The major projects completed include the headquarters facility buildout, new data storage hardware, and various enhancements to the Authority's toll collection system. During 2014, the Authority expended approximately $12.3 million on capital projects, and successfully completed capital projects totaling $9.1 million, which were closed from construction in progress to their respective capital asset accounts. The major projects include the Quebec Street interchange and various enhancements to the Authority's toll collection system.

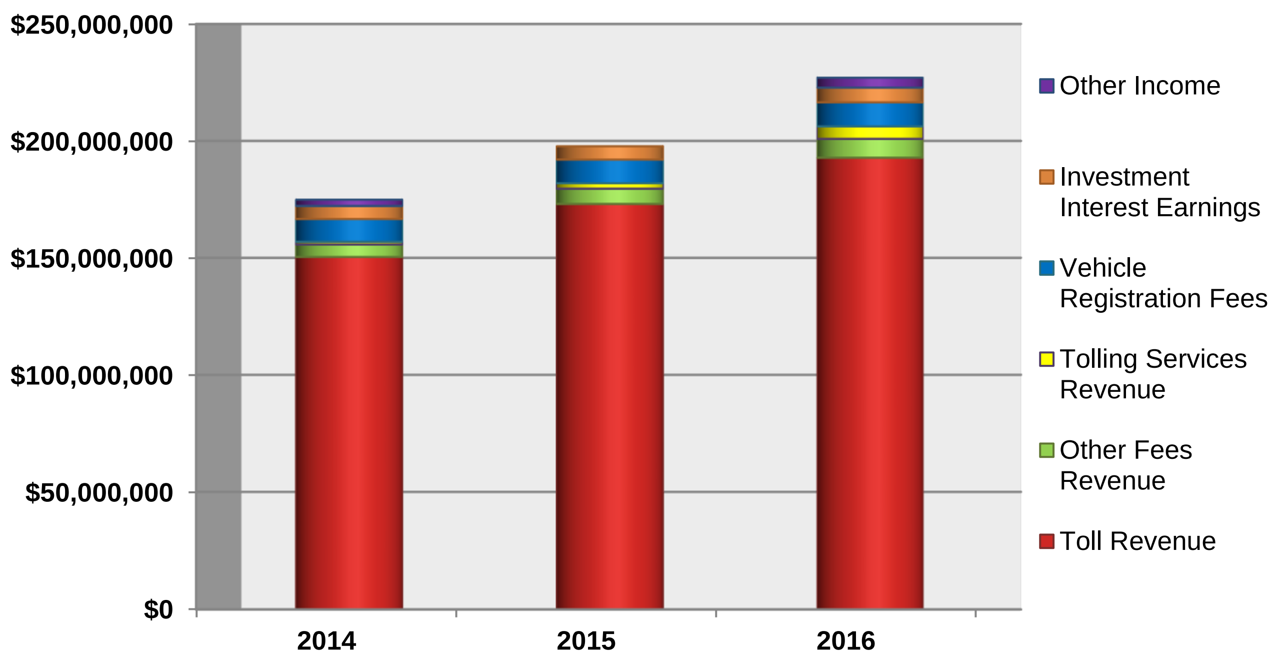
**Summary of Revenue, Expenses, and Changes in Net Position**

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Operating revenues | $ | 206,216,071 | 181,909,495 | 156,871,823 |
| Operating expenses before depreciation | | (48,229,024) | (41,386,029) | (35,693,280) |
| Depreciation | | (36,298,284) | (35,426,200) | (34,106,187) |
| Operating income | | 121,688,763 | 105,097,266 | 87,072,356 |
| Nonoperating revenues (expenses): | | | | |
| Vehicle registration fees | | 10,275,305 | 10,095,783 | 9,732,693 |
| Interest expenses | | (95,196,983) | (99,060,982) | (99,674,362) |
| Investment revenues (expenses) | | 7,264,910 | 2,413,911 | (8,449,668) |
| Other income (loss) | | 4,254,486 | (704,505) | 2,698,592 |
| Total nonoperating expenses | | (73,402,282) | (87,255,793) | (95,692,745) |
| Change in net position | | 48,286,481 | 17,841,473 | (8,620,389) |
| Net position, beginning of year | | (532,518,958) | (550,360,431) | (541,740,042) |
| Net position, end of year | $ | (484,232,477) | (532,518,958) | (550,360,431) |

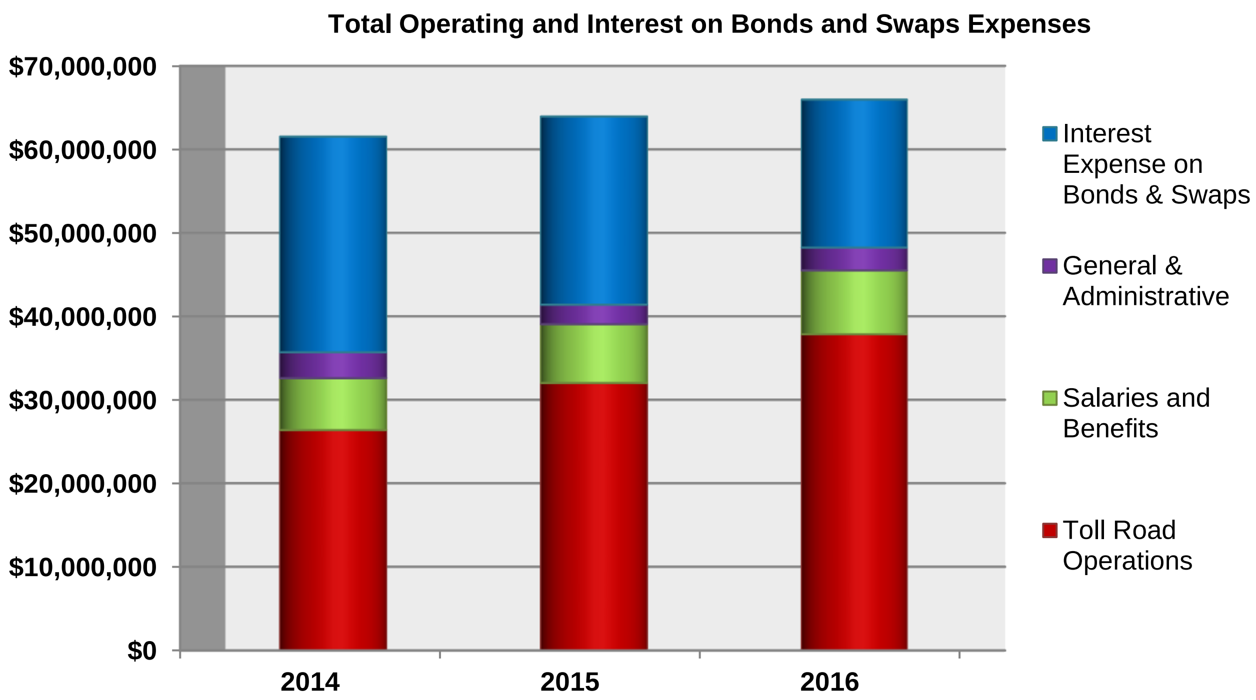
Operating revenues (which include tolls, other toll-related fees, and tolling services revenues) in 2016 and 2015 were $206.2 million and $181.9 million, respectively, an increase of 13% over 2015. Operating expenses before depreciation increased by $6.8 million to $48.2 million in 2016. Depreciation expense remained consistent with prior year. Overall, operating income increased by $16.6 million from 2015 to $121.7 million. Total net nonoperating expenses decreased by $13.9 million to $73.4 million in 2016, which was attributed to changes in interest rates and the corresponding effect on the change in fair value of derivative instruments and investments of $4.3 million, and a decrease in interest expenses of $3.9 million. The overall increase in net position was $48.3 million in 2016, which is $30.5 million more than the increase in net position of $17.8 million in 2015.

Operating revenues in 2015 and 2014 were $181.9 million and $156.9 million, respectively, for an increase of 16% over 2014. Operating expenses before depreciation increased by $5.7 million to $41.4 million in 2015. Depreciation expense in 2015 remained consistent with 2014. Overall, operating income increased by $18.0 million from 2014 to $105.1 million. Total net nonoperating expenses decreased by $8.4 million to $87.3 million in 2015, which was attributed to changes in interest rates and the corresponding effect on the change in fair value of derivative instruments and investments of $10.7 million. The overall increase in net position was $17.8 million in 2015, which was $26.4 million more than the decrease in net position of $8.6 million in 2014.

**Total Operating and Nonoperating Revenues**




Operating and nonoperating revenues included in the chart above for 2016, 2015, and 2014 were $227.0 million, $197.0 million, and $174.9 million, respectively.




Total operating expenses, before depreciation and including nonoperating interest expense on bonds and interest rate swaps for 2016 and 2015, were $66.0 million and $63.9 million, respectively. Toll road operations expenses increased by $5.8 million to $37.8 million in 2016 versus $32.0 million in 2015. The increase is primarily due to higher toll collection costs from the 7% increase in E-470 toll transaction volume in 2016, coupled with a 153% increase in tolled transactions incurred on other Colorado toll facilities. Costs incurred for other toll facilities are recovered and recorded as tolling services revenue. These increased costs include call center and administrative law court labor, image processing, printing and postage on bills and notices, registered vehicle owner information retrieval, credit card fees, and E-470 pavement repairs. Nonoperating interest expenses on bonds and swaps decreased from $22.5 million in 2015 to $17.7 million in 2016 due to interest savings related to the 2015 bond transaction, which included a cash contribution to partially pay off callable debt and refund the remaining portion at a lower interest rate.

Total operating expenses, before depreciation and including nonoperating interest expense on bonds and interest rate swaps for 2015 and 2014, were $63.9 million and $61.5 million, respectively. Toll road operations expenses increased by $5.6 million to $32.0 million in 2015 versus $26.4 million in 2014. The increase is primarily due to higher toll collection costs from the 12% increase in E-470 toll transaction volume in 2015, coupled with more toll transactions incurred on other Colorado toll facilities. These increased costs include call center labor, image processing, printing and postage, registered vehicle owner information retrieval, and credit card fees. Nonoperating interest expenses on bonds and swaps decreased from $25.8 million in 2014 to $22.5 million in 2015 due to savings from the 2015 bond transaction.

*Debt Administration and Debt Service*

In 2016, principal and interest paid on Senior Bond debt from restricted debt service totaling $97.2 million consisted of $44.8 million in Series 1997 bonds, $8.2 million in Series 2004 bonds, $6.0 million in Series 2006 bonds, $24.1 million in Series 2007 bonds, $4.4 million in Series 2010 bonds, $1.1 million in Series 2014 bonds, $3.8 million in Series 2015 bonds, and $4.8 million on the two interest rate swaps settlement differential. The Authority also paid approximately $2.5 million on the Series 2009 VRF bonds from the restricted VRF account, and early defeased approximately the remaining $11.2 million of 2006A bonds using unrestricted funds.

In 2015, principal and interest paid on Senior Bond debt from restricted debt service totaling $91.1 million consisted of $39.8 million in Series 1997 bonds, $1.1 million in Series 2004 bonds, $6.0 million in Series 2006 bonds, $34.0 million in Series 2007 bonds, $4.4 million in Series 2010 bonds, $0.9 million in Series 2014 bonds, and $4.9 million on the interest rate swaps settlement differential. The Authority also paid approximately $2.5 million on the Series 2009 VRF bonds from the restricted VRF account.

In 2014, principal and interest paid on Senior Bond debt from restricted debt service totaling $83.6 million consisted of $55.3 million in Series 1997 bonds, $1.1 million in Series 2004 bonds, $3.8 million in Series 2006 bonds, $12.4 million in Series 2007 bonds, $4.4 million in Series 2010 bonds, $0.5 million in Series 2011 bonds, $0.7 million in Series 2014 bonds, and $5.4 million on the interest rate swaps settlement differential. The Authority also paid approximately $2.5 million on the Series 2009 VRF bonds from the restricted VRF account.

Bonds payable includes current interest bonds (CIB), capital appreciation bonds (CAB), VRF bonds, and Securities Industry and Financial Markets Association (SIFMA) index bonds, consisting of both new issue and refunded bonds of the Authority.

**E-470 Revenue Bonds Outstanding Principal**

| | | 2016 | 2015 |
|---|---|---|---|
| Series 1997 B Capital Appreciation | $ | 342,463,050 | 367,623,398 |
| Series 2000 B Capital Appreciation | | 430,979,134 | 405,140,665 |
| Series 2004 A Capital Appreciation | | 145,162,056 | 137,630,339 |
| Series 2004 B Capital Appreciation | | 138,722,033 | 131,162,301 |
| Series 2004 C Converted Current Interest | | 15,000,000 | 22,065,000 |
| Series 2006 A Current Interest | | — | 16,470,000 |
| Series 2006 B Capital Appreciation | | 95,276,446 | 90,621,462 |
| Series 2007 A-1 Current Interest | | 7,850,000 | 12,850,000 |
| Series 2007 B-1 Current Interest | | 7,850,000 | 12,850,000 |
| Series 2007 C-1 Current Interest | | 7,850,000 | 12,850,000 |
| Series 2007 D-1 Current Interest | | 7,855,000 | 12,855,000 |
| Series 2007 CD-2 SIFMA Index | | 66,075,000 | 66,075,000 |
| Vehicle Registration Fee 2009 Current Interest | | 3,695,000 | 5,930,000 |
| Series 2010 A Capital Appreciation | | 33,645,601 | 31,372,956 |
| Series 2010 C Current Interest | | 81,655,000 | 81,655,000 |
| Series 2014 A SIFMA Index | | 72,565,000 | 72,565,000 |
| Series 2015 A Current Interest | | 39,915,000 | 41,550,000 |
| Premiums, net of discounts | | 3,236,745 | 4,755,487 |
| Total | $ | 1,499,795,065 | 1,526,021,608 |

The Authority actively manages its debt based on the current debt profile and market opportunities as they relate to the overall operating condition of the Authority. Below is a summary of the significant debt management activities in 2015 and 2016:

- In September 2016, the Authority cash defeased approximately $11.2 million in principal for the remaining and outstanding 2006A Bonds. The defeasance was funded from the unrestricted Senior Bonds Defeasance Fund of the General Surplus account on the call date (September 1, 2016). This defeasance relieved debt service (principal and interest) in 2017 and 2018 of approximately $6 million per year.

- In June 2015, the Authority successfully closed the 2015 bond transaction, which included a cash contribution to partially pay off callable debt and refund the remaining portion. The Authority had a call opportunity for a portion (at par value) of the Subseries 2007A-1 bonds ($30.7 million), 2007B-1 bonds ($30.7 million), 2007C-1 bonds ($30.7 million), and 2007D-1 bonds ($30.7 million) totaling approximately $122.8 million in term bonds with original maturities between 2019 and 2024. The Authority, as part of its debt management plan, contributed approximately $78 million in cash from the unrestricted Senior Bonds Defeasance Fund of the General Surplus account to cash defease a significant portion of the callable debt, and refunded the remaining portion at a par amount of $41.5 million (not including the bond premium) with new maturities between 2016 and 2020. The transaction partially alleviated the increasing debt service over the next several years and set up the Authority with opportunities in the next four years to achieve level annual debt service. Also, as the callable bonds were linked to the Authority's outstanding interest rate swaps, the Authority fully terminated the Morgan Stanley 2008 SIFMA interest rate swap (MS-3) and partially terminated the 2007 London Interbank Offered Rate (LIBOR) interest rate swaps with Morgan Stanley (MS-1) and JP Morgan (JP-1) for a net termination payment of $3.8 million from the unrestricted Senior Bonds Defeasance Fund. These terminations unwound the swap notional amounts originally related to the callable bonds.
- The provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, are applicable to the Authority due to the two remaining 2007 pay-fixed interest rate swaps. The notional amounts on the two swaps in total correspond with specific maturities of the Series 2007, 2010, and 2014 bonds. The swaps were determined to be investment derivatives as of December 31, 2016 and 2015 with a net liability fair value of $45.0 million and $48.3 million, respectively, and derivative instruments investment gain of $3.3 million in 2016 and loss of $0.6 million in 2015 (when including the net swap termination payment). The Authority values the interest rate swap derivatives at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application.*

As of December 31, 2016, the Authority maintains underlying senior bond ratings from Moody's, Standard and Poor's, and Fitch. Moody's upgraded the Authority in June 2016 to A3 based on the continued financial strength, positive traffic and revenue trends, liquidity, and upcoming debt restructuring opportunities to get to level annual debt service. Standard and Poor's and Fitch affirmed their ratings in 2016, and all three rating agencies kept the Authority at a stable outlook.

