

CENTRAL FLORIDA EXPRESSWAY AUTHORITY

AGENDA CENTRAL FLORIDA EXPRESSWAY AUTHORITY AUDIT COMMITTEE MEETING December 15, 2016 8:00 – 9:30 AM Pelican Room #107

- I. APPOINTMENT OF AUDIT COMMITTEE CHAIRMAN PRO TEMPORE- **Action Item**
- II. CALL TO ORDER
- III. PUBLIC COMMENT - Pursuant to Florida Statute 286.0114 (2013) the Audit Committee will allow public comment on any matter either identified on this meeting agenda as requiring action, or anticipated to come before the Committee for action in reasonable proximity to this meeting. Speakers shall be limited to three minutes per person and the assignment of one person's time to another or designation of group spokesperson shall be allowed at the discretion of the Committee Chairman.
- IV. APPROVAL OF THE SEPTEMBER 22, 2016 MINUTES – **Action Item**
- V. EXTERNAL AUDIT MATTERS – Moore, Stephens, Lovelace
 - A. Review and Acceptance of Audit of Fiscal 2016 Financial Statements and Required Communications- **Action Item**
- VI. INTERNAL AUDIT MATTERS- Protiviti
 - A. Status Update: Fiscal 2016 Internal Audit Plan- Info Item
 - B. Review and Acceptance of the Public Records Review- **Action Item**
 - C. Review and Acceptance of DHSMV Data Security Assessment- **Action Item**
- VII. ANNUAL REVIEW AND APPROVAL OF AUDIT COMMITTEE CHARTER- **Action Item**
- VIII. RECOMMENDATION OF EXTERNAL AUDITOR- Lisa Lombard- **Action Item**
- IX. OTHER BUSINESS
- X. ADJOURNMENT

This meeting is open to the public.

Note: Any person who decides to appeal any decision made at this meeting will need record of the proceedings and for that purpose, may need to ensure that a verbatim record of the proceedings is made which includes the testimony any evidence upon which the appeal is to be based, per Florida Statute 286.0105.

In accordance with the Americans with Disabilities Act (ADA), if any person with a disability as defined by the ADA needs special accommodation to participate in this proceeding, then not later than two (2) business days prior to the proceeding, he or she should contact the Central Florida Expressway Authority at (407) 690-5000.

Persons who require translation services, which are provided at no cost, should contact CFX at (407) 690-5000 x5317 or by email at Iranetta.dennis@CFXway.com at least three business days prior to the event.

4974 ORL TOWER RD. ORLANDO, FL 32807 | PHONE: (407) 690-5000 | FAX: (407) 690-5011

WWW.CFXWAY.COM 

CENTRAL FLORIDA EXPRESSWAY AUTHORITY

**MINUTES
CENTRAL FLORIDA EXPRESSWAY AUTHORITY
AUDIT COMMITTEE MEETING
September 22, 2016
Location: Pelican Conference Room 107**

Committee Members Present:

Bruce McMenemy, Seminole County Representative, Chairman
Brian Battles, City of Orlando Representative
Kristy Mullane, Lake County Representative
Kaye Dover, Osceola County Representative
Eric Gassman, Orange County Representative

Committee Members Not Present:

Tamrin Mahon, Citizen Representative

Also Present:

Ruth Valentin, Recording Secretary/Office Coordinator
Laura Kelley, Executive Director
Linda Lanosa, Deputy General Counsel
Aneth Williams, Director of Procurement
Corey Quinn, Chief of Technology/ Operations
Mahmood Ulhaq, Information Security Manager
David Wynne, Director of Toll Operations
Claude Miller, Director of Maintenance
Bryan Homayouni, Manager of Traffic Operations
Jeff Tecau, Protiviti
Phil Fretwell, Protiviti
Teresa Mallary, Protiviti

1. CALL TO ORDER

The meeting was called to order at 11:00 a.m. by Chairman Bruce McMenemy.

2. PUBLIC COMMENT

There was no public comment.

3. APPROVAL OF MINUTES

A motion was made by Ms. Dover and seconded by Mr. Gassman to accept the June 23, 2016 Audit Committee minutes as presented. The motion carried unanimously with five members voting AYE by voice vote; Ms. Mahon was not present.

4. EXTERNAL AUDIT MATTERS

Aneth Williams presented the procurement process for the selection of the External Auditor. It was noted that one member of the Audit Committee needed to be part of the selection committee.

A recommendation was made by Ms. Mullane to change the scope for any new guidance coming out.

A motion was made by Mr. Gassman and seconded by Ms. Dover to recommend Mr. McMenemy to the selection committee for the External Auditor. The motion carried unanimously with five members voting AYE by voice vote; Ms. Mahon was not present.

5. INTERNAL AUDIT MATTERS

Status Update: Fiscal 2016 Internal Audit Plan

Jeff Tecau presented the status of the Fiscal Year 2016 Internal Audit Plan.

(This item was presented for information only. No formal committee action was taken.)

Procurement and Contract Billing Audits

Contract Selections

Teresa Mallary presented the Contract Selections for Fiscal Year 2017.

(This item was presented for information only. No formal committee action was taken.)

Subject Matter Expert Travel Expenses

Jeff Tecau informed the committee that Protiviti would like approval to utilize subject matter expertise for Construction and Capital Projects and for the Call Center Staffing Model Development. Travel expenses would run between 10 – 15%. It was noted that travel expenses must stay within the Florida statutes.

A motion was made by Mr. Gassman and seconded by Mr. Battles to approve a pre-approval for Subject Matter Expert Travel Expenses with a cap of \$5,000 for Construction and Capital Projects and \$5,000 for the Call Center Staffing Model Development. The motion carried unanimously with five members voting AYE by voice vote; Ms. Mahon was not present.

Review and Acceptance of Prior Audit Recommendations Follow-Up

Jeff Tecau introduced the Prior Audit Recommendations Follow-Up Report. Laura Kelley presented the status of management actions for the past due items as highlighted in the Prior Audit Recommendations Follow-Up.

A motion was made by Mr. Gassman and seconded by Ms. Mullane to approve the Prior Audit Recommendations Follow-Up as presented. The motion carried unanimously with five members voting AYE by voice vote; Ms. Mahon was not present.

6. OTHER BUSINESS

A recommendation was made that a summary of the Prior Audit Recommendations be provided to the Board through a briefing or monthly Executive Directors report.

7. ADJOURNMENT

The meeting adjourned at 11:38 a.m.

Minutes approved on _____, 2016.

Pursuant to the Florida Public Records Law and CFX Records Management Policy, audio tapes of all Board and applicable Committee meetings are maintained and available upon request to the Records Management Liaison Officer at publicrecords@CFXway.com or 4974 ORL Tower Road, Orlando, FL 32807.