Ratings and outlook as of December 31, 2016:

| | Rating | Outlook |
|---|---|---|
| Rating agency: | | |
| Moody's | A3 | Stable |
| Standard and Poor's | BBB+ | Stable |
| Fitch | BBB | Stable |

*Notes Payable*

The Authority entered into an intergovernmental agreement with Douglas County in 2003 to receive contributed funds for costs of the Jamaica Road interchange ramp construction. Based on this agreement, the remaining contributed funds as of 2008 of $2.4 million are to be repaid in 10 equal payments (noninterest-bearing) beginning in 2011. The annual payment of $0.24 million is made from unrestricted funds.

| | | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Local member jurisdiction (Douglas County) | $ | 963,077 | 1,203,846 | 1,444,616 |

**Economic Factors**

Estimates by the Authority's traffic and revenue consultant are shown against actual toll revenue, net of uncollectible amounts for the fiscal years ended 2016, 2015, and 2014. The Authority has engaged a traffic and revenue consultant to conduct investment-grade traffic and revenue studies and updated reviews over the years based on current economic conditions of surrounding areas and bond refunding transactions. In 2014, the Authority completed a full investment grade traffic and revenue study. The 2014 study contains refined future forecasts by considering historical growth, current economic conditions, future transportation forecasts, and development plans for the Authority, local jurisdictions, and the State in the surrounding area. The toll forecasts may differ from the Authority's budget, and only includes the toll revenue, net of estimated bad debts, and excludes the Authority's other toll-related fees that are included in operating revenues during the period.

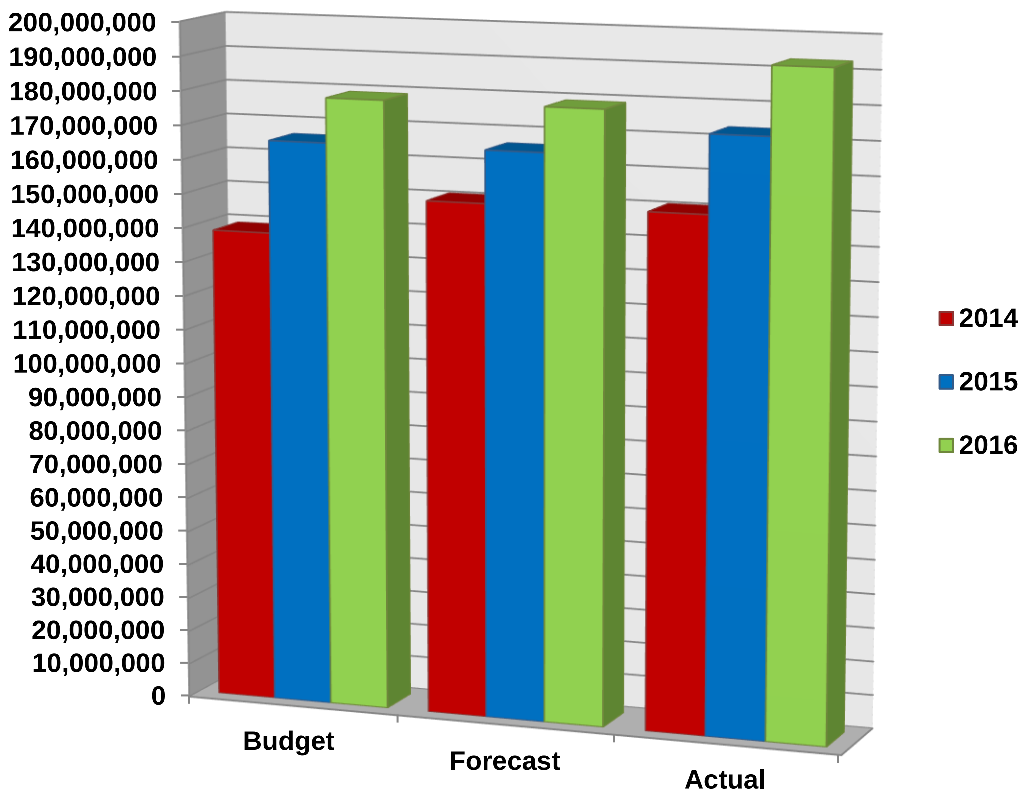
*Transactions (Annual Total)*

| Year | ExpressToll | LPT | Total traffic | Forecast | Variance | Percentage variance |
|---|---|---|---|---|---|---|
| 2016 | 55,348,253 | 24,626,982 | 79,975,235 | 73,637,000 | 6,338,235 | 8.61 |
| 2015 | 50,301,725 | 24,307,322 | 74,609,047 | 70,787,000 | 3,822,047 | 5.40 |
| 2014 | 45,112,841 | 21,252,197 | 66,365,038 | 65,520,000 | 845,038 | 1.29 |

*Toll Revenues, Net (Annual Total)*

| Year | ExpressToll | LPT | Total toll revenue | Forecast | Variance | Percentage variance |
|---|---|---|---|---|---|---|
| 2016 | 141,888,286 | 50,922,363 | 192,810,649 | 178,766,000 | 14,044,649 | 7.86 |
| 2015 | 123,109,780 | 49,929,732 | 173,039,512 | 165,751,000 | 7,288,512 | 4.40 |
| 2014 | 107,474,418 | 42,930,094 | 150,404,512 | 150,433,000 | (28,488) | (0.02) |

**Operating Revenues – Tolls**




*Budget Results*

The Authority is required under state law and board resolutions to prepare an annual budget of operating and capital outlays as well as debt service due in the upcoming year. The annual budget is approved by the Authority's board of directors before the budget (calendar) year begins. Appropriations generally do not carry over to future periods, and overall net outlay overages, or budget amendments, require additional approval by the board. The original approved budget by the board is generally considered the final budget. The budget is recorded on the Authority's budget basis and conforms to the Bond Resolutions Revenue Covenant calculation. Refer to the Supplementary Information – Revenue Covenant section for reconciliation to the basic financial statements for operating balances and senior debt service due. Further, toll revenue amounts budgeted by management may differ from the traffic and revenue consultant's forecasts.

The following is a summary of the Authority's 2016 operating budget compared to the actual results, as well as the capital budget compared to the actual results as of and for the year ended December 31, 2016:

| | | 2016 Budget | 2016 Results | Variance | Percentage variance |
|---|---|---|---|---|---|
| Total operating revenues | $ | 204,868,000 | 227,784,390 | 22,916,390 | 11.2% |
| Total operating expenses | | (49,164,550) | (42,334,906) | 6,829,644 | (13.9)% |
| Net operating income | | 155,703,450 | 185,449,484 | 29,746,034 | 19.1% |
| Senior debt service due | | 97,278,000 | 97,231,865 | (46,135) | —% |
| Debt service coverage ratio | | 1.60 | 1.91 | 0.31 | 19.4% |
| Capital and renewal and replacement costs | $ | 68,435,467 | 44,911,035 | (23,524,432) | (34.4)% |

During 2016, the original budget was the final approved budget and total budgeted operating revenues ended $22.9 million, or 11% over budget. This is primarily due to net toll revenues and toll fees ending over budget by $14.0 million and $2.5 million, respectively, from the higher than budgeted traffic during the year. Total operating expenses ended $6.8 million, or 14% under budget, which is mainly attributable to lower than expected snow removal costs due to a drier than average winter, as well as two new CDOT tolled facilities, US-36 Phase 2 and I-25 North Segment 2, opening later in 2016 than originally anticipated. Senior debt service due was on budget and does not include VRF debt service as the annual Series 2009 bonds debt service was paid from the restricted VRF account and is excluded from the debt service coverage ratio. These final budget results led to a debt service coverage ratio of 1.91, which is over the original budgeted ratio of 1.60 for 2016.

Capital and renewal and replacement costs, which are excluded from the debt service coverage ratio as specified in the Bond Resolutions and fully paid from unrestricted funds, were $23.5 million, or 34% under budget. This is due to overall capital projects coming in under budget for items such as roadway and facility maintenance, technology upgrades and enhancements, and construction projects such as the widening project from Parker Road to Quincy Avenue, which broke ground later than anticipated in 2016 and will be completed by the end of 2017.

The following is a summary of the Authority's 2015 operating budget compared to the actual results, as well as the capital budget compared to the actual results as of and for the year ended December 31, 2015:

| | | 2015 Budget | 2015 Results | Variance | Percentage variance |
|---|---|---|---|---|---|
| Total operating revenues | $ | 189,767,100 | 200,036,176 | 10,269,076 | 5.4% |
| Total operating expenses | | (41,296,800) | (37,925,250) | 3,371,550 | (8.2)% |
| Net operating income | | 148,470,300 | 162,110,926 | 13,640,626 | 9.2% |
| Senior debt service due | | 91,309,100 | 91,119,525 | (189,575) | (0.2)% |
| Debt service coverage ratio | | 1.63 | 1.78 | 0.15 | 9.2% |
| Capital and renewal and replacement costs | $ | (28,557,700) | (14,162,982) | 14,394,718 | (50.4)% |

During 2015, the original budget was the final approved budget and total budgeted operating revenues ended $10.3 million, or 5% over budget. This is primarily due to net toll revenues and toll fees ending over budget by $7.3 million and $1.8 million, respectively, from the higher than budgeted traffic during the year. Total operating expenses ended $3.4 million, or 8% under budget, which is mainly attributable to certain operating costs originally budgeted for 2015 being moved to 2016 to accompany the ongoing efforts of system development for CDOT's new tolled facilities. Senior debt service due was on budget and does not include VRF debt service as the annual Series 2009 bonds debt service was paid from the restricted VRF account and is excluded from the debt service coverage ratio. These final budget results led to a debt service coverage ratio of 1.78, which is over the original budgeted ratio of 1.63 for 2015.

Capital and renewal and replacement costs, which are excluded from the debt service coverage ratio as specified in the Bond Resolutions and fully paid from unrestricted funds, were $14.4 million, or 50% under budget. This is due to overall capital projects coming in under budget for items such as roadway and facility maintenance, technology upgrades and enhancements, and construction projects such as the Sandy Acres lake infill, which was delayed due to wet conditions during the spring of 2015 and will be completed in late spring 2016. In addition, $4.0 million was originally budgeted in 2015 for a contribution toward the 6th Parkway expansion with the City of Aurora, but this amount was not expended due to Aurora timing and funding needs.

**Reserves Management**

Pursuant to the Bond Resolutions, the Authority is required to maintain reserve accounts including the Senior Bonds Debt Service Reserve Fund and an Operating Reserve Fund. In addition, a General Surplus account is maintained in accordance with the Bond Resolutions. The General Surplus account is unrestricted and is currently divided into three subaccount funds for administrative purposes: the Senior Bonds Defeasance Fund, the Capital Improvements Fund, and the Rainy Day Fund. At December 31, 2016 and 2015, all required and restricted reserves were fully funded as specified by the Bond Resolutions.

### Tolling Services Agreements

The Authority has entered into a tolling services agreement with HPTE for tolled facilities on I-25 North and I-70 Mountain Express Lanes, a tolling services agreement with HPTE and its concessionaire Plenary for tolled facilities on US-36 and I-25 Central, as well as agreements with NWP and its underlying public highway authority to provide certain electronic toll collection back office services. Back office services occur after toll commencement on each toll facility and include major items such as maintenance of the toll system and website, toll billing and collections, license plate image review, and the customer service center. These agreements provide economies of scale for toll collection costs and seamless interoperability for customers on Colorado toll facilities, allowing them to maintain and manage one toll account. As part of the agreements, the Authority collects electronic tolls for the other tolling facilities and transfers the funds daily to NWP (ExpressToll only) and to HPTE/Plenary (ExpressToll and LPT) for transactions that occurred and were collected on their toll facilities. The tolls collected and remitted on behalf of other entities are not included in the basic financial statements of the Authority. Costs incurred are recovered by tolling services revenues charged to NWP, HPTE, and Plenary for their share of toll collection costs that are included in operating expenses on the statement of revenues, expenses, and changes in net position. These revenues totaled $5.3 million and $2.3 million in 2016 and 2015, respectively.

### Future Management Plans

Continuing into 2017, the Authority plans to complete construction of the eight mile roadway widening project which will expand E-470 from two lanes to three lanes in each direction from Parker Road to Quincy Avenue. The Authority budgeted $49.8 million for 2017 and expects to complete the project by the end of the year. The Capital Improvements Fund of the General Surplus account is funding this project, in addition to the Authority's normal five-year capital budget program.

Regarding tolling services, the Authority will continue to provide back office services on other tolled facilities in the State of Colorado for NWP, HPTE, and Plenary. Other future toll facilities scheduled to become operational by HPTE in the next several years include I-25 North Segment 3 extending the current managed lanes from to 120$^{th}$ Avenue to E-470/Northwest Parkway, I-25 North Segments 7 and 8 from Johnstown to Fort Collins, C-470 from I-25 to Wadsworth Boulevard, and Central I-70 from I-25 to Chambers Road. The Authority plans to continue services under separate agreements to these new facilities including integration and installation of toll equipment, toll collection system enhancements and modifications, system testing, analysis and go live support, and begin back office toll collection services when tolling commences.

Regarding debt management, the Authority had a $138.6 million refinancing opportunity related to the Series 2007CD-2 and Series 2014A SIFMA Index Term Rate bonds of $66.1 million and $72.5 million, respectively, as both bond series were subject to optional redemption on or after March 1, 2017 with a mandatory tender and remarketing date of September 1, 2017. The Authority exercised the early redemption option to take advantage of lower interest rates and debt service savings. On March 1, 2017, the Authority successfully refunded the Series 2014A and 2007CD-2 SIFMA Index Term Rate bonds with the Series 2017A and 2017B LIBOR Index Term Rate bonds totaling approximately $138.6 million at par with no change to the principal amounts or maturities. The Series 2014A bonds of $72.5 million paid interest each month based on the previous months' final calculated SIFMA market pricing plus 118 basis points (1.18%), which was refunded with the new Series 2017A LIBOR Index bonds plus 90 basis points (0.90%) over a two year term, saving the Authority over 0.28% in monthly interest costs. The Series 2007CD-2 bonds of $66.1 million paid interest each month based on the previous months' final calculated SIFMA market pricing plus 175 basis points (1.75%), which was refunded with the new Series 2017B LIBOR Index bonds plus 105 basis points (1.05%) over a four-year term, saving the Authority over 0.70% in monthly interest costs. The principal portion of the Series 2017A and 2017B bonds are payable in September 2026 and September 2037 to September 2039 with amounts ranging between $5.1 million to $22.3 million, and both series have a six-month optional early redemption period in 2019 and 2021, respectively. The Authority switched from a SIFMA index to 67% of 1 month LIBOR to match the associated index of the interest rate swaps and remove basis risk. In conjunction with the bond transaction, the Authority received rating upgrades from S&P (A– from BBB+) and Fitch (BBB+ from BBB) and a rating affirmation from Moody's (A3). The outlook from all rating agencies is stable.

**Contacting E-470's Financial Management**

This financial report is designed to provide overview information to the Authority's bondholders, customers, and other interested parties. Should you have any questions about this report, contact the E-470 Public Highway Authority's Director of Finance at 22470 E. 6th Parkway, Suite 100, Aurora, Colorado 80018.

KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

## Independent Auditors' Report

The Board of Directors
E-470 Public Highway Authority:

We have audited the accompanying financial statements of the business type activities of the E 470 Public Highway Authority (the Authority) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors consider 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 business type activities of the E 470 Public Highway Authority as of December 31, 2016 and 2015, and the changes in financial position, and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

*Emphasis of Matter*

As discussed in note 2(l) to the financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

*Other Matters*

**Required Supplementary Information**

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 2 through 19 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.

**Supplementary and Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information relating to the revenue covenant is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information relating to the revenue covenant has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Denver, Colorado
April 21, 2017

# E-470 PUBLIC HIGHWAY AUTHORITY

Basic Financial Statements

December 31, 2016 and 2015

**E-470 PUBLIC HIGHWAY AUTHORITY**

Statements of Net Position

December 31, 2016 and 2015

| **Assets** | **2016** | **2015** |
|---|---|---|
| Current unrestricted assets: | | |
| Cash and cash equivalents | $ 80,116,909 | 60,343,087 |
| Investments | 62,166,432 | 75,470,163 |
| Cash and cash equivalents limited for construction | 3,207,700 | 3,207,700 |
| Accrued interest receivable | 1,785,942 | 1,645,566 |
| Accounts receivable, net of allowance for uncollectibles | 26,345,480 | 20,698,507 |
| Prepaid expenses and other current assets | 90,599 | 250,433 |
| Total current unrestricted assets | 173,713,062 | 161,615,456 |
| Current restricted assets: | | |
| Cash and cash equivalents for debt service | 35,130,419 | 38,020,161 |
| Investments for debt service | 18,273,023 | 19,105,006 |
| Accrued interest receivable | 96,959 | 73,587 |
| Cash and cash equivalents for construction | 300,133 | 300,115 |
| Total current restricted assets | 53,800,534 | 57,498,869 |
| Total current assets | 227,513,596 | 219,114,325 |
| Noncurrent assets: | | |
| Unrestricted investments | 78,534,813 | 49,243,389 |
| Restricted investments for debt service | 100,812,005 | 104,050,946 |
| Prepaid bond costs and other noncurrent assets | 15,304,448 | 16,608,374 |
| Capital assets, net of accumulated depreciation | 594,941,616 | 591,458,677 |
| Total noncurrent assets | 789,592,882 | 761,361,386 |
| Total assets | 1,017,106,478 | 980,475,711 |
| Deferred outflows of resources: | | |
| Loss on refundings of debt | 88,443,295 | 98,594,860 |
| Total assets and deferred outflows of resources | $ 1,105,549,773 | 1,079,070,571 |

See accompanying notes to basic financial statements.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Statements of Net Position

December 31, 2016 and 2015

| | 2016 | 2015 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities payable from unrestricted assets: | | |
| Accounts payable and accrued expenses | $ 10,956,418 | 5,548,555 |
| Unearned toll revenue | 23,772,309 | 20,164,139 |
| Notes payable | 240,769 | 240,769 |
| Derivative instruments – interest rate swaps | 376,488 | 393,181 |
| Total current liabilities payable from unrestricted assets | 35,345,984 | 26,346,644 |
| Current liabilities payable from restricted assets: | | |
| Bonds payable (including accumulated accretion on capital appreciation bonds of $29,522,145 in 2016 and $28,621,824 in 2015) | 82,095,000 | 80,960,000 |
| Accrued interest payable | 3,578,375 | 4,608,458 |
| Total current liabilities payable from restricted assets | 85,673,375 | 85,568,458 |
| Total current liabilities | 121,019,359 | 111,915,102 |
| Noncurrent liabilities: | | |
| Bonds payable (including accumulated accretion on capital appreciation bonds of $656,758,426 in 2016 and $618,783,372 in 2015) | 1,417,700,065 | 1,445,061,608 |
| Notes payable | 722,308 | 963,077 |
| Other restricted noncurrent liabilities | 2,537,611 | 2,544,858 |
| Intergovernmental liability | 3,207,700 | 3,207,700 |
| Derivative instruments – interest rate swaps | 44,595,207 | 47,897,184 |
| Total noncurrent liabilities | 1,468,762,891 | 1,499,674,427 |
| Total liabilities | 1,589,782,250 | 1,611,589,529 |
| Net position: | | |
| Net investment in capital assets | (16,897,085) | (70,707,875) |
| Restricted for debt service | 18,542,565 | 23,007,951 |
| Unrestricted deficit | (485,877,957) | (484,819,034) |
| Total net position | (484,232,477) | (532,518,958) |
| Commitments and contingencies (notes 8, 9, 12, 13, 14, and 15) | | |
| Total liabilities and net position | $ 1,105,549,773 | 1,079,070,571 |

See accompanying notes to basic financial statements.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Operating revenues: | | | |
| Tolls | $ | 192,810,649 | 173,039,512 |
| Other fees | | 8,057,936 | 6,528,828 |
| Tolling services | | 5,347,486 | 2,341,155 |
| Total operating revenues | | 206,216,071 | 181,909,495 |
| Operating expenses: | | | |
| Toll road operations | | 37,840,809 | 32,005,157 |
| Salaries and benefits | | 7,650,271 | 7,041,501 |
| General and administrative | | 2,737,944 | 2,339,371 |
| Total operating expenses before depreciation | | 48,229,024 | 41,386,029 |
| Depreciation | | 36,298,284 | 35,426,200 |
| Total operating expenses | | 84,527,308 | 76,812,229 |
| Operating income | | 121,688,763 | 105,097,266 |
| Nonoperating revenue (expenses): | | | |
| Vehicle registration fees | | 10,275,305 | 10,095,783 |
| Interest expenses: | | | |
| Interest on bonds and interest rate swaps | | (17,728,582) | (22,546,247) |
| Accretion on capital appreciation bonds | | (67,497,199) | (65,882,157) |
| Other bond amortization expenses | | (9,971,202) | (10,632,578) |
| Investment revenues (expenses): | | | |
| Interest earned on investments | | 6,281,525 | 5,720,817 |
| Net change in the fair value of investments | | (2,335,285) | (2,731,384) |
| Net change in the fair value of derivative instruments | | 3,318,670 | (575,522) |
| Other income (loss) | | 4,254,486 | (704,505) |
| Total nonoperating expenses | | (73,402,282) | (87,255,793) |
| Change in net position | | 48,286,481 | 17,841,473 |
| Net position, beginning of year (as restated, see note 2(l)) | | (532,518,958) | (550,360,431) |
| Net position, end of year | $ | (484,232,477) | (532,518,958) |

See accompanying notes to basic financial statements.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Statements of Cash Flows

Years ended December 31, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Receipts of authority vehicle tolls and toll fees | $ | 199,620,006 | 181,771,849 |
| Receipts from third parties for tolling services | | 4,915,161 | 2,003,120 |
| Payments to employees | | (7,482,975) | (6,960,983) |
| Payments to suppliers | | (35,255,844) | (33,334,549) |
| Net cash provided by operating activities | | 161,796,348 | 143,479,437 |
| Cash flows from capital and related financing activities: | | | |
| Payment of notes payable | | (240,769) | (240,770) |
| Purchase and construction of capital assets | | (39,900,887) | (8,994,457) |
| Receipts from third parties for capital assets | | 572,822 | 1,479,372 |
| Proceeds from sale of capital assets | | 25,630 | 30,825 |
| Interest paid | | (18,758,665) | (24,371,924) |
| Principal payments on bonds | | (80,960,000) | (69,235,000) |
| Payment of cash from bond proceeds to refund related bond series | | — | (44,850,000) |
| Proceeds from refunded bond series | | — | 45,631,237 |
| Payment of unrestricted cash to defease related callable bond series | | (11,245,000) | (78,000,000) |
| Payment of bond issuance costs for related bond series | | (34,453) | (779,387) |
| Payment to terminate portion of interest rate swap agreements | | — | (3,832,749) |
| Net cash used in capital and related financing activities | | (150,541,322) | (183,162,853) |
| Cash flows from noncapital financing activities: | | | |
| Receipts of vehicle registration fees | | 9,927,586 | 10,094,405 |
| Receipts of non-Authority third party vehicle tolls and toll fees | | 29,074,063 | 18,519,151 |
| Remittance to third parties for non-Authority vehicle tolls and toll fees | | (28,949,815) | (18,384,645) |
| Purchases of equipment and support services for third parties | | (131,792) | (1,313,240) |
| Receipts from third parties for equipment and support services | | 198,781 | 1,261,086 |
| Other receipts and disbursements | | 3,852,070 | (1,302,423) |
| Net cash provided by noncapital financing activities | | 13,970,893 | 8,874,334 |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investments | | 127,107,915 | 204,277,453 |
| Purchases of investments | | (141,233,167) | (149,505,327) |
| Interest received | | 5,783,431 | 6,067,785 |
| Net cash (used in) provided by investing activities | | (8,341,821) | 60,839,911 |
| Net increase in cash and cash equivalents | | 16,884,098 | 30,030,829 |
| Cash and cash equivalents, beginning of year | | 101,871,063 | 71,840,234 |
| Cash and cash equivalents, end of year | $ | 118,755,161 | 101,871,063 |
| Reconciliation of cash and cash equivalents to the statements of net position: | | | |
| Cash and cash equivalents – current – unrestricted | $ | 83,324,609 | 63,550,787 |
| Cash and cash equivalents – current – restricted for debt service | | 35,130,419 | 38,020,161 |
| Cash and cash equivalents – current – restricted for construction | | 300,133 | 300,115 |
| Cash and cash equivalents, end of year | $ | 118,755,161 | 101,871,063 |

See accompanying notes to basic financial statements.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Statements of Cash Flows

Years ended December 31, 2016 and 2015

| | | 2016 | 2015 |
|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | $ | 121,688,763 | 105,097,266 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | | 36,298,284 | 35,426,200 |
| Changes in assets and liabilities: | | | |
| Accounts receivable, net (tolls, late fees, and tolling services) | | (5,242,318) | (2,458,646) |
| Prepaid expenses and other current assets | | 159,834 | (248,433) |
| Accounts payable and accrued expenses | | 5,331,082 | 1,339,291 |
| Unearned toll revenue | | 3,560,703 | 4,323,759 |
| Net cash provided by operating activities | $ | 161,796,348 | 143,479,437 |
| Noncash transactions: | | | |
| Interest expense recorded due to bond accretion | $ | 67,497,199 | 65,882,157 |
| Interest expense recorded due to amortization of deferred outflows of resources | | 10,151,565 | 9,015,404 |
| Interest expense recorded due to amortization of prepaid bond costs and other assets | | 1,301,778 | 1,470,077 |
| Interest expense recorded due to amortization of net bond premiums | | 1,518,742 | 632,290 |
| Increase in fair value of derivative instruments – interest rate swaps | | 3,318,670 | 3,257,227 |
| Investment (loss) income recorded due to amortization of investment premiums (discounts) | | (112,604) | 266,345 |
| Investment income recorded due to amortization of other restricted noncurrent liabilities | | 207,544 | 207,544 |
| Decrease in fair value of investments | | (2,335,285) | (2,731,384) |
| Net (loss) gain on disposal of capital assets | | (94,034) | 26,463 |
| Decrease in other restricted noncurrent liabilities | | (200,297) | (204,095) |
| Other noncash loss | | — | (289,527) |
| Net loss due to refundings of debt on related bond series transaction | | (36,601) | (943,938) |

See accompanying notes to basic financial statements.

## (1) Financial Reporting Entity

The E-470 Authority (the First Authority) is a separate legal entity, created in February 1985, by an intergovernmental agreement among Adams County, Arapahoe County, Douglas County, and the City of Aurora. The purpose of the agreement was to plan, design, and construct the E-470 Highway (the Project). The First Authority did not have the power to incur debt; therefore, Arapahoe County (the County) issued bonds to finance the Project.

In January 1988, the E-470 Public Highway Authority (the Authority) was created by the original members of the First Authority pursuant to Colorado Revised Statutes Title 43, Article 4, Part 5. The Town of Parker, City of Thornton, City of Brighton, and City of Commerce City became participants in the Authority in 1989, 1990, 1991, and 1995, respectively. In February 1989, all rights, privileges, obligations, and liabilities of the First Authority were assigned to the Authority. In the event the Authority is ever dissolved, all rights, privileges, obligations, and liabilities will transfer back to the First Authority. As required by accounting principles generally accepted in the United States of America, the accompanying basic financial statements present the Authority and its component unit, an entity for which the Authority is considered to be financially accountable, as discussed below. The blended component unit, although a legally separate entity, is, in substance, part of the Authority's operations, and therefore, data from this component unit is combined with data of the primary government.

The First Authority is a blended component unit of the Authority; however, it currently has no assets, liabilities, or operations.

In an opinion dated May 15, 1995, the Colorado Supreme Court held that the County had relinquished any control it had over the 1986 Bonds and the alignment of the Project in February 1989 when it executed the Delegation and Substitution Agreement and amendments to the Establishing Contract to that effect. Therefore, the Authority is not a component unit of the County.

*Intergovernmental Agreements with Arapahoe County, Colorado*

Since its creation, the First Authority was not legally empowered to issue debt; therefore, the County authorized issuance of $722,010,000 of Capital Improvement Trust Fund Highway Revenue Bonds Series 1986A-M. The ultimate objective of this issuance was to remit the proceeds to the Authority for the construction of the Project. In the contract establishing the Authority, the County assigned to the Authority all of the County's rights and privileges with respect to the bonds, and the Authority assumed all of the County's obligations with respect to the bonds. The proceeds of the bond issue were invested and held in trust for the benefit of the owners of the bonds (until the releases as described below). The bonds were generally remarketed every six months.

In February 1989, the Authority released from escrow the Series D bonds in the amount of $63,260,000 to complete construction on the first phase of the toll road (Segment I). In consideration of the obligations assumed by the Authority and to assist the Project, the County granted to the Authority all the County's rights to the excess investment earnings for all bond series. In addition, the Authority agreed to pay all bond administration costs with no financial obligation to the County.

At the August 31, 1995 remarketing of the bonds, the funds remaining were released from escrow to finance the costs associated with the design, acquisition of property, and construction of Segments II and III of the Project. Any bonds that were not remarketed were redeemed on August 31, 1995.

Due to the interrelationship between the County and the Authority in this financing arrangement, all the transactions incurred by the County relating to this financing are included in the accompanying basic financial statements as if they were incurred by the Authority.

*Tolling Services Agreements*

The Authority provides various services to the Northwest Parkway (NWP), High Performance Transportation Enterprise (HPTE), a division of Colorado Department of Transportation (CDOT), and HPTE's concessionaire, Plenary Roads Denver, LLC (Plenary) including, but not limited to, integrating and installing toll equipment, toll collection system enhancements and modifications, system testing and go live support, and back office toll collection services. E-470's tolling back office process allows customers to have only one account to manage and ensures a seamless customer experience regardless of which Colorado tolled facility they use. Toll collection or system costs originally incurred by the Authority for services provided to other entities are charged to the applicable entity (CDOT, HPTE, Plenary, or NWP).

## (2) Summary of Significant Accounting Policies

### *(a) Basis of Accounting*

The operations of the Authority are accounted for as an enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenue is recorded when earned, and expenses are recorded at the time liabilities are incurred. Enterprise funds are used to account for those operations for which the pricing policies of the entity establish fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The basis of accounting also incorporates Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

### *(b) Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America involves the use of management's estimates. These estimates are based upon management's best judgments, after considering past and current events and assumptions about future events. Actual results could differ from those estimates.

### *(c) Cash and Cash Equivalents*

The Authority considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents, which may include authorized money market mutual funds, local government investment pools, commercial paper, or repurchase agreements. Cash and cash equivalents may be restricted by the Trustee under the Master and Supplemental Bond Resolutions (Bond Resolutions) or other externally imposed restrictions. The basic financial statements include statements of cash flows showing cash and cash equivalents provided by and used in operating, noncapital and capital financing, and investing activities.