MOORE STEPHENS
LOVELACE CPAs & ADVISORS

**CENTRAL FLORIDA
EXPRESSWAY AUTHORITY**

**REQUIRED AUDITOR COMMUNICATIONS
FISCAL YEAR ENDED JUNE 30, 2016**

Presented by:
Daniel J. O'Keefe, CPA, MBA, CFE
Shareholder



MOORE STEPHENS
LOVELACE CPAs & ADVISORS

AUDIT OVERVIEW

Services and Deliverables

- Engaged to audit CFX's financial statements for the year ended June 30, 2016.
- Issue an opinion as to whether or not CFX's financial statements are presented fairly, in all material respects, in conformity with GAAP (Pages 1-2)

Other Reports

- **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (Pages 58-59)**
- **Report on Compliance with Bond Covenants (Page 60)**
- **Examination Report on Investment Compliance (Page 61)**
- **Management Letter (Pages 62-63)**

Management Responsibilities

Management Responsibilities included:

- **Establishing and maintaining internal controls, as well as monitoring internal controls**
- **Selecting and applying appropriate accounting and reporting principles**
- **Making all financial records and related information available to us**
- **Disclosing any related parties**
- **Adjusting the financial statements for material misstatement**
- **Designing and implementing programs to prevent and detect fraud**
- **Informing us of any known or suspected fraud or illegal acts or allegations of same without regard to materiality**

Auditor Responsibilities

Auditor Responsibilities included:

- Performing our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* and the Rules of the Auditor General.

These standards are designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Internal Controls

We considered CFX's internal controls over financial reporting as a basis for designing our audit procedures.

We did not express an opinion on the effectiveness of CFX's internal controls.

Compliance

We performed tests of the CFX's compliance with laws, regulations, contracts, bond covenants, and grant agreements, as applicable.

Communication of Significant Matters

There were no audit adjustments made during the course of the audit.

There were no unreported or unadjusted differences.

We had no disagreements with management.

As far as we know, management did not receive opinions from other accountants.

Risk-Based Audit Approach

A Risk-Based Audit Approach requires the use of our professional judgment in determining materiality and audit areas of significance.

Our procedures included:

- **Testing transactions on a sample basis**
- **Verifying account balances we deemed significant**
- **Analysis of relevant controls**
- **Inquiry**
- **Analytics**
- **Other procedures we deemed necessary**

Management Representations

We will obtain certain representations from management, including:

- **Records provided complete**
- **No known communications from regulatory agencies concerning noncompliance**
- **Responsible for internal controls**
- **No undisclosed knowledge of fraud or suspected fraud**
- **Financial statements complete**
- **Responsible for compliance**
- **Complied with contractual obligations**

Assigned Individuals

CFX identified Lisa Lumbard, CFO, as the management-level individual to oversee our work and take responsibility for CFX's financial statements.

Our Team was made up of:

- **Governmental Specialists**
- **IT Specialists**

Audit Schedule

| Audit Stage | Dates |
|-------------------------------------|------------------------|
| Interim fieldwork | June 2016 |
| Year-end fieldwork | Aug. 2016 – Sept. 2016 |
| Review of Financial Statements | Oct. – Nov. 2016 |
| Presentation to the Audit Committee | December 2016 |
| Submission of CAFR to GFOA | December 2016 |
| Presentation to the Board | January 2017 |



MOORE STEPHENS
LOVELACE CPAs & ADVISORS

FINANCIAL HIGHLIGHTS

Financial Highlights - Overview

(in thousands)

| | Year Ended 6/30/16 |
|--|-----------------------|
| Total Assets and Deferred Outflows | \$ 5,144,000 |
| Total Liabilities and Deferred Inflows | \$ 3,383,000 |
| Net Position | \$ 1,761,000 |
| Operating Revenue | \$ 401,000 |
| Operating Expenses | \$ 93,000 |
| Operating Income | \$ 308,000 |
| Change in Net Position | \$ 203,000 |
| | |
| % Increase in Operating Revenue | 11.6% |
| % Increase in Operating Expense | 15.2% |

Financial Highlights – Balance Sheets

(in thousands)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Unrestricted Assets | \$ 547,000 | \$ 471,000 |
| Restricted Assets | 293,000 | 172,000 |
| Capital Assets | 3,945,000 | 3,755,000 |
| Deferred Outflows of Resources | <u>359,000</u> | <u>302,000</u> |
| Total Assets and Deferred Outflows | <u>\$ 5,144,000</u> | <u>\$ 4,700,000</u> |
| Revenue Bonds Outstanding | 2,821,000 | 2,649,000 |
| Other Liabilities | 555,000 | 485,000 |
| Deferred Inflows of Resources | <u>7,000</u> | <u>8,000</u> |
| Total Liabilities and Deferred Inflows | 3,383,000 | 3,142,000 |
| Total Net Position | <u>1,761,000</u> | <u>1,558,000</u> |
| Total Liabilities, Deferred Inflows, and Net Position | <u>\$ 5,144,000</u> | <u>\$ 4,700,000</u> |

Financial Highlights – Operation Overview

(in thousands)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Operating Revenues | \$ 401,000 | \$ 359,000 |
| Investment and Other Income | <u>20,000</u> | <u>3,000</u> |
| Total Revenues | <u>421,000</u> | <u>362,000</u> |
| Operating Expenses | 93,000 | 81,000 |
| Interest Expense | 124,000 | 95,000 |
| Other Expense | <u>1,000</u> | <u>5,000</u> |
| Total Expenses | <u>218,000</u> | <u>181,000</u> |
| Change in Net Position | 203,000 | 181,000 |
| Net Position, Beginning of Year, restated | <u>1,558,000</u> | <u>1,377,000</u> |
| Net Position, End of Year | <u>\$ 1,761,000</u> | <u>\$ 1,558,000</u> |
| Debt Service Ratio w/o Gas Tax Pledge | 2.42 | 2.20 |

Questions or Comments



**CENTRAL FLORIDA
EXPRESSWAY AUTHORITY**

**Financial Statements and
Supplementary Information**

For Years Ended June 30, 2016 and 2015

CENTRAL FLORIDA EXPRESSWAY AUTHORITY

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 - 2 |
| Management's Discussion and Analysis..... | 3 - 10 |
| BASIC FINANCIAL STATEMENTS | |
| Balance Sheets..... | 11 - 12 |
| Statements of Revenues, Expenses and Changes in Net Position..... | 13 |
| Statements of Cash Flows..... | 14 - 15 |
| Notes to Financial Statements..... | 16 - 53 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Trend Data on Infrastructure Condition..... | 54 |
| Schedule of CFX's Proportionate Share of the Net Pension Liability – Florida Retirement System (FRS) and Retiree Health Insurance Subsidy (HIS) Program..... | 55 |
| Schedule of CFX Contributions – Florida Retirement System (FRS) and Retiree Health Insurance Subsidy (HIS) Program..... | 56 |
| OTHER SUPPLEMENTARY INFORMATION | |
| Calculation of the Composite Debt Service Ratio, as Defined by the Bond Resolutions and Related Documents..... | 57 |
| REPORTS ON COMPLIANCE AND INTERNAL CONTROL | |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 58 - 59 |
| Independent Auditor's Report on Compliance with Bond Covenants..... | 60 |
| Independent Accountant's Report..... | 61 |
| Management Letter..... | 62 - 63 |