### *(d) Investments*

The Authority invests its funds in accordance with the Authority's Bond Resolutions and Colorado statutes (CRS 24-75-601). The Authority's authorized investments may consist of U.S. government agency securities, U.S. Treasury securities, commercial paper, municipal bonds, and an investment agreement. Investments may be restricted by the Trustee under the Bond Resolutions. Investments are reported in the financial statements at fair value, with the exception of the following assets, which are recorded using a cost-based measure in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* and Statement No. 72, *Fair Value Measurement and Application*:

- Money market investments that have a remaining maturity at time of purchase of one year or less. These money market accounts are held with Securities and Exchange Commission registered investment companies under Rule 2a7 of the Investment Company Act of 1940, as amended, and are reported at amortized cost.
- Nonparticipating investment agreement with Societe Generale, as it cannot be traded and its value is not affected by market interest rate changes.

### *(e) Accounts Receivable*

Accounts receivable represents amounts due for customer tolls (License Plate Toll (LPT) and ExpressToll) and any assessed late fees, net of the estimated uncollectible toll and fee receivables, vehicle registration fees (VRF) collected by specific counties and not yet remitted to the Authority, and other miscellaneous receivables from third parties. The Authority accrues the related revenue when earned. An allowance for estimated uncollectible toll receivables is recognized to reduce the gross amount of receivables to its net realizable value. The allowance for customer tolls is estimated based on historical collection information by revenue type. No allowance is recorded for VRF receivables as the amounts are fully collectible and timely remitted.

### *(f) Capital Assets*

Capital assets have an estimated useful life in excess of one year and an initial cost greater than $5,000 for software, fixtures, and equipment; $50,000 for land improvements; $100,000 for buildings; and $500,000 for infrastructure (roadway, bridges, and ramps).

Capital assets are recorded at historical cost. Costs include not only purchase price or construction cost, but also ancillary charges necessary to place the asset in its intended location and condition for use. Ancillary charges include, but are not limited to, costs such as freight and transportation charges, site preparation expenditures, professional fees, and legal expenses directly attributable to asset acquisition. Donations of capital assets represent facilities, or cash payments for facilities, received from property owners, governmental agencies, and customers. Donated capital assets are recorded at estimated fair value at the date of transfer.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Those capital assets subject to depreciation have the following useful lives:

| Assets | Years |
|---|---|
| Software | 3 |
| Fixtures and equipment | 5–10 |
| Land and building improvements | 20 |
| Buildings | 40 |
| Infrastructure | 30 |

Ongoing construction costs associated with the Authority's toll road are capitalized as construction in progress (CIP). As construction is not yet complete, depreciation is not recorded on these CIP costs. The Authority capitalizes interest on these assets under construction for interest costs on the tax-exempt debt used to finance the assets (if applicable), reduced by interest earned from investments acquired with the tax-exempt debt proceeds. No capitalized interest was recorded as of December 31, 2016 and 2015.

### *(g) Prepaid Bond Costs and Premiums and Discounts*

Prepaid bond costs and other noncurrent assets as well as bond premiums and discounts are deferred and amortized as a component of interest expense – other bond amortization expenses using the effective-interest method over the life of the related bonds.

### *(h) Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net assets that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. The deferral balances are from losses on refundings of debt that are amortized as a component of interest expense – other bond amortization expenses using the straight-line method over the remaining life of the old (refunded) debt or the life of the new debt, whichever is shorter.

### *(i) Revenue and Expenses*

The Authority's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenues consist of vehicle tolls and other toll-related fees assessed (late fees, civil penalties, or other fines and fees) associated with the operation of the Authority's toll road, net of estimated bad debts. The Authority recognizes toll operating revenues when earned. Advance payments received for toll operating revenues are deferred as unearned toll revenue on the statements of net position and are recognized as revenue as the customers use the Authority's toll road. Advance payments used as customers drive on non-Authority facilities in Colorado are remitted to the appropriate agency and are not recognized as revenue on the Authority's statements of revenues, expenses, and changes in net position. Operating revenues also include revenues for providing tolling services to other entities, and is recognized as an exchange transaction. Any amounts collected and remitted to external entities for tolls incurred on other tolled facilities are not included in the basic financial statements of the Authority. Operating expenses include costs incurred to provide for maintenance and administration of the toll road.

Nonoperating revenue and expenses consist of vehicle registration fees, interest expense, investment revenues, including interest earned on investments and change in derivative instruments, and other miscellaneous revenues and expenses. Vehicle registration fees are assessed by specified local counties and remitted to the Authority on a monthly basis net of related administrative costs.

### *(j) Net Position Amounts*

Net position amounts reported in the Authority's statements of net position consist of three categories: net investment in capital assets; restricted for debt service; and unrestricted. The Authority's board of directors, along with any state statutes, has official authorization to assign funds for a specific purpose. Net investment in capital assets consists of the Authority's investment in capital assets (e.g., land, buildings, equipment, and infrastructure) net of accumulated depreciation, and deferred outflows of resources, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Restricted for debt service represents resources that are subject to external restrictions on how they may be used, and consists of restricted assets reduced by restricted liabilities where the restricted liability will generally be liquidated with the restricted assets reported. Unrestricted net position represents resources that may be used to meet the Authority's ongoing obligations to the public and creditors, and are not included in the determination of net investment in capital assets or restricted for debt service components of net position. This balance includes any noncurrent accreted portions of revenue bonds payable. These net position amounts are available to fund any obligation of the Authority. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the Authority generally uses unrestricted funds first, then restricted as needed.

As of December 31, 2016 and 2015, the Authority had a total net deficit of approximately $484.2 million and $532.5 million, respectively. The Authority primarily plans to fund this net deficit with increased annual growth in toll operations revenues and other nonoperating revenues.

### *(k) Income Taxes*

The income derived by the Authority is exempt from federal income tax under the provisions of Internal Revenue Code Section 115. Accordingly, no provision for the payment or refund of income taxes has been made in the accompanying basic financial statements.

### *(l) Implementation of Accounting Standards*

As of December 31, 2016, the Authority implemented GASB Statement No. 72, which was effective for periods beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Accounting changes adopted to conform to the provisions of this statement were applied retroactively by restating the basic financial statements for fiscal year 2015 related to derivative instruments. The Authority's noncurrent derivative instruments – interest rate swaps on the statement of net position was restated (reduced) by $3.4 million from $51.3 million to $47.9 million. In addition, fiscal year 2015 net position, beginning of year, on the statement of revenues, expenses, and changes in net position was restated (increased) by $2.3 million from $552.6 million deficit to $550.3 million deficit. Further, investment revenues – net change in the fair value of derivative instruments on the statement of revenues, expenses, and changes in net position was restated (increased) by $1.1 million from $1.7 million loss to $0.6 million loss. As a result, unrestricted net position, end of year, was restated (increased) by $3.4 million from $488.2 million deficit to $484.8 million deficit for the year ended December 31, 2015. The adoption of Statement No. 72 had no prior period impact on reported investment balances; however, investment disclosures for fiscal year 2015 have been changed to conform to fiscal year 2016 presentation.

## (3) Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Under GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 establishes a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible at the measurement date. Observable markets include exchanges markets, dealer markets, brokered markets and principal-to-principal markets.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads, and market-corroborated inputs.
- Level 3 – unobservable inputs for an asset or liability.

*Investments*

Where quoted market prices for identical assets are available in an active market, securities are classified within Level 1 of the hierarchy. If quoted market prices for identical assets are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, reported trades of comparable securities, spreads off benchmark yields, and issuer spreads. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy. The Authority has no Level 3 securities as of December 31, 2016 and 2015, respectively.

*Interest Rate Swap Agreements*

The fair values are based on the notional amounts outstanding and estimated using forward-looking interest rate curves (swap reference rate), discounted future cash flows and credit spreads that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the hierarchy.

The Authority has the following recurring fair value measurements as of December 31, 2016:

| | | Fair value measurement using | | |
|---|---|---|---|---|
| | **Total 2016** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Investment type: | | | | |
| U.S. government agency | $ 159,061,887 | — | 159,061,887 | — |
| U.S. Treasury securities | 84,281,138 | — | 84,281,138 | — |
| Commercial paper | 7,971,975 | — | 7,971,975 | — |
| Total investments measured at fair value | 251,315,000 | $ — | 251,315,000 | — |
| Investments measured at cost: | | | | |
| Money market mutual funds | $ 84,932,705 | | | |
| Investment agreement | 8,471,273 | | | |
| Total investments measured at cost | 93,403,978 | | | |
| Total investments held by the authority | $ 344,718,978 | | | |
| Liability type: | | | | |
| Derivative instruments – interest rate swaps | $ (44,971,695) | — | (44,971,695) | — |
| Total liabilities measured at fair value | $ (44,971,695) | — | (44,971,695) | — |

The Authority has the following recurring fair value measurements as of December 31, 2015:

| | Total 2015 | Fair value measurement using: Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Investment type: | | | | |
| U.S. government agency | $ 168,301,602 | — | 168,301,602 | — |
| U.S. Treasury securities | 61,984,408 | — | 61,984,408 | — |
| Commercial paper | 8,836,794 | — | 8,836,794 | — |
| Municipal bonds | 500,390 | — | 500,390 | — |
| Total investments measured at fair value | 239,623,194 | $ — | 239,623,194 | — |
| Investments measured at cost: | | | | |
| Money market mutual funds | $ 76,850,893 | | | |
| Investment agreement | 8,471,273 | | | |
| Total investments measured at cost | 85,322,166 | | | |
| Total investments held by the authority | $ 324,945,360 | | | |
| Liability type: | | | | |
| Derivative instruments – interest rate swaps | $ (48,290,365) | — | (48,290,365) | — |
| Total liabilities measured at fair value | $ (48,290,365) | — | (48,290,365) | — |

## (4) Cash, Cash Equivalents, and Investments

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels (currently, $250,000 by the Federal Deposit Insurance Corporation (FDIC)) must be collateralized. The eligible collateral is specified by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds and the pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The State Regulatory Commission for banks and savings and loan associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2016 and 2015, the Authority's cash deposits had a book balance of $33.8 million and $24.8 million, respectively, and a corresponding bank balance of $34.1 million and $25.0 million, respectively. The difference between the book and bank balances is due to outstanding checks and deposits not yet processed by the banks.

As of December 31, 2016 and 2015, the Authority's book balances are classified as follows:

| | 2016 | | |
|---|---|---|---|
| | **Deposits** | **Cash equivalents and investments** | **Total** |
| Restricted cash and cash equivalents by trustee under the bond resolutions | $ — | 35,130,419 | 35,130,419 |
| Restricted cash and cash equivalents for construction | — | 300,133 | 300,133 |
| Unrestricted cash and cash equivalents – undesignated | 33,822,456 | 49,502,153 | 83,324,609 |
| Restricted investments by trustee under the bond resolutions | — | 119,085,028 | 119,085,028 |
| Unrestricted investments – undesignated | — | 140,701,245 | 140,701,245 |
| | $ 33,822,456 | 344,718,978 | 378,541,434 |

| | 2015 | | |
|---|---|---|---|
| | **Deposits** | **Cash equivalents and investments** | **Total** |
| Restricted cash and cash equivalents by trustee under the bond resolutions | $ — | 38,020,161 | 38,020,161 |
| Restricted cash and cash equivalents for construction | — | 300,115 | 300,115 |
| Unrestricted cash and cash equivalents – undesignated | 24,795,207 | 38,755,580 | 63,550,787 |
| Restricted investments by trustee under the bond resolutions | — | 123,155,952 | 123,155,952 |
| Unrestricted investments – undesignated | — | 124,713,552 | 124,713,552 |
| | $ 24,795,207 | 324,945,360 | 349,740,567 |

The following is a summary of the Authority's cash equivalents and investments by type at December 31, 2016 and 2015, at fair value, including the money market mutual funds and investment agreement using a cost-based measurement:

| | | 2016 | 2015 |
|---|---|---|---|
| U.S. government agency | $ | 159,061,887 | 168,301,602 |
| Money market mutual funds | | 84,932,705 | 76,850,893 |
| U.S. Treasury securities | | 84,281,138 | 61,984,408 |
| Commercial paper | | 7,971,975 | 8,836,794 |
| Investment agreement | | 8,471,273 | 8,471,273 |
| Municipal bonds | | — | 500,390 |
| | $ | 344,718,978 | 324,945,360 |

***(a) Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's policies regarding credit risk comply with Colorado statutes (CRS 24-75-601, as amended) and the Bond Resolutions. Colorado statutes specify the following investment instruments that meet defined rating and risk criteria in which local government entities may invest:

- Obligations of the United States and certain U.S. government agency securities
- Bonds of certain government entities
- Bankers' acceptances of certain banks
- Commercial paper with a certain rating
- Repurchase agreements
- Certain money market mutual funds
- Local government investment pools
- Certain investment agreements

The Authority may invest or deposit any funds in the manner provided by law for political subdivisions of the state. In addition, the Authority may direct a corporate trustee, which holds funds of the Authority, to invest or deposit such funds in investments or deposits other than those specified by law for political subdivisions of the state if the board of directors determines, by resolution, that (1) such investment or deposit meets the standard established in the Colorado Revised Statutes, (2) the income is at least comparable to income available on investments or deposits specified by law for political subdivisions of the state, and (3) such investments will assist the Authority in the financing, construction, maintenance, or operation of public highways.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Notes to Basic Financial Statements

December 31, 2016 and 2015

The following is a summary of the Authority's cash equivalents and investments at December 31, 2016 with credit ratings based on the Standard & Poor's and Moody's ratings scales:

| | 2016 | |
|---|---|---|
| | **Fair value** | **Rating** |
| U.S. government agency: | | |
| Federal Farm Credit Banks (FFCB) | $ 17,745,286 | AA+/Aaa |
| Federal Home Loan Banks (FHLB) | 24,302,233 | AA+/Aaa |
| Federal Home Loan Mortgage Corporation (FHLMC) | 18,430,924 | AA+/Aaa |
| Federal National Mortgage Association (FNMA) | 40,730,647 | AA+/Aaa |
| International Bank for Reconstruction and Development | 50,258,621 | AAA/Aaa |
| Student Loan Marketing Association Discount Note | 7,594,176 | Not rated/Aaa |
| Total U.S. government agency | 159,061,887 | |
| U.S. Treasury securities: | | |
| U.S. Treasury notes | 84,281,138 | Not applicable |
| Money market mutual funds: | | |
| Federated Government Obligations Fund | 57,356,939 | AAAm/Aaa-mf |
| First American Government Obligations Fund | 300,133 | AAAm/Aaa-mf |
| PFM Funds Government Select Series – Colorado Investors Class Shares (CSIP) | 27,275,633 | AAAm/Not rated |
| Total money market mutual funds | 84,932,705 | |
| Investment agreement: | | |
| Societe Generale | 8,471,273 | A/A2 |
| Commercial paper: | | |
| Bank of Tokyo Mitsubishi NY | 2,399,644 | A-1/P-1 |
| Rabobank Nederland NV NY | 2,387,668 | A-1/P-1 |
| Toyota Motor Credit Corporation | 3,184,663 | A-1+/P-1 |
| Total commercial paper | 7,971,975 | |
| Total cash equivalents and investments | $ 344,718,978 | |

U.S. Treasury notes are guaranteed by the U.S. federal government and are, therefore, not subject to credit risk.

The following is a summary of the Authority’s cash equivalents and investments at December 31, 2015 with credit ratings based on the Standard & Poor’s and Moody’s ratings scales:

| | 2015 | |
|---|---|---|
| | **Fair value** | **Rating** |
| U.S. government agency: | | |
| Federal Farm Credit Banks (FFCB) | $ 6,390,426 | AA+/Aaa |
| Federal Home Loan Banks (FHLB) | 15,497,288 | AA+/Aaa |
| FHLB Discount Note | 10,235,123 | A-1+/P-1 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 19,393,183 | AA+/Aaa |
| FHLMC Discount Note | 1,222,596 | A-1+/P-1 |
| Federal National Mortgage Association (FNMA) | 43,684,665 | AA+/Aaa |
| FNMA Discount Note | 12,282,212 | A-1+/P-1 |
| International Bank for Reconstruction and Development | 52,159,464 | AAA/Aaa |
| Student Loan Marketing Association Discount Note | 7,436,645 | Not rated/Aaa |
| Total U.S. government agency | 168,301,602 | |
| U.S. Treasury securities: | | |
| U.S. Treasury notes | 61,984,408 | Not applicable |
| Money market mutual funds: | | |
| Federated Prime Obligations Fund | 62,792,974 | AAAm/Aaa-mf |
| First American Government Obligations Fund | 300,115 | AAAm/Aaa-mf |
| PFM Prime Series Fund – CSIP | 13,757,804 | AAAm/Not rated |
| Total money market mutual funds | 76,850,893 | |
| Investment agreement: | | |
| Societe Generale | 8,471,273 | A/A2 |
| Commercial paper: | | |
| Bank of Tokyo Mitsubishi NY | 3,495,842 | A-1/P-1 |
| Rabobank Nederland NV NY | 2,149,017 | A-1/P-1 |
| Toyota Motor Credit Corporation | 3,191,935 | A-1+/P-1 |
| Total commercial paper | 8,836,794 | |
| Municipal Bonds | | |
| Fairfax County VA | 500,390 | AAA/Aaa |
| Total cash equivalents and investments | $ 324,945,360 | |

U.S. Treasury notes are guaranteed by the U.S. federal government and are, therefore, not subject to credit risk.

### *(b) Interest Rate Risk*

Interest rate risk is the risk that an investment's value will change due to change in the level of interest rates. The Authority currently employs one professional investment management firm to manage its investments. The funds are all "laddered" so that investments do not mature all at once, and are in compliance with the Colorado statutes and Bond Resolutions. Additionally, 75% and 74% of the cash equivalents and investments have maturities of three years or less at December 31, 2016 and 2015, respectively.

As of December 31, 2016, the Authority held the following cash equivalents and investments:

| | Fair value | Less than one year | Between one and two years | Between two and three years | Greater than three years |
|---|---|---|---|---|---|
| U.S. government agency | $ 159,061,887 | 18,867,236 | 55,146,176 | 9,089,826 | 75,958,649 |
| U.S. Treasury securities | 84,281,138 | 53,600,244 | 23,260,443 | 5,728,670 | 1,691,781 |
| Investment agreement | 8,471,273 | — | — | — | 8,471,273 |
| Commercial paper | 7,971,975 | 7,971,975 | — | — | — |
| Total investments | 259,786,273 | 80,439,455 | 78,406,619 | 14,818,496 | 86,121,703 |
| Money market mutual funds | 84,932,705 | 84,932,705 | — | — | — |
| Total cash equivalents and investments | $ 344,718,978 | 165,372,160 | 78,406,619 | 14,818,496 | 86,121,703 |

Because the money market mutual funds have a weighted average maturity less than three months as of December 31, 2016, the funds are presented as cash equivalents with maturities of less than one year.

As of December 31, 2015, the Authority held the following cash equivalents and investments:

| | Fair value | Less than one year | Between one and two years | Between two and three years | Greater than three years |
|---|---|---|---|---|---|
| U.S. government agency | $ 168,301,602 | 50,894,278 | 18,662,233 | 23,202,392 | 75,542,699 |
| U.S. Treasury securities | 61,984,408 | 34,568,670 | 21,326,262 | 4,818,759 | 1,270,717 |
| Investment agreement | 8,471,273 | — | — | — | 8,471,273 |
| Commercial paper | 8,836,794 | 8,836,794 | — | — | — |
| Municipal bonds | 500,390 | 500,390 | — | — | — |
| Total investments | 248,094,467 | 94,800,132 | 39,988,495 | 28,021,151 | 85,284,689 |
| Money market mutual funds | 76,850,893 | 76,850,893 | — | — | — |
| Total cash equivalents and investments | $ 324,945,360 | 171,651,025 | 39,988,495 | 28,021,151 | 85,284,689 |

Because the money market mutual funds have a weighted average maturity less than three months as of December 31, 2015, the funds are presented as cash equivalents with maturities of less than one year.

### *(c) Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority has no custodial credit risk as all securities are registered in the name of the Authority and held by a third-party safekeeping agent. Investments in money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

### *(d) Concentration of Credit Risk*

The Authority does not have a limit on the amount that may be invested in any one issuer. As of December 31, 2016 and 2015, approximately 46% and 52%, respectively, of the Authority's cash equivalents and investments are in U.S. government agency investments that are not fully backed by the full faith and credit of the federal government. The investments include FFCB, FHLB, FHLMC, FNMA, International Bank for Reconstruction and Development, and Student Loan Marketing Association investments.

### *(e) Restricted Funds*

The Authority maintains restricted accounts and funds as required per the Bond Resolutions or other externally imposed restrictions. Cash and cash equivalents and investments as of December 31, 2016 and 2015 are restricted as follows:

| | | 2016 | 2015 |
|---|---|---|---|
| Senior Bonds Debt Service Reserve Fund | $ | 100,131,711 | 102,466,609 |
| Senior Bonds Debt Service Account | | 30,830,761 | 31,097,676 |
| Trust Revenue Fund | | 13,025,496 | 15,399,485 |
| Operating Reserve Fund | | 8,809,853 | 8,325,973 |
| VRF Bonds Debt Service Account | | 834,934 | 830,984 |
| VRF Restricted Account | | 582,692 | 3,055,386 |
| Other restricted accounts | | 300,133 | 300,115 |
| | $ | 154,515,580 | 161,476,228 |

The restricted funds and accounts have been established in accordance with the Bond Resolutions or other externally imposed restrictions. The Authority maintains other restricted accounts that do not have any funding requirements and thus have a $0 balance as of December 31, 2016 and 2015 and are not shown above. The Bond Resolutions provide, among other provisions, that certain accounting procedures be followed and certain funds and accounts be established to provide bondholders a degree of security against certain contingencies. Brief descriptions of these funds and accounts are as follows:

*Senior Bonds Debt Service Reserve Fund* – Pursuant to the Bond Resolutions, a Senior Bonds Debt Service Reserve Fund was established solely for the benefit of the holders of the Senior Bonds in the event amounts on deposit in the Senior Bonds Debt Service Account are insufficient to make required payments. As of December 31, 2016 and 2015, the Senior Bonds Debt Service Reserve Fund requirement was $118.0 million, and the account was fully funded at December 31, 2016 and 2015 with balances of $125.1 million and $127.5 million, respectively. The change in year-end balances is due to fair value fluctuations. These balances include cash and cash equivalents and investments of $100.1 million and $102.5 million at December 31, 2016 and 2015, respectively, combined with the $25 million available under a reserve fund surety bond provided by MBIA. Within the fund, the Authority holds numerous long-term investment securities, one of which is an investment agreement with Societe Generale. Under the agreement, among other provisions, Societe Generale pays the Authority 6.61% of the investment principal amount on a semiannual basis, and must post collateral at a specified amount if their long-term unsecured credit rating is reduced below AA– by Standard and Poor's (S&P) or Aa3 by Moody's. Societe Generale was rated A by S&P and A2 by Moody's at December 31, 2016 and 2015, respectively, and thus has posted collateral in accordance with the agreement. The Authority may terminate the agreement at any time; however, Societe Generale may not terminate the agreement until final maturity in 2026.

*Senior Bonds Debt Service Account* – Pursuant to the Bond Resolutions, the Senior Bonds Debt Service account is funded from current year revenues in an amount equal to the aggregate senior bond debt service payable during the current fiscal year including the monthly cash settlements paid on the Authority's interest rate swaps and Securities Industry and Financial Markets Association (SIFMA) Index Term Rate bonds. Other senior bond series' interest due is paid semiannually by the Trustee on March 1 and September 1, with outstanding senior bonds payable principal (including any accretion) due on September 1 for the applicable bond series.

*Trust Revenue Fund* – Except as otherwise provided in the Bond Resolutions, all revenues will be delivered to the Trustee immediately upon receipt by the Authority and will be deposited by the Trustee in the Trust Revenue Fund to be used by the Authority for the purposes of funding any other restricted accounts (including the Senior Bond Debt Service Account) and current year operating expenses. The Master Bond Resolutions allow the Authority to move surplus funds from the Trust Revenue Fund to the General Surplus account (or subaccounts therein) on a monthly basis, but also must maintain a retained balance within the Trust Revenue Fund at month-end equal to one-half of the aggregate amount required to be transferred to the Senior Bonds Debt Service Account during such month. The required retained balance was $4.0 million as of December 31, 2016 and $4.1 million as of December 31, 2015, and was fully funded.

*VRF Restricted Accounts* – In 2011, the Authority transferred $13.5 million from the General Surplus account to a separate, Authority-controlled account, which is restricted per the bond resolutions and has been approved by the board of directors. The Authority paid all debt service due in 2015 and 2016 from this account, and the account had a remaining amount to pay a portion of the debt service due in 2017. The escrow agreement governing this account expired in February 2017; therefore, all remaining debt service on the VRF bonds in 2017 and 2018 will be paid from the VRF Bonds Debt Service account, which will be funded from current year VRF revenues. Payments on the VRF bonds debt service are paid semiannually by the Trustee on March 1 and September 1 from the VRF Bonds Debt Service account, and the bonds mature on September 1, 2018.

*Operating Reserve Fund* – Under the provisions of the Bond Resolutions, the Operating Reserve Fund is required to be maintained in an amount equal to 1/6th of annual budgeted operating expenses, as determined by the Authority. As of December 31, 2016 and 2015, $8.8 million and $8.3 million, respectively, were on deposit in the Operating Reserve Fund, which exceeded the required balance of $8.2 million and $6.9 million, respectively, during these periods.

*Rebate Fund* – Moneys will be deposited into the Rebate Fund pursuant to the Resolutions and used solely for the purpose of paying amounts due to the United States of America pursuant to the Internal Revenue Code and arbitrage rebate regulations issued by the Internal Revenue Service. Funds within the Rebate Fund are only required when an arbitrage rebate liability is due. If the amount in the Rebate Fund is in excess of the amount required to be deposited based on the assessed arbitrage rebate liability, such excess will be transferred to the Authority.

### *(f) Unrestricted Funds*

The General Surplus account is unrestricted and is currently divided into three subaccounts for administrative purposes: the Senior Bond Defeasance Fund, the Capital Improvements Fund, and the Rainy Day Fund. These unrestricted funds are available to fund any allowable obligations of the Authority; however, the Bond Resolutions include a requirement that the General Surplus account not be reduced below $20.0 million unless the Authority's bond issuer, MBIA, provides written consent to such a distribution below this level. As of December 31, 2016 and 2015, the Authority held $224.0 million and $188.3 million, respectively, in total unrestricted funds including cash and cash equivalents and investments. Approximately $187.0 million and $160.3 million were within the General Surplus accounts as of December 31, 2016 and 2015, respectively, which have specific purposes such as fully funding the Authority's future capital budget and bond defeasances.

### *(g) Investment Income*

Investment income's interest earned on investments consists of restricted and unrestricted investment earnings, any associated premium or discounts, and any realized gains or losses on the investments. Also, included in total investment income is the change in the fair value of investments as of the end of the reporting period. The Authority recognized total investment gain of $3.9 million in 2016 and total investment gain of $3.0 million in 2015, excluding the net change in fair value of derivative instruments. Restricted interest earned on investments was $0.1 million in 2016 and 2015 and is restricted by the Bond Resolutions or by other externally imposed restrictions. Unrestricted investment income may be earned within restricted investment accounts as long as those accounts are fully funded by year-end as required by the Bond Resolutions.

**(5) Accounts Receivable**

The following is a summary of accounts and tolls receivable balances and related allowance as of December 31, 2016 and 2015:

| | | 2016 | 2015 |
|---|---|---|---|
| Tolls receivable (billed) | $ | 20,134,261 | 16,700,652 |
| Accrued toll revenue – transactions still processing | | 4,716,440 | 1,938,148 |
| Unbilled toll revenue | | 3,144,026 | 3,054,557 |
| Late fee receivable | | 1,654,005 | 1,358,624 |
| Accounts receivable | | 1,451,532 | 948,024 |
| Vehicle registration fees receivable | | 1,183,672 | 835,953 |
| Total accounts receivable | | 32,283,936 | 24,835,958 |
| Allowance for uncollectible tolls receivable | | (5,369,478) | (3,703,370) |
| Allowance for uncollectible late fee receivable | | (568,978) | (434,081) |
| Total accounts receivable, net of allowance for uncollectibles | $ | 26,345,480 | 20,698,507 |

With LPT tolls receivable, there are three stages accrued within the basic financial statements: accrued toll revenue (transactions in process for billing); unbilled toll revenue (transactions assigned to a customer account and are waiting to be billed); and tolls receivable (transactions that have been billed to a customer and are awaiting payment). Customers are generally billed each month for all toll activity incurred during the previous month and have 30 days to pay. If the first bill is unpaid, customers will be sent a second and third bill with a $5 late fee assessed on the second bill only and have an additional 60 days to pay the outstanding tolls and fee. If still unpaid, the tolls may be remitted to a collection law firm where additional collection fees including civil penalties and adjudication fees may be assessed with a possible hold being placed on the customer’s vehicle registration. ExpressToll customers with unpaid tolls may also be remitted to the collection law firm for collections where fees are assessed. Further, tolls charged to customers for LPT versus ExpressToll vary based on the approved two-tiered toll rates, which were effective beginning January 1, 2009 and continuing through 2016. Based on the outstanding tolls and related late fees in fiscal years 2016 and 2015, the Authority has approximately $5.9 million and $4.1 million, respectively, in outstanding tolls and late fee receivables at year-end that are not expected to be collected within the next fiscal year.

Vehicle registration fees are collected by Adams, Arapahoe, and Douglas counties on behalf of the Authority based on enabling legislation. Each county collects $10 when each citizen’s car within specific address boundaries is registered annually, and withholds 5% ($0.50) per transaction as an administrative fee with the net amount remitted to the Authority. The amount accrued as accounts receivable and included within the basic financial statements equals what has been collected by the counties for the previous month but not yet remitted to the Authority.

## (6) Capital Assets

A summary of changes in capital assets for the year ended December 31, 2016 is as follows:

| | Balance at January 1, 2016 | Increases | Decreases | Transfers | Balance at December 31, 2016 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 110,853,803 | — | — | — | 110,853,803 |
| Construction in progress | 1,682,628 | 39,950,305 | (49,418) | (14,127,287) | 27,456,228 |
| Total capital assets not being depreciated | 112,536,431 | 39,950,305 | (49,418) | (14,127,287) | 138,310,031 |
| Depreciable capital assets: | | | | | |
| Infrastructure | 909,598,738 | 8,965,507 | — | — | 918,564,245 |
| Buildings | 22,621,300 | 928,092 | — | — | 23,549,392 |
| Equipment | 31,379,755 | 2,484,555 | (1,048,712) | — | 32,815,598 |
| Software, fixtures, improvements, and other assets | 22,221,152 | 1,749,133 | — | — | 23,970,285 |
| Total depreciable capital assets | 985,820,945 | 14,127,287 | (1,048,712) | — | 998,899,520 |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | (459,528,194) | (30,317,198) | — | — | (489,845,392) |
| Buildings | (8,783,857) | (751,065) | — | — | (9,534,922) |
| Equipment | (22,217,336) | (2,705,707) | 929,048 | — | (23,993,995) |
| Software, fixtures, improvements, and other assets | (16,369,312) | (2,524,314) | — | — | (18,893,626) |
| Total accumulated depreciation | (506,898,699) | (36,298,284) | 929,048 | — | (542,267,935) |
| Depreciable capital assets, net | 478,922,246 | (22,170,997) | (119,664) | — | 456,631,585 |
| Total capital assets, net | $ 591,458,677 | 17,779,308 | (169,082) | (14,127,287) | 594,941,616 |

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

| | Balance at January 1, 2015 | Increases | Decreases | Transfers | Balance at December 31, 2015 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 110,858,164 | — | (4,361) | — | 110,853,803 |
| Construction in progress | 4,115,519 | 9,044,519 | (50,062) | (11,427,348) | 1,682,628 |
| Total capital assets not being depreciated | 114,973,683 | 9,044,519 | (54,423) | (11,427,348) | 112,536,431 |
| Depreciable capital assets: | | | | | |
| Infrastructure | 909,463,889 | 134,849 | — | — | 909,598,738 |
| Buildings | 19,431,049 | 3,190,251 | — | — | 22,621,300 |
| Equipment | 27,515,532 | 4,251,318 | (387,095) | — | 31,379,755 |
| Software, fixtures, improvements, and other assets | 18,370,223 | 3,850,929 | — | — | 22,221,152 |
| Total depreciable capital assets | 974,780,693 | 11,427,347 | (387,095) | — | 985,820,945 |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | (429,294,556) | (30,233,638) | — | — | (459,528,194) |
| Buildings | (8,194,267) | (589,590) | — | — | (8,783,857) |
| Equipment | (20,124,542) | (2,479,889) | 387,095 | — | (22,217,336) |
| Software, fixtures, improvements, and other assets | (14,246,229) | (2,123,083) | — | — | (16,369,312) |
| Total accumulated depreciation | (471,859,594) | (35,426,200) | 387,095 | — | (506,898,699) |
| Depreciable capital assets, net | 502,921,099 | (23,998,853) | — | — | 478,922,246 |
| Total capital assets, net | $ 617,894,782 | (14,954,334) | (54,423) | (11,427,348) | 591,458,677 |

## (7) Deferred Outflows of Resources

The deferred outflows of resources represent the remaining unamortized deferral balances from losses on refundings of debt. The balances of $88.4 million and $98.6 million as of December 31, 2016 and 2015, respectively, are included within the net investment in capital assets component of net position.