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Central Florida Expressway Authority
Orlando, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Florida Expressway Authority (CFX) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise CFX'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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of CFX as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Members of the
Central Florida Expressway Authority

Change in Accounting Principle

As discussed in Note 11 to the financial statements, in the year ended June 30, 2015, CFX adopted the provisions of Government Accounting Standards Board Statement (GASBS) No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. As a result of the implementation of GASBS 68, CFX reported a restatement for the change in accounting principle as of July 1, 2014. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, trend data on infrastructure condition information, and pension schedules, as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CFX’s basic financial statements. The calculation of composite debt service ratio, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of CFX’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CFX’s internal control over financial reporting and compliance.



MOORE STEPHENS LOVELACE, P.A.

Certified Public Accountants

Orlando, Florida
November 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Central Florida Expressway Authority (CFX), we offer readers of these financial statements this narrative overview and analysis of the financial activities of CFX for the fiscal years ended June 30, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

Operating income for CFX was \$307,557,000 (an increase of 11%) and \$278,218,000 (an increase of 12%) for fiscal years 2016 and 2015, respectively. The increase in operating income in fiscal year 2016 is primarily due to higher toll revenues caused by higher toll traffic. The increase in operating income in fiscal year 2015 is also due to higher toll revenues caused by higher toll traffic.

Net income produced an increase in net position of \$203,615,000 and \$181,013,000 for fiscal years 2016 and 2015, respectively. The term "net position" refers to the difference of assets and deferred outflows less liabilities and deferred inflows. At the close of fiscal year 2016, CFX had a net position of \$1,761,376,000, an increase of 13% over fiscal year 2015. At the close of fiscal year 2015, CFX had a net position of \$1,557,761,000, an increase of 13% over fiscal year 2014. CFX's overall financial position has improved, as shown by the increase in net position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to CFX's financial statements, which is comprised of the basic financial statements and the notes to the financial statements, and supplementary information presented. Since CFX is comprised of a single enterprise fund, fund level financial statements are not shown.

Basic financial statements - The basic financial statements are designed to provide readers with a broad overview of CFX's finances, in a manner similar to a private-sector business.

The balance sheets present information on all of CFX's assets and deferred outflows and liabilities and deferred inflows, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of CFX is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial condition.

The statements of revenues, expenses and changes in net position present information showing how a government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning CFX's composite debt service ratio, as defined by the bond resolutions, as well as trend data on infrastructure condition and pension schedules.

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of CFX, assets and deferred outflows exceeded liabilities and deferred inflows by \$1,761,376,000 at the close of the most recent fiscal year. This represents an increase of \$203,615,000 (13%) over the previous year, which is attributable to operations. Unrestricted net position increased from its restated amount of \$313,585,000 at June 30, 2015 to \$401,701,000 at June 30, 2016, an increase of \$88,116,000 (28%). This increase was also due to operating results.

By far, the largest portion of CFX's net position reflects its investment in capital assets (e.g., right-of-way, roads, bridges, buildings, toll equipment, etc.), less any related debt used to acquire those assets that is still outstanding. CFX uses these capital assets to provide service and, consequently, these assets are not available for liquidating liabilities or for other spending.

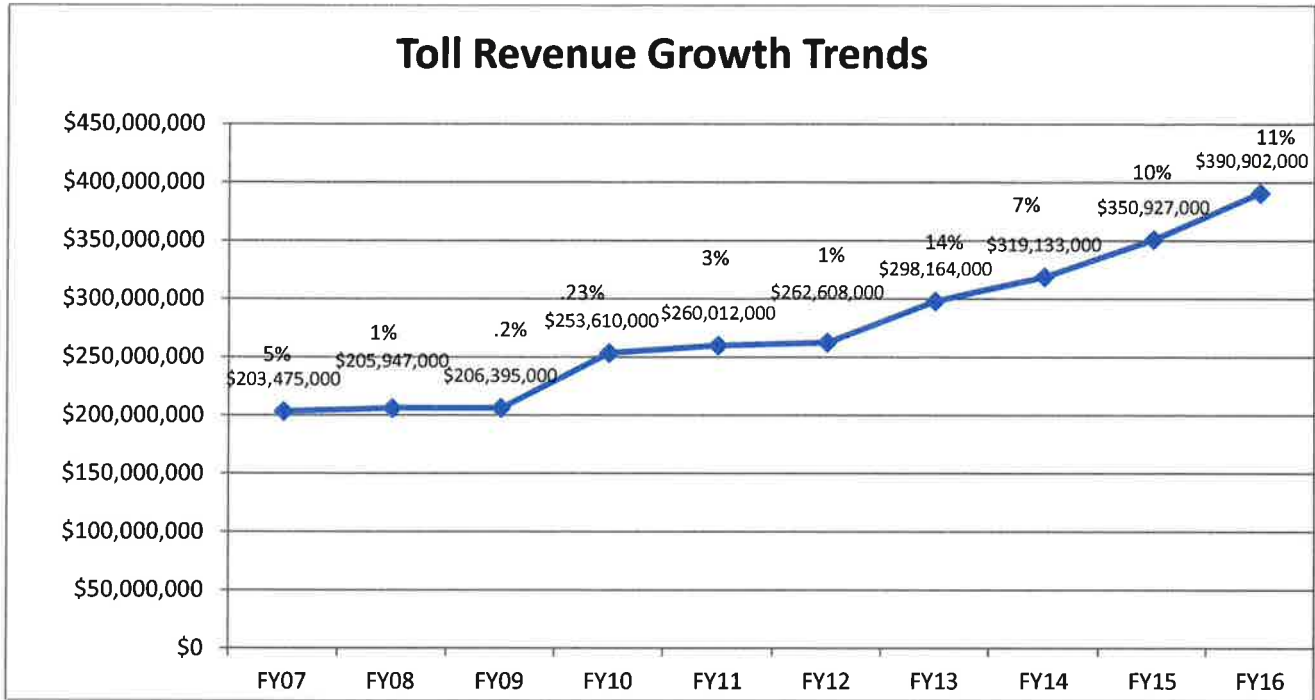
Of the \$3,945,600,000 in capital assets, net of accumulated depreciation, \$40,347,000 represents the roadway, toll plaza and equipment on the Goldenrod Road Extension. This project, which opened to traffic in March 2003, was jointly funded by CFX, the Greater Orlando Aviation Authority, the City of Orlando, Orange County, Florida, and private developers, with CFX serving as the lead agency on the project. The Goldenrod Road Extension extends from the previous terminus of Goldenrod Road at Narcoossee Road south to Cargo Road. This facility intersects SR 528 (Martin B. Andersen Beachline Expressway), east of the Orlando International Airport, at a system interchange. Each partner contributing to this project will be repaid through toll revenues generated by this road. After all operational expenses are met and the partners are reimbursed for their contributions, the toll plaza will be demolished and the roadway will be transferred to the City of Orlando. CFX will retain ownership of the interchange to SR 528 and certain portions of the right-of-way. Since this project is a non-system project, it is accounted for on a single line in the statements of revenues, expenses and changes in net position, in the non-operating revenues (expenses) section. The toll revenues on this project are not pledged to CFX's bond indebtedness.