A summary of deferred outflows of resources as of December 31, 2016 and 2015 is as follows:

| | | 2016 | 2015 |
|---|---|---|---|
| Deferred refunding 1997 | $ | 19,315,956 | 21,316,940 |
| Deferred refunding 2004 | | 20,910,573 | 22,001,559 |
| Deferred refunding 2006 | | 6,011,180 | 6,333,208 |
| Deferred refunding 2007 | | 7,228,805 | 9,553,689 |
| Deferred refunding 2008 | | 12,190,027 | 13,067,573 |
| Deferred refunding 2010 | | 10,631,934 | 11,733,321 |
| Deferred refunding 2014 | | 5,033,255 | 5,558,022 |
| Deferred refunding 2015 | | 7,121,565 | 9,030,548 |
| | $ | 88,443,295 | 98,594,860 |

## (8) Bonds Payable

Bonds payable include current interest bonds (CIB), capital appreciation bonds (CAB), VRF bonds, and SIFMA index bonds, consisting of both new issue and refunded bonds of the Authority. The Authority is committed to repay the bonds and related interest from its revenues and allowable restricted investments. Interest rates on outstanding current interest bonds (including the VRF bonds) at December 31, 2016 ranged from 2.00% to 5.375%. The average outstanding coupon (interest) rate on all outstanding current interest bonds was 4.25% for the years ended December 31, 2016 and 2015, respectively. Yields on outstanding capital appreciation bonds at December 31, 2016 and 2015 ranged from 5.06% to 7.13%. The average outstanding yield rate on all outstanding capital appreciation bonds was 5.87% and 5.85% for the years ended December 31, 2016 and 2015, respectively. Most bond series' interest due is paid semiannually on March 1 and September 1, with outstanding principal due on September 1 for the applicable bond series. Only the Series 2007CD-2 and 2014A SIFMA index term rate bonds accrue and pay interest monthly based on the variable SIFMA index plus 175 basis points (bps), or 1.75%, and 118 basis points, or 1.18%, respectively.

The Bond Resolutions require that the Authority maintain a Revenue Covenant (also referred to as the debt service coverage ratio) of at least 1.30 times the aggregate debt service due for the year. For the years ended December 31, 2016 and 2015, the Authority exceeded the required debt service coverage ratio of 1.30. Refer to the Supplementary Information – Revenue Covenant section for the 2016 debt service coverage calculation and reconciliation to the basic financial statements for operating balances and senior debt service due.

The following is a summary of the bonds payable by bond series and type as of December 31, 2016:

| Bonds outstanding | Original principal amount | Refunded series (if applicable) | Current maturity dates (1) | Current interest rate/yield ranges | Annual principal maturity due ranges |
|---|---|---|---|---|---|
| Series 1997 B CAB | $ 342,217,730 | 1986 Bonds | 2016–2026 | 5.43%–5.52% | $ $44,795,000 – 44,800,000 |
| Series 2000 B CAB | 252,848,750 | — | 2018–2033 | 6.14%–6.35% | 31,100,000 – 104,200,000 |
| Series 2004 A CAB | 76,484,624 | 2000 B CAB * | 2027–2036 | 5.33%–5.46% | 78,425,000 – 78,500,000 |
| Series 2004 B CAB | 70,705,810 | 2000 B CAB * | 2027–2036 | 5.60%–5.72% | 23,300,000 – 49,075,000 |
| Series 2004 C Converted CIB (2) | 16,680,798 | 2000 B CAB * | 2016–2017 | 5.00% | 7,065,000 – 15,000,000 |
| Series 2006 B CAB | 56,932,723 | 2000 A CIB | 2035–2039 | 5.06%–5.08% | 60,000,000 – 70,720,000 |
| Series 2007 A-1 CIB | 53,325,000 | 1997 A CIB * | 2016–2018 | 5.25% | 3,025,000 – 5,000,000 |
| Series 2007 B-1 CIB | 53,325,000 | 1997 A CIB * | 2016–2018 | 4.50%–5.25% | 3,025,000 – 5,000,000 |
| Series 2007 C-1 CIB | 53,325,000 | 1997 A CIB * | 2016–2018 | 5.25% | 3,025,000 – 5,000,000 |
| Series 2007 D-1 CIB | 53,370,000 | 1997 A CIB * | 2016–2018 | 5.25% | 3,060,000 – 5,000,000 |
| Series 2007 CD-2 SIFMA | 66,075,000 | 2007 C-2–D-2 | 2026–2039 | SIFMA + 175bps | 5,115,000 – 22,210,000 |
| VRF 2009 CIB | 19,365,000 | 2001 VRF Bonds | 2016–2018 | 3.00%–5.00% | 1,395,000 – 2,300,000 |
| Series 2010 A CAB | 21,834,746 | 1997B CAB * | 2035–2041 | 7.08%–7.13% | 7,860,000 – 52,385,000 |
| Series 2010 C CIB | 81,655,000 | 2007A2–D2 * | 2025–2026 | 5.25%–5.375% | 24,180,000 – 57,475,000 |
| Series 2014 A SIFMA | 72,565,000 | 2011 A | 2026–2039 | SIFMA + 118bps | 13,515,000 – 22,250,000 |
| Series 2015 A CIB | 41,550,000 | 2007 A1–D1 * | 2016–2020 | 2.00%–5.00% | 200,000 – 20,590,000 |

(1) The current maturity dates includes a range, but does not indicate that there are maturities every year within the range.
(2) The Series 2004C bonds were converted from CAB to CIB on September 1, 2011 with $22.1 million in outstanding principal.
* The refunded bonds were partially refunded by the new Series bonds.

The Series 2007CD-2 and Series 2014A SIFMA Index Term Rate bonds are both subject to optional redemption on or after March 1, 2017 with a mandatory tender and remarketing date of September 1, 2017. If the bonds are not converted (or refunded) by the mandatory redemption date of September 1, 2017, the bonds will reset to a failed remarketing rate during the first 90 days at the greater of a) SIFMA plus 4.50% or b) 7.50%; thereafter the failed remarketing rate is 12% for the Series 2007CD-2 bonds and 10% for the Series 2014A bonds based on the Bond Resolutions (see note 16).

The Authority's recent bond transactions are as follows:

- Series 2015A Bonds – On June 24, 2015, the Authority successfully closed the 2015 bond transaction, which included a cash contribution to partially pay off callable debt and refund the remaining portion. The Authority had a call opportunity for a portion (at par value) of the Subseries 2007A-1 bonds ($30.7 million), 2007B-1 bonds ($30.7 million), 2007C-1 bonds ($30.7 million), and 2007D-1 bonds ($30.7 million) totaling approximately $122.8 million in term bonds with original maturities between 2019 and 2024. The Authority, as part of its debt management plan, contributed approximately $78 million in cash from the unrestricted Senior Bonds Defeasance Fund of the General Surplus account to cash defease a significant portion of the callable debt, pay for all related underwriting fees and other issuance costs totaling approximately $0.8 million, and refunded the remaining portion at a par amount of $41.5 million (not including the 2015A bond premium of $4.1 million). Also, as the 2007 callable bonds were linked to the Authority's outstanding interest rate swaps, the Authority fully terminated the Morgan Stanley 2008 SIFMA interest rate swap (MS-3) and partially terminated the 2007 London Interbank Offered Rate (LIBOR) interest rate swaps with Morgan Stanley (MS-1) and JP Morgan (JP-1) for a net termination payment of $3.8 million from the unrestricted Senior Bonds Defeasance Fund (note 9).

The interest rates on the new maturities range between 2.00% and 5.00%, and new principal amounts due between September 1, 2016 and September 1, 2020 have a range between $0.2 million and $20.6 million. The 2007 term bonds were callable on September 1, 2015, but the Authority used the opportunity to price and close the refunded bonds in June due to favorable market conditions with an escrow to make the necessary payments on September 1, 2015. The related liabilities for the applicable portions of the 2007 refunded bonds were removed from the Authority's statements of net position. The transaction partially alleviated the increasing debt service over the next several years and set up the Authority with opportunities in the next five years to get to level annual debt service, a significant goal in the debt management plan.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9.0 million in the prior year. This difference, reported in the accompanying basic financial statements as a component of deferred outflows of resources within the 2015 deferred refunding balance, is being amortized as a component of interest expense over the shorter life of the old (including previous refunded debt) and the new debt, which is 2020. The refunding resulted in a net present value economic gain of $18.5 million, which factors in the unrestricted cash contribution of $81.8 million from the Authority to cash defease debt early and terminate the applicable interest rate swaps. The refunding, including the cash contribution, reduces debt service payments in the years 2016 to and including 2020 by $116.1 million.

- Defeasance of Series 2006A bonds – On September 1 2016, the Authority cash defeased approximately $11.2 million in principal for the remaining and outstanding 2006A Bonds on the call date. The defeasance was funded from the unrestricted Senior Bonds Defeasance Fund of the General Surplus account, and relieved debt service (principal and interest) in 2017 and 2018 of approximately $6 million per year.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Notes to Basic Financial Statements

December 31, 2016 and 2015

The following is an analysis of changes in bonds payable and associated bond premiums and discounts for the year ended December 31, 2016:

| | | Balance at January 1, 2016 | Additions | Reductions | Balance at December 31, 2016 | Due within one year |
|---|---|---|---|---|---|---|
| Series 1997B CAB (Principal) | $ | 136,163,726 | — | 16,178,176 | 119,985,550 | 15,272,855 |
| Series 1997B CAB (Accretion) | | 231,459,672 | 19,639,652 | 28,621,824 | 222,477,500 | 29,522,145 |
| Series 2000B CAB (Principal) | | 154,024,296 | — | — | 154,024,296 | — |
| Series 2000B CAB (Accretion) | | 251,116,369 | 25,838,469 | — | 276,954,838 | — |
| Series 2004A CAB (Principal) | | 76,484,624 | — | — | 76,484,624 | — |
| Series 2004A CAB (Accretion) | | 61,145,715 | 7,531,717 | — | 68,677,432 | — |
| Series 2004B CAB (Principal) | | 70,705,810 | — | — | 70,705,810 | — |
| Series 2004B CAB (Accretion) | | 60,456,491 | 7,559,732 | — | 68,016,223 | — |
| Series 2004C Converted CIB | * | 22,065,000 | — | 7,065,000 | 15,000,000 | 15,000,000 |
| Premium Series 2004 | | 462,120 | — | 21,690 | 440,430 | — |
| Series 2006A CIB | | 16,470,000 | — | 16,470,000 | — | — |
| Premium 2006A CIB | | 128,666 | — | 128,666 | — | — |
| Series 2006B CAB (Principal) | | 56,932,723 | — | — | 56,932,723 | — |
| Series 2006B CAB (Accretion) | | 33,688,739 | 4,654,984 | — | 38,343,723 | — |
| Series 2007 A-1 CIB | | 12,850,000 | — | 5,000,000 | 7,850,000 | 4,825,000 |
| Series 2007 B-1 CIB | | 12,850,000 | — | 5,000,000 | 7,850,000 | 4,825,000 |
| Series 2007 C-1 CIB | | 12,850,000 | — | 5,000,000 | 7,850,000 | 4,825,000 |
| Series 2007 D-1 CIB | | 12,855,000 | — | 5,000,000 | 7,855,000 | 4,795,000 |
| Series 2007 CD-2 SIFMA Notes | | 66,075,000 | — | — | 66,075,000 | — |
| Premium 2007 A1-D1 CIB | | 264,414 | — | 190,720 | 73,694 | — |
| Discount 2007 A1-D1 CIB | | (7,484) | 5,398 | — | (2,086) | — |
| Series VRF 2009 CIB | | 5,930,000 | — | 2,235,000 | 3,695,000 | 2,300,000 |
| Premium VRF 2009 CIB | | 42,117 | — | 30,574 | 11,543 | — |
| Series 2010A CAB (Principal) | | 21,834,746 | — | — | 21,834,746 | — |
| Series 2010A CAB (Accretion) | | 9,538,210 | 2,272,645 | — | 11,810,855 | — |
| Series 2010C CIB | | 81,655,000 | — | — | 81,655,000 | — |
| Discount 2010C CIB | | (215,583) | 22,217 | — | (193,366) | — |
| Series 2014A SIFMA Notes | | 72,565,000 | — | — | 72,565,000 | — |
| Series 2015A CIB | | 41,550,000 | — | 1,635,000 | 39,915,000 | 730,000 |
| Premium 2015A CIB | | 4,081,237 | — | 1,174,707 | 2,906,530 | — |
| Total | $ | 1,526,021,608 | 67,524,814 | 93,751,357 | 1,499,795,065 | 82,095,000 |

* The 2004C CAB bonds were converted to CIB bonds on September 1, 2011.

The following is an analysis of changes in bonds payable and associated bond premiums and discounts for the year ended December 31, 2015:

| | | Balance at January 1, 2015 | Additions | Reductions | Balance at December 31, 2015 | Due within one year |
|---|---|---|---|---|---|---|
| Series 1997B CAB (Principal) | $ | 151,405,211 | — | 15,241,485 | 136,163,726 | 16,178,176 |
| Series 1997B CAB (Accretion) | | 235,254,554 | 20,758,633 | 24,553,515 | 231,459,672 | 28,621,824 |
| Series 2000B CAB (Principal) | | 154,024,296 | — | — | 154,024,296 | — |
| Series 2000B CAB (Accretion) | | 226,828,062 | 24,288,307 | — | 251,116,369 | — |
| Series 2004A CAB (Principal) | | 76,484,624 | — | — | 76,484,624 | — |
| Series 2004A CAB (Accretion) | | 54,004,731 | 7,140,984 | — | 61,145,715 | — |
| Series 2004B CAB (Principal) | | 70,705,810 | — | — | 70,705,810 | — |
| Series 2004B CAB (Accretion) | | 53,308,729 | 7,147,762 | — | 60,456,491 | — |
| Series 2004C Converted CIB | * | 22,065,000 | — | — | 22,065,000 | 7,065,000 |
| Premium Series 2004 | | 483,227 | — | 21,107 | 462,120 | — |
| Series 2006A CIB | | 21,445,000 | — | 4,975,000 | 16,470,000 | 5,225,000 |
| Premium 2006A CIB | | 253,284 | — | 124,618 | 128,666 | — |
| Series 2006B CAB (Principal) | | 56,932,723 | — | — | 56,932,723 | — |
| Series 2006B CAB (Accretion) | | 29,261,167 | 4,427,572 | — | 33,688,739 | — |
| Series 2007 A-1 CIB | | 49,150,000 | — | 36,300,000 | 12,850,000 | 5,000,000 |
| Series 2007 B-1 CIB | | 49,150,000 | — | 36,300,000 | 12,850,000 | 5,000,000 |
| Series 2007 C-1 CIB | | 49,150,000 | — | 36,300,000 | 12,850,000 | 5,000,000 |
| Series 2007 D-1 CIB | | 49,110,000 | — | 36,255,000 | 12,855,000 | 5,000,000 |
| Series 2007 CD-2 SIFMA Notes | | 66,075,000 | — | — | 66,075,000 | — |
| Premium 2007 A1-D1 CIB | | 1,698,505 | — | 1,434,091 | 264,414 | — |
| Discount 2007 A1-D1 CIB | | (48,073) | 40,589 | — | (7,484) | — |
| Series VRF 2009 CIB | | 8,090,000 | — | 2,160,000 | 5,930,000 | 2,235,000 |
| Premium VRF 2009 CIB | | 91,184 | — | 49,067 | 42,117 | — |
| Series 2010A CAB (Principal) | | 21,834,746 | — | — | 21,834,746 | — |
| Series 2010A CAB (Accretion) | | 7,419,311 | 2,118,899 | — | 9,538,210 | — |
| Series 2010C CIB | | 81,655,000 | — | — | 81,655,000 | — |
| Discount 2010C CIB | | (237,800) | 22,217 | — | (215,583) | — |
| Series 2014A SIFMA Notes | | 72,565,000 | — | — | 72,565,000 | — |
| Series 2015A CIB | | — | 41,550,000 | — | 41,550,000 | 1,635,000 |
| Premium 2015A CIB | | — | 4,081,237 | — | 4,081,237 | — |
| Total | $ | 1,608,159,291 | 111,576,200 | 193,713,883 | 1,526,021,608 | 80,960,000 |

* The 2004C CAB bonds were converted to CIB bonds on September 1, 2011.

At December 31, 2016, scheduled payments for bonds payable over the next five years, and thereafter, are as follows:

| | | Principal | Swap and debt interest | Total |
|---|---|---|---|---|
| Year(s) ending December 31: | | | | |
| 2017 | $ | 82,095,000 | 16,770,008 | 98,865,008 |
| 2018 | | 89,630,000 | 17,255,821 | 106,885,821 |
| 2019 | | 96,295,000 | 16,544,983 | 112,839,983 |
| 2020 | | 101,590,000 | 15,691,096 | 117,281,096 |
| 2021 | | 82,495,000 | 14,756,731 | 97,251,731 |
| 2022–2026 | | 494,310,000 | 72,128,290 | 566,438,290 |
| 2027–2031 | | 637,500,000 | 44,278,125 | 681,778,125 |
| 2032–2036 | | 596,190,000 | 44,278,125 | 640,468,125 |
| 2037–2041 | | 467,175,000 | 16,966,027 | 484,141,027 |
| | | 2,647,280,000 | 258,669,206 | 2,905,949,206 |
| Add premiums, net of discounts | | 3,236,745 | — | 3,236,745 |
| Total scheduled payments | | 2,650,516,745 | 258,669,206 | 2,909,185,951 |
| Less future years’ accretion | | (1,150,721,680) | — | (1,150,721,680) |
| Total bonds payable | $ | 1,499,795,065 | 258,669,206 | 1,758,464,271 |

Included in the above principal payment schedule is $1.2 billion of expected future year interest accretion on the Senior CAB 1997B bond series, Senior CAB 2000B bond series, Senior CAB 2004A and 2004B bonds series, Senior 2006B bond series, and the Senior 2010A bond series.

## (9) Derivative Instruments

The Authority has two outstanding interest rate swap agreements that are considered investment derivatives under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of December 31, 2016 and 2015.

As a means to hedge its borrowing costs, when compared against fixed-rate bonds at the time of issuance of the Series 2007 auction-rate bonds in June 2007, the Authority originally entered into separate pay-fixed, receive-floating LIBOR interest rate swap agreements with Morgan Stanley (MS-1) and JP Morgan (JP-1) (formerly known as Bear Stearns). The intention of these two pay-fixed swaps was to effectively change the Authority’s variable interest rate on the Series 2007 auction-rate bonds to a synthetic fixed rate of 3.832% until final maturity of the bonds in September 2039. The swaps and related Series 2007 bonds have since gone through a series of remarketings, refundings, and partial swap terminations since 2007, and are now associated only with the remaining 2007CD-2 and, Series 2014A SIFMA Index Term Rate Bonds.

The 2007 pay-fixed MS-1 and JP-1 swaps have outstanding notional amounts from 2026 to 2039 related to the outstanding Series 2007CD-2 and Series 2014A bond maturities. The Authority pays variable interest on each month based on the previous months' final SIFMA market pricing plus 175 basis points (1.75%) for the Series 2007CD-2 bonds, and pays 118 basis points (1.18%) for the Series 2014A bonds. These spreads plus the MS-1 and JP-1 pay-fixed interest rate of 3.832% leads to a synthetic interest rate of 5.582% and 5.012% on the outstanding Series 2007CD-2 and Series 2014A bonds, respectively, during the term-rate period, where the Authority takes on the basis risk between LIBOR (swaps) and SIFMA (bonds). However, the relationship between both the Series 2007CD-2 and Series 2014A bonds and the two swaps did not meet the requirements of a hedging derivative instrument; therefore, the related swap fair values are recorded as investment derivatives as of December 31, 2016 and 2015.

In June 2015, the Authority issued the Series 2015 bonds, which included a cash contribution from unrestricted funds to defease callable debt early and refunded the remaining amount as the new 2015A bonds (note 8). Since the original 2007A-1 to 2007D-1 callable maturities were linked to all three outstanding interest rate swaps, the Authority fully terminated the Morgan Stanley 2008 SIFMA interest rate swap (MS-3) at a positive value of $13.1 million and partially terminated the 2007 LIBOR interest rate swaps with Morgan Stanley (MS-1) at a negative value of $8.6 million and JP Morgan (JP-1) at a negative value of $8.3 million for a net termination payment of $3.8 million from the unrestricted Senior Bonds Defeasance Fund. The net swap termination is reflected within investment revenues – net change in the fair value of derivative instruments on the statement of revenues, expenses, and changes in net position for the year ended December 31, 2015. The partial reduction (unwind) of the swap notional amounts related to the callable bonds on the date of the swap terminations of both the MS-1 and JP-1 swaps was $50.9 million each. The full termination of the MS-3 swap reduced the entire reversing swap notional amount by $101.7 million.

During 2016, the Authority recognized, on the accrual basis, swap settlements on the 2007 pay-fixed swaps (MS-1 and JP-1) of $4.8 million. During 2015, the Authority recognized, on the accrual basis, swap settlements on the 2007 pay-fixed swaps (MS-1 and JP-1) of $6.3 million and received swap settlements on the 2008 receive-fixed swap (MS-3) of $1.5 million up to June 2015, for a net swap settlement differential of $4.8 million during the year.

The following table provides a summary of the Authority's investment derivative interest rate swaps as of December 31, 2016 and 2015:

| Swap | Counterparty | Effective date | Maturity date | Terms | Original notional amount | 2016 notional amount | 2015 notional amount |
|---|---|---|---|---|---|---|---|
| JP-1 | JP Morgan | June 14, 2007 | September 1, 2039 | Pay 3.832%; receive 67% one-month LIBOR | $ 155,252,500 | 69,320,000 | 69,320,000 |
| MS-1 | Morgan Stanley | June 14, 2007 | September 1, 2039 | Pay 3.832%; receive 67% one-month LIBOR* | 155,252,500 | 69,320,000 | 69,320,000 |
| | | | | Total notional amounts for pay-fixed swaps | $ 310,505,000 | 138,640,000 | 138,640,000 |

* The MS-1 swap was amended in 2012 to reduce the fixed-rate to 3.412% in fiscal years 2013 and 2015 only.

The Authority values the interest rate swap derivatives at fair value in accordance with generally accepted accounting principles (see note 3) and has subscribed to an independent monitoring service to assist in the review of the monthly cash flows and fair market valuations.

The fair values of derivative instruments outstanding at December 31, 2016, classified by type, and changes in fair value of such derivative instruments for the year then ended as reported in the basic financial statements are as follows:

| | | 2016 Changes in fair value | | Fair value at December 31, 2016 | |
|---|---|---|---|---|---|
| | | **Classification** | **Amount** | **Classification** | **Amount** |
| Investment derivative instruments: | | | | | |
| JP-1 | Pay-fixed interest rate swap | Derivative gain | $ 1,672,655 | Derivative instruments | $ (22,485,316) |
| MS-1 | Pay-fixed interest rate swap | Derivative gain | 1,646,015 | Derivative instruments | (22,486,379) |
| | | Investment revenues: Derivative gain | $ 3,318,670 | Derivative instruments | $ (44,971,695) |

The fair values of derivative instruments outstanding at December 31, 2015, classified by type, and changes in fair value of such derivative instruments for the year then ended as reported in the basic financial statements are as follows:

| | | 2015 Changes in fair value | | Fair value at December 31, 2015 | |
|---|---|---|---|---|---|
| | | **Classification** | **Amount** | **Classification** | **Amount** |
| Investment derivative instruments: | | | | | |
| JP-1 | Pay-fixed interest rate swap | Derivative gain | $ 8,853,797 | Derivative instruments | $ (24,157,971) |
| MS-1 | Pay-fixed interest rate swap | Derivative gain | 8,376,262 | Derivative instruments | (24,132,394) |
| MS-3 | Receive-fixed interest rate swap | Derivative loss | (13,972,832) | Derivative instruments | — |
| | | Investment revenues: Derivative gain (net) | 3,257,227 | | |
| | | Swap settlement payments (net) | (3,832,749) | | |
| | | Investment revenues: Net change in fair value of derivative instruments | $ (575,522) | Derivative instruments | $ (48,290,365) |

***(a) Credit Risk***

Credit risk can be measured by actual market value exposure or theoretical exposure. When the fair value of any swap has a positive fair market value, the Authority is exposed to the actual risk that the counterparty will not fulfill its obligations. As of December 31, 2016 and 2015, the Authority did not have credit risk as the fair value on the two remaining swaps are liabilities to the Authority.

Under the current swap agreements, JP Morgan Chase Bank, N.A. is required to maintain credit quality ratings of “Aa3” by Moody’s or “AA–” by S&P, while Morgan Stanley Capital Services Inc. is required to maintain credit quality ratings of at least two of the following ratings, which is a “Baa2” from Moody’s, “BBB” from Standard and Poor’s, and “BBB” from Fitch. As of December 31, 2016, the swap counterparties had the following ratings from Moody’s, S&P, and Fitch:

| Counterparty | Moody’s | Standard & Poor’s | Fitch |
|---|---|---|---|
| JP Morgan | Aa3 | A+ | AA- |
| Morgan Stanley | A3 | BBB+ | A |

Due to ratings adjustments with both swap counterparties over the past several years, the Authority entered into a separate credit support annex agreement with Morgan Stanley in 2010 during the time of the 2010 tender transaction, and entered into a credit support annex agreement with JP Morgan in April 2013 due to their S&P rating downgrade to A+ in 2011. Under these agreements, the Authority can require the counterparty to post collateral at any time when the aggregate fair market value of the Morgan Stanley swaps or the separate JP Morgan swap is an asset to the Authority; however, these counterparty rating downgrades did not trigger a termination event. The Authority monitors its fair market value and the ratings on its counterparties regularly to determine if credit risk is a concern. The Authority has not calculated theoretical credit exposure on its swaps. There is no master netting agreement between the Authority and either counterparty.

***(b) Interest Rate Risk***

Interest rate risk exists if the investment derivative exposes the Authority to interest rate risk. Each of the investment derivatives exposes the Authority to interest rate risk because changes in interest rates will affect the fair market value of each of the investment derivatives. As variable LIBOR and SIFMA rates increase or decrease, the amount of each net settlement changes resulting in potentially dramatic changes in fair market value from period to period.

The following table shows the impact of a 25 basis point (0.25%) increase and decrease in related rates in a parallel yield curve shift for each outstanding investment derivative as of December 31, 2016:

| | | Fair value at December 31, 2016 | Interest rates up 25 basis points | Interest rates down 25 basis points |
|---|---|---|---|---|
| JP-1 Receive-variable (LIBOR) swap | $ | (22,485,316) | (20,756,724) | (24,215,192) |
| MS-1 Receive-variable (LIBOR) swap | | (22,486,379) | (20,757,706) | (24,216,337) |
| | $ | (44,971,695) | (41,514,430) | (48,431,529) |

The following table shows the impact of a 25 basis point (0.25%) increase and decrease in related rates in a parallel yield curve shift for each outstanding investment derivative as of December 31, 2015:

| | | Fair value at December 31, 2015 | Interest rates up 25 basis points | Interest rates down 25 basis points |
|---|---|---|---|---|
| JP-1 Receive-variable (LIBOR) swap | $ | (24,157,971) | (22,342,194) | (25,974,672) |
| MS-1 Receive-variable (LIBOR) swap | | (24,132,394) | (22,318,355) | (25,947,356) |
| | $ | (48,290,365) | (44,660,549) | (51,922,028) |

***(c) Foreign Currency Risk***

All of the interest rate swaps are denominated in U.S. dollars; therefore, the Authority is not exposed to foreign currency risk.

### *(d) Contingent Features*

The Authority or counterparty may terminate the swap if the other party fails to perform under the terms of the swap contract or any credit support annex agreement. In such cases, the Authority may owe or be due a termination payment depending on the fair market value of the interest rate swap at that time. The termination payment due to the counterparty or from the counterparty may not be equal to the fair market value. A termination of any interest rate swap may automatically occur due to cross default, bankruptcy, merger, and other defined events found in the swap agreements. Termination risk is a contingent feature of the investment derivatives and is described below. The Authority is not required to post collateral under its swap agreements.

*Termination Risk:* The 2007 LIBOR interest rate swap agreements (JP-1 and MS-1) expire on September 1, 2039. Both swap agreements are subject to early termination by the parties in certain specified events. These events include events of default; a failure by the swap insurer (MBIA – administered by National Public Finance Guarantee (NPFG)), to maintain specified financial strength, claims paying ability, or equivalent ratings; and other ratings of the Authority and swap counterparty falling below the specified ratings in the swap agreements. Besides the substitution event with Morgan Stanley amended in December of 2012, no additional early automatic termination events were triggered as of December 31, 2016 and 2015. NPFG's financial strength and claims paying ability ratings has remained consistent at "A-" from S&P; however, their rating does not cause automatic termination and settlement of the swaps alone. The Authority's underlying senior bond rating would have to go below BBB– by S&P or Baa3 by Moody's to cause a termination event. As of December 31, 2016 and 2015, the Authority's underlying senior bond rating was BBB+, respectively, by S&P and A3 and Baa1, respectively, by Moody's. If the swap agreements had an unscheduled ending, any associated termination payments would not impact the Authority's asset/liability strategy as the Authority holds approximately $224.0 million and $188.3 million in total unrestricted funds at December 31, 2016 and 2015, respectively. In addition, the Authority has the ability to exercise, at its sole discretion, early termination of the swap agreements at a mutually agreed-upon price for any reason.

Further, in August 2011, in conjunction with the issuance of the Series 2011A bonds and continuing with the 2014A bonds, the Authority and the swap insurer, NPFG, entered into an amendment to the original swap insurance agreements to insert a provision stating that if, at any time during the remaining term of the 2007 pay-fixed swaps, the estimated settlement amount based on the swap fair value report is equal to or less than a liability balance of $2.0 million, the Authority may be notified by NPFG to terminate the swap or may seek to cancel swap insurance coverage under the original 2007 and 2008 swap policies. As of December 31, 2016 and 2015, the negative fair value (liability balance) of the specific swap notional amounts related to the Series 2014A bonds was greater than the $2.0 million threshold and did not trigger a possible termination event during either period.