Central Florida Expressway Authority's Net Position

| | June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Current and other assets | \$ 632,260 | \$ 539,615 | \$ 552,529 |
| Non-current restricted assets | 207,795 | 102,671 | 105,010 |
| Capital assets | 3,945,600 | 3,754,751 | 3,587,730 |
| Total assets | <u>4,785,655</u> | <u>4,397,037</u> | <u>4,245,269</u> |
| Deferred outflows of resources | 358,712 | 302,386 | 288,646 |
| Total assets and deferred outflows | <u>5,144,367</u> | <u>4,699,423</u> | <u>4,533,915</u> |
| Current liabilities: | | | |
| Payable from unrestricted assets | 245,321 | 76,779 | 68,124 |
| Payable from restricted assets | 84,815 | 69,198 | 71,582 |
| Revenue bonds outstanding (net of current portion) | 2,800,991 | 2,629,928 | 2,657,730 |
| Other long-term liabilities | 245,256 | 357,847 | 350,755 |
| Total liabilities | <u>3,376,383</u> | <u>3,133,752</u> | <u>3,148,191</u> |
| Deferred inflows of resources | 6,608 | 7,910 | 6,463 |
| Total liabilities and deferred inflows | <u>3,382,991</u> | <u>3,141,662</u> | <u>3,154,654</u> |
| Net position: | | | |
| Net investment in capital assets | 1,318,726 | 1,206,541 | 1,023,491 |
| Restricted | 40,949 | 37,635 | 33,421 |
| Unrestricted | 401,701 | 313,585 | 322,349 |
| Total net position | <u>\$ 1,761,376</u> | <u>\$ 1,557,761</u> | <u>\$ 1,379,261</u> |

CFX's toll revenues increased 11% and 10% during the fiscal years ended June 30, 2016 and 2015, respectively.

Toll revenue represents approximately 98% of all operating revenues. CFX's toll revenue annual growth rate has averaged 7% over the last 10 years. The higher increases in fiscal years 2010 and 2013 are the result of toll rate increases.



Central Florida Expressway Authority's Changes in Net Position

Central Florida Expressway Authority's Changes in Net Position

| | Years Ended June 30, | | |
|---------------------------------|----------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Revenues: | | | |
| Toll revenues | \$ 390,902 | \$ 350,927 | \$ 319,133 |
| Transponder sales | 167 | 63 | 76 |
| Other operating revenue | 9,791 | 8,196 | 6,395 |
| Investment income | 5,977 | 2,516 | 2,632 |
| Goldenrod Road Extension - net | 1,400 | (2,751) | 823 |
| Other non-operating revenue | 403 | 92 | 239 |
| Gain on capital assets | - | - | 755 |
| Capital Contribution | 13,036 | 154 | 784 |
| Total revenues | <u>421,676</u> | <u>359,197</u> | <u>330,837</u> |
| Expenses: | | | |
| Operations | 40,716 | 37,430 | 35,522 |
| Maintenance | 13,602 | 14,419 | 14,302 |
| Administrative | 6,429 | 5,616 | 5,081 |
| Depreciation | 14,263 | 15,604 | 16,800 |
| Preservation | 15,964 | 3,975 | 468 |
| Other | 2,329 | 3,924 | 4,502 |
| Interest expense | 124,064 | 95,368 | 101,779 |
| Loss on capital assets | 694 | 1,848 | - |
| Total expenses | <u>218,061</u> | <u>178,184</u> | <u>178,454</u> |
| Change in net position | 203,615 | 181,013 | 152,383 |
| Net position, beginning of year | 1,557,761 | 1,379,261 | 1,226,878 |
| Restatement of Net Position | - | (2,513) | - |
| Net position, end of year | <u>\$ 1,761,376</u> | <u>\$ 1,557,761</u> | <u>\$ 1,379,261</u> |

CFX's Operations, Maintenance and Administration ("OM&A") expenses for fiscal year 2016 increased 5.7% from fiscal year 2015 and ended the year 11.6% under budget. CFX came in under budget due primarily to the following reasons: 1) There was a program budgeted for in operations that was delayed, and a plaza was closed; 2) Maintenance expenses were less than anticipated; and 3) multiple departments had positions that were budgeted for but not filled.

Transponder sales increased by 165% between fiscal years 2015 and 2016 largely because of a new campaign aimed at increasing E-PASS market share.

Investment income increased by 138% between fiscal years 2015 and 2016 due to more available cash and higher interest rates in our investment portfolio.

Other operating revenue consists of various fees that are collected, such as statement fees, pay by plate fees and fees received for collecting revenue on behalf of other entities. Other operating revenue increased by 28% between fiscal years 2014 and 2015 and by another 20% between

fiscal years 2015 and 2016. CFX replaced its unpaid toll notice program, with a pay by plate initiative, assessing a new fee schedule on every transaction not paid in the lane.

Other non-operating revenue consists of grant revenue and miscellaneous revenue. There was a decrease by 61% between fiscal years 2014 and 2015 due to a one-time miscellaneous payment we received in 2014. There was an increase of 338% between fiscal years 2015 and 2016 due to revenue received from leasing some easement along SR 528 that CFX will be recognizing over the life of the agreement, which is through 2066.

Capital Contributions increased from \$154,000 in fiscal year 2015 to \$13,036,000 in fiscal year 2016, which is an increase of 8,365%. This increase is due to funds that were received in conjunction with right of way acquired along the 528 for a future widening project.

Preservation expense includes such items as resurfacing and restriping. The budgeted amounts are based on projected requirements to keep the roadway in good condition and, therefore, the expenses related to preservation can vary significantly from year to year. Preservation expense increased 749% in fiscal year 2015 and then increased an additional 302% in fiscal year 2016. Preservation expenses were driven lower than anticipated in fiscal year 2014 because projects started later than expected, but then made a notable rebound in fiscal years 2015 and 2016 due to large resurfacing projects getting underway.

Other expenses are expenses that were not part of our OM&A budget, but also were not capitalized. These expenses are expected to fluctuate from year to year depending upon the amount spent on non-capitalized projects. Other expenses decreased 13% between fiscal years 2014 and 2015 and decreased by another 41% between fiscal year 2015 and 2016.

There were losses in capital assets in fiscal year 2015 and 2016 as anticipated. There have been various bridges and toll plaza lanes removed and/or demolished to make way for road widening, extension and interchange projects over the past few fiscal years. Also contributing to the loss in capital assets were losses on the sale of various surplus property. Also, the Airport Mainline Toll Plaza was demolished in fiscal year 2016.

In fiscal year 2015 there was a restatement of net position due to GASB 68 which called for government employers to start recording their proportionate share of the net pension liability related to cost-sharing multiple-employer defined benefit pension plans. CFX participates in the Florida Retirement System pension plan so these pension-related items were recorded in the current fiscal year and as an adjustment to net position as of July 1, 2015.

Capital Asset and Debt Administration

Capital Assets - CFX's investment in capital assets amounts to \$3,945,600,000 net of accumulated depreciation as of June 30, 2016, an increase of \$190,849,000 (5%) over that of June 30, 2015. CFX's investment in capital assets amounted to \$3,754,751,000 net of accumulated depreciation as of June 30, 2015, an increase of \$167,021,000 (5%) over that of June 30, 2014. Capital assets include right-of-way, roads, bridges, buildings, equipment and furniture. A schedule of the change in CFX's capital assets is in Note 4 of the financial statements.

Major capital asset events during fiscal year 2016 included the following:

- The construction of the SR 429 Wekiva Parkway interchange, including bridges over Ondich Road and Plymouth Sorrento Road began
- The design build of SR 528 Innovation Way has begun

- The construction of SR 429 Wekiva Parkway from the Lake county line began.
- The SR 417/Boggy Creek interchange was completed.
- Airport mainline toll plaza on SR 528 was demolished.

Modified Approach for Infrastructure Assets - CFX has elected to use the modified approach for infrastructure reporting. This means that, in lieu of reporting depreciation on infrastructure, CFX reports as preservation expense the costs associated with maintaining the existing roadway in good condition. CFX's policy is to maintain the roadway condition at a Maintenance Rating Program rating of 80 or better. The Florida Department of Transportation ("FDOT") annually inspects CFX's roadways and has determined in fiscal year 2016 that all of its roadways exceed this standard. Pursuant to its bond covenants, CFX maintains a renewal and replacement fund for these preservation expenditures. For fiscal year 2016, projected expenses for preservation were \$42,406,000 and \$15,964,000 was actually spent. The expenses were lower than projected due to slower than anticipated project start dates, and project costs coming in lower than expected. We anticipate a portion of these unspent funds will be spent in upcoming fiscal years.

Long-term Debt - CFX has outstanding bonds payable of \$2,821,351,000 (net of unamortized bond premiums and discounts) as of June 30, 2016.

During fiscal year 2016 CFX issued \$151,695,000 of fixed rate revenue refunding bonds (Series 2016A) for the purpose of refunding the 2007A Bonds and \$193,695,000 of fixed rate revenue bonds (Series 2015 BAN) to provide funds to finance certain capital costs for the Wekiva Parkway Project.

The annual requirements to amortize all revenue bonds and revenue refunding bonds outstanding as of June 30, 2016, along with more detailed information on long-term debt activity, can be found in Note 5, Long-Term Debt, which begins on page 31 of the financial statements. Of the approximately \$2.8 billion in outstanding bonds, \$497,940,000 are variable rate bonds, which have corresponding interest rate exchange agreements designed to effectively swap the variable rates to fixed rates. The synthetic interest rate applicable to the variable rate bonds are 4.7753% for the 2008B Bonds.

To determine the fair market value of its interest rate exchange agreements, CFX's financial advisor has performed a calculation based upon expected forward LIBOR swap rates and discounted cash flows. On a current market-to-market basis, in the event of a termination, using a termination date of June 30, 2016, CFX would have to make an estimated termination payment of approximately \$234,688,561 on the swaps related to the Series 2008B Bonds.

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--------------|-----------------------|-----------------------|
| Series 2008B | <u>\$ 234,688,561</u> | <u>\$ 168,782,310</u> |

CFX's debt service ratio before pledged gas taxes changed to 2.42 for fiscal year 2016 from 2.20 for fiscal year 2015 and 1.99 in fiscal year 2014. The debt service ratio, including pledged gas taxes, changed to 2.49 for fiscal year 2016 from 2.27 for fiscal year 2015 and 2.05 in fiscal year 2014. The increases in the debt service ratios for fiscal years 2015 and 2016 is due to an increase in toll revenues. As of July 1, 2003, the County's gas tax pledge only applies to the 1990 Series Bonds.

CFX has a Lease-Purchase Agreement (LPA) with the FDOT whereby the FDOT is required to reimburse CFX for the maintenance and operation costs associated with certain portions of the roadways and toll plazas on CFX's System. During fiscal years 2012 and 2013, FDOT did not reimburse CFX for the operations portion of their obligation because the Governor of Florida exercised his line-item veto authority to remove that line from the state's budget. During fiscal year 2013, CFX and FDOT amended the LPA under which the FDOT agreed to uphold its obligation for operations and maintenance costs provided CFX agrees to repay those funds to the FDOT within 60 days. CFX plans to repay those funds in accordance with its Master Bond Resolution, which permits such payments provided CFX is able to fund its OM&A budget, debt service requirements, required reserve deposits, and renewal and replacement fund requirements. The FDOT reimbursement is taken into consideration when calculating CFX's debt service ratio.

CFX's current bond ratings are as follows:

| | <u>Ratings</u> |
|-------------------|----------------|
| Standard & Poor's | A |
| Moody's | A2 |
| Fitch | A |

Requests for Information

This financial report is designed to provide a general overview of CFX's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Central Florida Expressway Authority, 4974 ORL Tower Road, Orlando, FL 32807.