## (10) Notes Payable

The following is an analysis of changes in notes payable for the years ended December 31, 2016 and 2015:

| | Balance at January 1, 2016 | Additions | Reductions | Balance at December 31, 2016 | Due within one year |
|---|---|---|---|---|---|
| Other intergovernmental agreements | $ 1,203,846 | — | 240,769 | 963,077 | 240,769 |

| | Balance at January 1, 2015 | Additions | Reductions | Balance at December 31, 2015 | Due within one year |
|---|---|---|---|---|---|
| Other intergovernmental agreements | $ 1,444,616 | — | 240,770 | 1,203,846 | 240,769 |

The Authority entered into an intergovernmental agreement with Douglas County in 2003 to receive contributed funds for costs of the Jamaica Road interchange ramp construction. Based on this agreement, the remaining contributed funds of $2.4 million as of 2008 are to be repaid in 10 equal payments (noninterest-bearing) beginning in 2011. The annual payment of $0.2 million is made from unrestricted funds.

## (11) Other Restricted Noncurrent Liabilities

Other restricted noncurrent liabilities includes the remaining unamortized balance of the 1997 forward delivery agreement and any arbitrage rebate liability to the Authority, if applicable. The following is an analysis of changes in the unamortized balance of the 1997 forward delivery agreement for the years ended December 31, 2016 and 2015:

| Balance at January 1, 2016 | Additions | Reductions | Balance at December 31, 2016 |
|---|---|---|---|
| $ 2,208,616 | — | 207,545 | 2,001,071 |

| Balance at January 1, 2015 | Additions | Reductions | Balance at December 31, 2015 |
|---|---|---|---|
| $ 2,416,160 | — | 207,544 | 2,208,616 |

Under the Bond Resolutions, the Authority is required to make scheduled payments with respect to 1997 Senior Bonds by depositing certain moneys into the Senior Bonds Debt Service Account held by the

Trustee. The Authority has deemed the reinvestment of these funds for a period prior to the required payment date to be desirable. To facilitate the reinvestment, the Authority entered into a Debt Service Forward Delivery Agreement in December 1997 with U.S. Bank National Association and Lehman Brothers Special Financing Inc. (LBSF). Under the terms of the original agreement in 1997, LBSF agreed to pay a facility fee of $11.3 million for the opportunity to use the funds to invest in qualified securities. The agreement provides for the appropriate amounts to be available as needed for scheduled debt service payments.

During 2007, 2008, and 2010, the Authority refunded, tendered, and redeemed a portion of the Series 1997A, 1997B, and 1997C bonds, respectively. By entering into these transactions on the Series 1997 bonds, the Authority no longer had a requirement to deposit interest and principal into the Senior Bonds Debt Service Account in the amount that was originally agreed upon when entering into the Debt Service Forward Delivery Agreement with LBSF. Partial termination payments were made to LBSF in 2007 ($6.5 million), 2008 ($0.3 million), and 2010 ($0.2 million). Due to bankruptcy of LBSF, the Authority entered into a novation agreement in 2013 to transfer the forward delivery agreement from LBSF to Deutsche Bank. No terms of the original agreement were changed, and the Authority did not incur any expenses from the novation. The remaining balance of the 1997 forward delivery agreement is being amortized over the life of the outstanding 1997 bonds, which reach final maturity in September 2026.

The Internal Revenue Code and arbitrage rebate regulations issued by the Internal Revenue Service require rebate to the federal government of excess investment earnings on tax-exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated every five years or upon maturity of the debt, whichever is earlier. The Authority has an assessed arbitrage rebate liability of $0.5 million as of December 31, 2016 and $0.3 million as of December 31, 2015. There were no amounts due in 2016 or 2015.

## (12) Commitments and Contingencies

### *(a) Tax, Spending, and Debt Limitations*

In November 1992, the voters of Colorado approved Amendment 1, referred to as the Taxpayers Bill of Rights (TABOR), which added a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations that apply to the State of Colorado and all local governments. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The Authority’s operations qualify for this exclusion.

### *(b) Risk Management*

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance for most risks of loss. Claims, expenses, and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At December 31, 2016 and 2015, no amounts have been recorded for pending or future claims. Further, claims have not exceeded insurance limits for each of the past three years.

### *(c) Solar Equipment*

The Authority entered into a solar power purchase agreement in July 2011 with Renewable Social Benefit Funds (RSBF), L3C, which provided RSBF the right to install solar power generating facilities within the Authority's 16-mile Xcel Energy corridor. Generating facilities were installed at 18 ramp locations and 4 building locations within this corridor (Authority headquarters, toll plazas B and C, and the central maintenance facility) for an estimated generating capacity of 707 kilowatts. RSBF is responsible for all installation, operation and maintenance, and other associated costs of the entire generating system for a 20-year period. However, the Authority has the right and option, but not the obligation, to purchase the generating system in its entirety on the anniversary of the sixth year of full operation at a mutually agreed-upon fair market value of the solar equipment. If the option is exercised by the Authority, the generating assets will be transferred to the Authority and all responsibilities and aspects of the solar power purchase agreement will be terminated. The estimated buyout price at the exercise date is approximately $2.0 million, but the Authority has not determined if this option will be exercised. The solar generating facilities were fully operational in early 2012.

### *(d) Intergovernmental Agreement with City of Aurora for 6th Avenue Parkway Extension*

The Authority entered into an intergovernmental agreement in 2015 with the City of Aurora regarding the extension of 6th Avenue from its present terminus in an eastward direction from Buckley Air Force Base to East 6th Parkway and E-470. This extension will establish a more direct route of travel, thereby filling a gap in the regional roadway network. In addition, E-470 had a traffic and revenue study performed by CDM Smith in 2012, which indicated that the 6th Avenue Parkway extension would provide future revenue increases for the Authority. In consideration of the potential future revenue impacts, the Authority agreed to contribute $4.0 million toward the cost of construction in the form of a $2.0 million contribution and a $2.0 million loan, which will have a 10-year term beginning on the date of disbursement and will bear interest at a rate of 2.5% per annum. Both components of the Authority's contribution are conditioned upon all other funds being appropriated by the City of Aurora or otherwise irrevocably committed to the City of Aurora by third parties. Pursuant to the IGA, these funds will be appropriated by the Authority within the 2017 budget. As the conditional provisions of the IGA have not yet been satisfied by the City of Aurora, no accrual has been made in the financial statements as of December 31, 2016.

## (13) Intergovernmental Liability – Ramp Financing

The Authority entered into an intergovernmental agreement in 1995 with the City of Commerce City regarding coordination of road improvements and operations. At that time, the Authority was seeking funding for design and construction of Segments II and III and entered into numerous agreements with local jurisdictions. The agreement with Commerce City included a provision for the Authority to fully finance and construct the west ramps of the Tower Road/Pena Boulevard interchange based on a mutually agreed-upon design if the west ramps had not been constructed by January 1, 2012. As of this date, only the southwest ramp has been designed or constructed, and all other provisions in the agreement have been satisfied. In April 2014, the Authority's board of directors and Commerce City approved a new intergovernmental agreement regarding funding of the Tower Road/Pena Boulevard Interchange, and the board of directors approved the 2014 capital budget including the outlay of $3.2 million to relieve the Authority of this infrequent obligation. As the capital outlay is probable, the Authority accrued the liability as of December 31, 2016 and 2015 as an intergovernmental liability for the ramp financing. Commerce City is currently procuring construction services, and as the timing and amount of payments for construction to

Commerce City are still unknown, the Authority presents the $3.2 million liability as noncurrent on the statements of net position as of December 31, 2016 and 2015, which corresponds with the cash and cash equivalent limited for construction.

**(14) Litigation**

The Authority is from time to time involved in various legal proceedings characterized as normally incidental to the business of the Authority. Management does not believe that the outcome of any legal proceedings will have a materially adverse impact on the financial position or results of operations of the Authority.

**(15) Retirement Plans**

In lieu of Social Security, the Authority contributes 6.2% of all compensation for regular employees to a retirement plan, up to the maximum Federal Insurance Contributions Act (FICA) base level of $118,500 in 2016 and 2015, for a maximum contribution of $7,347 for 2016 and 2015, respectively. Plan members are also required to contribute 6.2% of their annual covered salary. The plan is a defined-contribution plan administered by International City/County Management Association (ICMA) Retirement Corporation. Plan provisions and contribution requirements are established by and can be amended by the Authority’s board of directors. The Authority and its employees each contributed $0.3 million to this plan in 2016 and 2015. Employees are immediately vested.

In addition, the Authority contributes to a 401(a) Retirement Plan covering 10% of all compensation for regular employees. Employees are not allowed to make contributions to the plan. The plan is a defined-contribution plan administered by ICMA Retirement Corporation. Plan provisions and contribution requirements are established by and can be amended by the Authority’s board of directors. Employees are 50% vested at the date of hire and 100% vested after one year of service. The Authority contributed $0.5 million to this plan in 2016 and 2015.

**(16) Subsequent Event**

On March 1, 2017, The Authority successfully refunded the Series 2014A and 2007CD-2 SIFMA Index Term Rate bonds with the Series 2017A and 2017B LIBOR Index Term Rate bonds totaling approximately $138.6 million at par with no change to the principal amounts or maturities. Both of the Series 2014A and 2007CD-2 bonds were subject to optional early redemption on or after March 1, 2017 with a mandatory tender and remarketing date of September 1, 2017. The Authority exercised the early redemption option to take advantage of low interest rates and debt service savings. The Series 2014A bonds of $72.5 million paid interest each month based on the previous months’ final calculated SIFMA market pricing plus 118 basis points (1.18%), which was refunded with the new Series 2017A LIBOR Index bonds plus 90 basis points (0.90%) over a two year term, saving the Authority over 0.28% in monthly interest costs. The Series 2007CD-2 bonds of $66.1 million paid interest each month based on the previous months’ final calculated SIFMA market pricing plus 175 basis points (1.75%), which was refunded with the new Series 2017B LIBOR Index bonds plus 105 basis points (1.05%) over a four year term, saving the Authority over 0.70% in monthly interest costs. The principal portion of the Series 2017A and 2017B bonds are payable in September 2026 and September 2037 to September 2039 with amounts ranging between $5.1 million to $22.3 million, and both series have a six-month optional early redemption period in 2019 and 2021, respectively. The Authority switched from a SIFMA index to 67% of one-month LIBOR to match the associated index of the interest rate swaps and remove basis risk. In conjunction with the bond transaction, the Authority received rating upgrades from S&P (A- from BBB+) and Fitch (BBB+ from BBB) and a rating affirmation from Moody's (A3). The outlook from all rating agencies is stable.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Supplementary Information – Revenue Covenant

Year ended December 31, 2016

(Unaudited)

Section 7.18 of the Master and Supplemental Bond Resolutions (Bond Resolutions), titled “Revenue Covenant,” requires that there shall be sufficient revenues (as defined) collected, after the provision for the payment of operating expenses (as defined), to produce net income at least 1.30 times the aggregate senior debt service due for the year. For purposes of this provision, revenues, and aggregate senior debt service in a fiscal year were to be reduced by the aggregate debt service due and paid from the VRF Debt Service Fund in such fiscal year on the 2009 VRF Series Bonds, unless paid for from the General Surplus account. The year ended December 31, 2002 was the first fiscal year the revenue covenant was applicable, and such covenant is applicable to all subsequent years through the payment of the Senior Bonds.

For the year ended December 31, 2016, the Authority exceeded the required debt service coverage ratio reporting an actual ratio of 1.91. Below is the calculation for the year ended December 31, 2016:

| | | |
|---|---|---|
| Revenue: | | |
| Operating revenues | $ | 206,216,071 |
| Vehicle registration fees | | 10,275,305 |
| Unrestricted investment income | | 6,041,739 |
| Other income | | 5,251,275 |
| Total revenue | | 227,784,390 |
| Less operating expenses before depreciation, net of renewal and replacement expenses | | (42,334,906) |
| Net revenue | | 185,449,484 |
| Less vehicle registration fee bonds aggregate debt service due | | — |
| Net income available for senior debt service | $ | 185,449,484 |
| Aggregate senior debt service due during the year | $ | 97,231,865 |
| Senior debt service coverage ratio | | 1.91 |

The following is a summary description of key terminology of terms identified in the Bond Resolutions. Please refer to the Bond Resolutions for a complete description and additional clarification of the below terms.

*Revenue*: As defined by the Bond Resolutions, revenue comprises amounts received by the Authority from fees, tolls, rates, and charges for the privilege of traveling on the E-470 toll road. Revenues also include all other amounts derived from or in respect of the ownership or operation of the toll road, which constitute revenues in accordance with generally accepted accounting principles, including accrued toll revenues. Revenues also include vehicle registration fees and other amounts derived from the E-470 toll road, as defined in the Bond Resolutions. Revenues do not include investment income that is externally restricted by credit agreements for purposes other than senior debt service. Revenues also do not include investment income that is noncash in nature, such as unrealized gains (losses), premiums, and discounts.

**E-470 PUBLIC HIGHWAY AUTHORITY**

Supplementary Information – Revenue Covenant

Year ended December 31, 2016

(Unaudited)

The following is a reconciliation of investment income reported in the audited basic financial statements of the Authority for the year ended December 31, 2016 to unrestricted investment income available for senior debt service:

| | | |
|---|---|---|
| Interest earned on investments per the basic financial statements | $ | 6,281,525 |
| Less: | | |
| Gain on investments | | (14,198) |
| Restricted investment income | | (112,270) |
| Unamortized investment discount | | (113,318) |
| Unrestricted investment income | $ | 6,041,739 |

The following is a reconciliation of other income reported in the audited basic financial statements of the Authority for the year ended December 31, 2016 to other income available for senior debt service:

| | | |
|---|---|---|
| Other income per the basic financial statements | $ | 4,254,486 |
| Add: | | |
| Loss on disposal of capital assets | | 94,033 |
| Increase in arbitrage rebate | | 200,296 |
| Other nonoperating expenses | | 702,460 |
| Other income | $ | 5,251,275 |

*Operating Expense*: As defined by the Bond Resolutions, operating expenses are amounts expended for the operation, maintenance, repair, and any other current expenses or obligations required to be paid by the Authority directly attributable to the operation of the E-470 toll road. Operating expenses do not include depreciation expense, interest for debt service, or expenses associated with the renewal and replacement accounts established under the Bond Resolutions. Per the Bond Resolutions, renewal and replacement expenses are to be funded after senior debt service.

The following is a reconciliation of operating expenses before depreciation expense reported in the audited basic financial statements of the Authority for the year ended December 31, 2016 to operating expenses before depreciation expense, net of nonoperating fund expenses, included in the revenue covenant calculation:

| | | |
|---|---|---|
| Operating expenses before depreciation and interest per the audited basic financial statements | $ | 48,229,024 |
| Less renewal and replacement expenses | | (5,894,118) |
| Operating expenses before depreciation expense, net of nonoperating fund expenses | $ | 42,334,906 |

**E-470 PUBLIC HIGHWAY AUTHORITY**

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Year ended December 31, 2016

(Unaudited)

*VRF Bonds Aggregate Debt Service*: VRF bonds aggregate debt service is the aggregate debt service due and paid from the VRF Debt Service Fund for the year ended December 31, 2016 on the 2009 VRF Series Bonds. VRF bonds aggregate debt service excludes the entire principal and interest amount due in 2016 of $2.5 million as these amounts were paid from the VRF restricted account as specified in the Bond Resolutions.

*Aggregate Senior Debt Service Due*: For the year ended December 31, 2016, aggregate senior debt service due is all principal and interest paid on outstanding senior bonds (cash basis), which includes Senior Bond Series 1997B, 2004C, 2006A, 2007A-1, 2007B-1, 2007C-1, 2007D-1, 2007CD-2, 2010C, and 2014A, as well as the paid settlement differential on the Authority's interest rate swaps during the year.

*Senior Debt Service Coverage Ratio*: Senior debt service coverage ratio is the ratio of net income available for senior debt service to aggregate debt service due during the fiscal year.