BASIC FINANCIAL STATEMENTS

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Balance Sheets

| | June 30, | |
|--|-----------------------|---------------------|
| | 2016 | 2015 |
| Assets and Deferred Outflows of Resources | <i>(in thousands)</i> | |
| Current assets: | | |
| Cash and cash equivalents | \$ 220,050 | \$ 274,836 |
| Investments | 306,200 | 179,508 |
| Restricted cash and cash equivalents to meet current restricted liabilities | 84,815 | 69,198 |
| Accrued interest and accounts receivable | 5,381 | 3,112 |
| Due from governmental agencies | 7,857 | 5,964 |
| Inventory | 2,923 | 349 |
| Total current assets | 627,226 | 532,967 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents | 83,802 | 35,022 |
| Investments | 123,350 | 66,992 |
| Accrued interest receivable and prepaid expenses | 643 | 657 |
| Total restricted assets | 207,795 | 102,671 |
| Due from governmental agencies | - | 767 |
| Prepaid bond insurance | 5,034 | 5,881 |
| Total noncurrent assets before capital assets | 5,034 | 6,648 |
| Capital assets not being depreciated: | | |
| Infrastructure | 3,364,744 | 3,268,286 |
| Construction in progress | 435,123 | 329,002 |
| Capital assets - net of accumulated depreciation: | | |
| Property and equipment | 145,733 | 157,463 |
| Total capital assets - net of accumulated depreciation | 3,945,600 | 3,754,751 |
| Total noncurrent assets | 4,158,429 | 3,864,070 |
| Total assets | 4,785,655 | 4,397,037 |
| Deferred outflows of resources | 358,712 | 302,386 |
| Total assets and deferred outflows of resources | \$ 5,144,367 | \$ 4,699,423 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Balance Sheets (continued)

| Liabilities, Deferred Inflows of Resources, and Net Position | June 30, | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Current liabilities payable from unrestricted assets: | | |
| Accounts payable and accrued liabilities | \$ 19,530 | \$ 19,420 |
| Unearned toll revenue | 16,906 | 12,400 |
| Unearned other revenue | 32,104 | 17,974 |
| Current portion of due to governmental agencies | 176,781 | 26,985 |
| Total current liabilities payable from unrestricted assets | 245,321 | 76,779 |
| Current liabilities payable from restricted assets: | | |
| Accounts payable and accrued liabilities | 15,824 | 49 |
| Interest payable | 48,631 | 50,174 |
| Current portion of revenue bonds payable | 20,360 | 18,975 |
| Total current liabilities payable from restricted assets | 84,815 | 69,198 |
| Total current liabilities | 330,136 | 145,977 |
| Noncurrent liabilities: | | |
| Derivative financial instrument | 234,689 | 168,782 |
| Revenue bonds payable - less current portion | 2,800,991 | 2,629,928 |
| Due to governmental agencies - less current portion | 6,715 | 186,688 |
| Net pension liability | 3,852 | 2,377 |
| Total noncurrent liabilities | 3,046,247 | 2,987,775 |
| Total liabilities | 3,376,383 | 3,133,752 |
| Deferred inflows of resources | 6,608 | 7,910 |
| Total liabilities and deferred inflows of resources | 3,382,991 | 3,141,662 |
| Net position: | | |
| Net investment in capital assets | 1,318,726 | 1,206,541 |
| Restricted for: | | |
| Operation, maintenance and administrative reserve | 8,901 | 7,929 |
| Renewal and replacement reserve | 32,048 | 29,706 |
| Total restricted net position | 40,949 | 37,635 |
| Unrestricted | 401,701 | 313,585 |
| Total net position | 1,761,376 | 1,557,761 |
| Total liabilities, deferred inflows of resources, and net position | \$ 5,144,367 | \$ 4,699,423 |

See notes to financial statements.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position

| | June 30, | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Operating revenues: | | |
| Toll revenues | \$ 390,902 | \$ 350,927 |
| Transponder sales | 167 | 63 |
| Fees and other | 9,791 | 8,196 |
| | 400,860 | 359,186 |
| Operating expenses: | | |
| Operations | 40,716 | 37,430 |
| Maintenance | 13,602 | 14,419 |
| Administrative | 6,429 | 5,616 |
| Depreciation | 14,263 | 15,604 |
| Preservation | 15,964 | 3,975 |
| Other expenses | 2,329 | 3,924 |
| | 93,303 | 80,968 |
| Operating income | 307,557 | 278,218 |
| Nonoperating revenues (expenses): | | |
| Investment income | 5,977 | 2,516 |
| Gain (Loss) on capital assets | (694) | (1,848) |
| Other nonoperating | 403 | 92 |
| Goldenrod Road Extension - net | 1,400 | (2,751) |
| Interest expense | (124,064) | (95,368) |
| | (116,978) | (97,359) |
| Income before contributions | 190,579 | 180,859 |
| Capital contribution | 13,036 | 154 |
| | 203,615 | 181,013 |
| Change in net position | 203,615 | 181,013 |
| Net position at beginning of year | 1,557,761 | 1,379,261 |
| Restatement for GASB 68 implementation | - | (2,513) |
| | 1,557,761 | 1,376,748 |
| Net position at end of year | \$ 1,761,376 | \$ 1,557,761 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Statements of Cash Flows

| | June 30, | |
|---|-------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Operating activities: | | |
| Receipts from customers and users | \$ 421,390 | \$ 370,513 |
| Payments to suppliers | (83,867) | (55,928) |
| Payments to employees | (4,765) | (4,338) |
| | <u>332,758</u> | <u>310,247</u> |
| Capital and related financing activities: | | |
| Acquisition and construction of capital assets | (179,262) | (153,059) |
| Proceeds from capital contributions | 13,036 | 154 |
| Proceeds from issuance of debt | 345,390 | - |
| Interest paid on revenue bonds | (125,288) | (129,147) |
| Payment of principal on revenue bonds | (174,995) | (16,875) |
| Payment of principal and interest on State Infrastructure Bank Loan | (2,513) | (10,188) |
| Payment of principal on government advances | (20,187) | (20,177) |
| | <u>(143,819)</u> | <u>(329,292)</u> |
| Investing activities: | | |
| Purchase of investments | (636,969) | (332,002) |
| Proceeds from sales and maturities of investments | 453,919 | 342,620 |
| Interest received | 3,722 | 1,677 |
| | <u>(179,328)</u> | <u>12,295</u> |
| Net increase (decrease) in cash and cash equivalents | 9,611 | (6,750) |
| Cash and cash equivalents at beginning of year | <u>379,056</u> | <u>385,806</u> |
| Cash and cash equivalents at end of year | <u>\$ 388,667</u> | <u>\$ 379,056</u> |
| | | |
| Cash and cash equivalents - unrestricted | \$ 220,050 | \$ 274,836 |
| Restricted cash and cash equivalents - current | 84,815 | 69,198 |
| Restricted cash and cash equivalents - noncurrent | 83,802 | 35,022 |
| | <u>\$ 388,667</u> | <u>\$ 379,056</u> |

See notes to financial statements.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Statements of Cash Flows (continued)

| | June 30, | |
|---|-----------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Income from operations | \$ 307,557 | \$ 278,218 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 14,263 | 15,604 |
| Goldenrod Road Extension and other miscellaneous | 1,894 | (682) |
| Changes in assets and liabilities: | | |
| Due from governmental agencies | (1,126) | (1,363) |
| Inventory | (2,574) | (269) |
| Accounts payable and accrued liabilities | 110 | 3,684 |
| Unearned rent | 14,150 | 11,610 |
| Due to governmental agencies | (7,477) | 684 |
| Unearned toll revenue | 4,486 | 399 |
| Arbitrage rebate payable | - | (15) |
| Net pension liability | 1,475 | 2,377 |
| | \$ 332,758 | \$ 310,247 |
| Net cash provided by operating activities | \$ 332,758 | \$ 310,247 |
| Noncash investing and financing activities: | | |
| Increase in fair value of investments | \$ 1,803 | \$ 511 |
| Increase (decrease) in fair value of derivative financial instrument | \$ (65,907) | \$ (27,373) |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies

Reporting Entity - The Central Florida Expressway Authority (CFX) is an agency of the state, created by the Florida Legislature. On June 20, 2014, the Governor of Florida signed the bill to create CFX, which assumed the governance and control of the former Orlando-Orange County Expressway Authority, including its assets, personnel, contracts, obligations, liabilities, facilities and tangible and intangible property. CFX is an independent, locally controlled transportation authority responsible for the construction, maintenance and operation of toll roads in Seminole, Lake, Osceola and Orange Counties, and may also acquire, construct and equip rapid transit, trams and fixed guideways within the rights-of-way of the expressway system. The governing board of CFX is made up of nine members, consisting of: (a) one member each appointed by the respective chairs of the county commissions of Lake, Orange, Osceola and Seminole Counties; (b) three citizens appointed by the Governor; (c) the Mayor of Orange County; and (d) the Mayor of the City of Orlando. The Florida Turnpike Enterprise Executive Director serves as a non-voting advisor. CFX is authorized to issue revenue bonds to finance portions of the System and to execute the refunding of existing revenue bonds.

For financial reporting purposes, CFX is a stand-alone entity; there are no component units included in the accompanying financial statements, and CFX is not considered a component unit of another entity.

Basis of Accounting - CFX prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses are recorded when incurred.

The assets, deferred outflows, liabilities, deferred inflows, and net position of CFX are reported in a self-balancing set of accounts, which include restricted and unrestricted resources, representing funds available for support of CFX's operations.

Operating Revenues and Expenses - CFX's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its System. The Goldenrod Road Extension, which is a project outside the normal course of operations, and all other revenues and expenses are reported as nonoperating revenues and expenses.

Lease-Purchase Agreement - Under the requirements of the Lease-Purchase Agreement between CFX and the FDOT, dated December 23, 1985, as amended and supplemented, CFX is reimbursed by the FDOT for the maintenance costs of SR 528, portions of SR 408, improvements to the Airport Interchange at SR 528 and State Road 436 (Semoran Boulevard), and the cost of operations of the Conway and Pine Hills Plazas. However, the reimbursements received are recorded as advances from the FDOT and are included in due to governmental agencies, since they are to be repaid to the FDOT from future toll revenues after the requirements for retirement of bonds and all other obligations have been met.

While CFX's position has been that the FDOT's obligations under the Lease-Purchase Agreement were not subject to appropriation, the Governor vetoed the operations component of the reimbursement for fiscal year 2013. CFX entered into a Memorandum of Agreement with FDOT on February 14, 2013 where it was agreed that commencing in fiscal year 2014 the operations and maintenance payments made by the FDOT will be refunded to the FDOT within sixty days of payment.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents - For purposes of the statements of cash flows, demand deposit accounts with commercial banks, and cash invested in commercial money market funds (including restricted assets) are considered cash equivalents. For investments that are held separately from the pools, those which are highly liquid (including restricted assets), with an original maturity of 90 days or less when purchased or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, are considered to be cash equivalents.

Investments - Investments consist of unrestricted and restricted investments, and are carried at fair value, as determined in an active market.

Accounts Receivable - The accrued interest and accounts receivable primarily consists of amounts billed to individuals via one or more Pay by Plate invoices for tolls not paid at the point of System use. This item also includes interest earned but not paid by the end of the fiscal year, or amounts due from individuals or other entities for prepaid items or for services provided. This amount is recorded at the net realizable value; therefore, a provision for doubtful accounts has been made for the estimated amount of uncollectible Pay by Plate invoices based on historical information.

Inventory - Inventory, which consists of E-PASS system transponders that will be sold to customers, is carried at the lower-of-cost or market and is valued using the specific-identification method.

Restricted Assets - Restricted assets of CFX represent bond proceeds designated for construction, and other monies required to be restricted for debt service, operations, maintenance, administration, renewal and replacement.

Deferred Outflows / Inflows of Resources - In addition to assets, CFX reports a separate section for deferred outflows of resources on its balance sheets. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. CFX has three items that qualify for reporting as deferred outflows of resources.

Accumulated Decrease in Fair Value of Hedging Derivatives - As described in Note 5, CFX has entered into interest rate swap agreements that qualify as effective cash flow hedges in connection with variable rate bonds. The fair value of the swaps is presented on the balance sheets as a deferred outflow of resources and a derivative financial instrument liability in the amount of \$234,689,000 and \$168,782,000 at June 30, 2016 and 2015, respectively, with changes in valuation applied to these balance sheet accounts. Should the swaps be terminated prior to their expected conclusion, or if the hedges cease to significantly reduce risk, accumulated gains or losses will be reported on the operating statement.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Deferred Outflows / Inflows of Resources (Continued)

Deferred Outflow on Refunding of Revenue Bonds - The difference between the re-acquisition price and the net carrying amount of refunded bonds is presented on the balance sheets at June 30, 2016 and 2015 as a deferred outflow of resources in the amount of \$121,914,000 and \$131,944,000, respectively, and is amortized as an adjustment to interest expense on a straight-line basis over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

Deferred Outflows Related to Pensions - These deferred outflows of resources are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The deferred outflows related to pensions totaled \$2,109,000 and \$1,660,000 at June 30, 2016 and 2015, respectively, and will be recognized as either pension expense or a reduction in the net pension liability in future reporting years. Details on the composition of the deferred outflows of resources related to pensions are further discussed in Note 8.

In addition to liabilities, CFX reports a separate section for deferred inflows of resources on its balance sheets. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until then. CFX has two items that qualify for reporting as deferred inflows of resources.

Deferred Inflow on Interest Rate Exchange - During the fiscal year ended June 30, 2007, CFX entered into six mandatory, cash-settled interest rate exchange agreements, the purpose of which was to lock in the interest rate associated with the Series 2007A Bonds. The result of these agreements was an \$8,078,000 net payment to CFX on June 28, 2007, which is presented on the balance sheets at June 30, 2016 and 2015 as a deferred inflow of resources in the amount of \$6,001,000 and \$6,232,000, respectively, and is amortized as an adjustment to interest expense over the life of the bonds.

Deferred Inflows Related to Pensions - These deferred inflows of resources are an aggregate of items related to pensions as calculated in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The deferred inflows related to pensions at June 30, 2016 and 2015 totaled \$607,000 and \$1,678,000, respectively, and will be recognized as a reduction to pension expense in future reporting years. Details on the composition of the deferred outflows of resources related to pensions are further discussed in Note 8.

Capital Assets

Cost Basis - All capital assets are recorded at historical cost. The cost of property and equipment includes costs for infrastructure assets (right-of-way, highways and bridges substructure, and highways and bridges), toll equipment, buildings, toll facilities, other related costs (including software) and furniture and equipment. Highways and bridges substructure includes road sub-base, grading, land clearing, embankments and other related costs. Costs for infrastructure assets include construction costs, design and engineering fees, administrative and general expenses paid from construction monies, and bond interest expense incurred during the period of construction.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Capitalization Policy - Costs to acquire additional capital assets, and to replace existing assets or otherwise prolong their useful lives, are capitalized for toll equipment, buildings, toll facilities, other related costs, and furniture and equipment. Under CFX's policy of accounting for infrastructure assets pursuant to the "modified approach," property costs represent a historical accumulation of costs expended to acquire rights-of-way and to construct, improve and place in operation the various projects and related facilities. It is CFX's policy to capitalize amounts equal to or in excess of \$5,000.

Depreciation Policy - Depreciation of toll equipment, buildings, toll facilities, other related costs, signs, software, and furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|--------------------------------------|----------|
| Toll equipment | 8 years |
| Buildings, toll facilities and other | 30 years |
| Signs | 20 years |
| Software | 3 years |
| Furniture and equipment | 7 years |

Under the modified approach, infrastructure assets are considered to be "indefinite lived" assets; that is, the assets themselves will last indefinitely and are, therefore, not depreciated. Costs related to maintenance, renewal and replacement for these assets are not capitalized, but instead are considered to be period costs and are included in preservation expense.

Construction in Progress - Construction in progress represents costs incurred by CFX for in-process activities designed to expand, replace or extend useful lives of existing property and equipment.

Capitalized Interest - Interest costs on funds used to finance the construction of capital assets are capitalized based upon the blended cost of debt and depreciated over the life of the related assets in accordance with the above policies.

Retainage Payable - Retainage payable represents amounts billed to CFX by contractors for which payment is not due pursuant to retained percentage provisions in construction contracts until substantial completion of performance by contractor and acceptance by CFX.

Compensated Absences - Accumulated vacation pay, vested sick pay, and other compensation payable to employees is recorded and included in accounts payable and accrued liabilities. The balance of compensated absences had a net increase of \$107,000 from June 30, 2015 to June 30, 2016.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Bond Premium, Discount, and Prepaid Bond Insurance Costs - Bond premium, discount, and prepaid bond insurance costs associated with the issuance of bonds are amortized on a straight-line basis over the life of the bonds, which approximates the effective interest method. Bond premiums and discounts are presented as an addition and a reduction, respectively, of the face amount of revenue bonds payable whereas prepaid bond insurance costs are recorded as assets.

Restricted Net Position - Restricted net position is comprised of amounts reserved for operations, maintenance, administrative expenses and renewals and replacements in accordance with bond covenants.

Pensions - In the balance sheets, net pension liability represents CFX's proportionate share of the net pension liability of the cost-sharing pension plans in which it participates. This proportionate amount represents a share of the present value of projected benefit payments to be provided through the cost-sharing pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the cost-sharing pension plan's fiduciary net position.

CFX participates in both the Florida Retirement System (FRS) defined benefit pension plan and the Retiree Health Insurance Subsidy Program (HIS) defined benefit pension plan administered by the Florida Division of Retirement (collectively, FRS/HIS).

For purposes of measuring CFX's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of FRS/HIS and additions to/deductions from FRS/HIS's fiduciary net position have been determined on the same basis as they are reported by FRS/HIS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Budgets and Budgetary Accounting - CFX abides by the following procedures in establishing budgetary data:

On or before February 1 of each year, CFX completes a review of its financial condition for the purpose of estimating whether the gross revenues, together with series payments, system payments and supplemental payments, if any, for the ensuing fiscal year will be sufficient to provide at least 120% of the annual debt service requirements of the bonds and that gross revenues will be sufficient to pay all other amounts required by the Master Bond Resolution, as amended and restated.

In the event that CFX determines that revenues will not be sufficient to satisfy the above payments, CFX will conduct a study to determine the toll revenue rate increase required to restore the revenue deficiency.

All schedules of toll revenues and revisions thereof are filed with the FDOT.

On or before April 1 of each year, a preliminary budget is prepared for maintenance, operations and administrative expenses for the ensuing fiscal year. The preliminary budget is reviewed by the FDOT and modified, if necessary.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

On or before July 1 of each year, a final budget of maintenance, operations and administrative expenses is adopted subject to approval by the FDOT.

CFX may adopt an amended or supplemental annual budget for the remainder of a fiscal year subject to approval by the FDOT.

Reclassifications - Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 classifications.

New Pronouncements - Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* ("GASB 72") became effective for the fiscal year ended June 30, 2016, and provides guidance for determining fair value measurement for financial reporting purposes, as well as applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 did not impact CFX's financial statements but did impact CFX's note disclosures which are included in Note 2.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79) became effective for the fiscal year ended June 30, 2016 and establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. GASB 79 had no impact on CFX's financial statements.

Note 2 - Deposits and Investments

Cash and Cash Equivalents, and Investment Portfolio

Pursuant to Section 218.415, Florida Statutes, CFX has formally adopted a comprehensive investment policy most recently updated on May 14, 2015, which establishes permitted investments, asset allocation limits and issuer limits, credit rating requirements and maturity limits to protect CFX's cash and investment assets. CFX maintains a common cash and investment pool for the use of all funds. In addition, cash and investments are separately held by CFX's bond proceeds/construction, debt service, capitalized interest, and debt service reserve funds.

The following chart outlines the types of permitted investments, credit quality risk rating requirements by security type, the maximum concentration of credit risk by percentage of the total portfolio that may be invested in a single issuer and in total by security type and maturity limits prescribed to mitigate interest rate risk exposure:

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Permitted Investments

| Sector | Sector Maximum (%) | Per Issuer Maximum (%) | Minimum Ratings Requirement ¹ | Maximum Maturity | Master Bond Resolution Permitted Investments |
|--|--------------------|-------------------------------|---|--|--|
| U.S. Treasury | 100% | 100% | N/A | 5.50 Years (5.50 Years avg. life ⁴ for GNMA) | X |
| GNMA | | 40% | | | X |
| Other U.S. Government Guaranteed (e.g. AID, GTC) | | 10% | | | X |
| Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB* | 75% | 40% ³ | N/A | 5.50 Years | X |
| Federal Agency/GSE other than those above | | 10% | | | X |
| Supranationals where U.S. is a shareholder and voting member | 25% | 10% | Highest ST or Two Highest LT Rating Categories (A-1/P-1, AAA/Aaa, or equivalent) | 5.50 Years | |
| Corporates | 50% ² | 5% | Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3 or equivalent) | 5.50 Years | |
| Municipals | 25% | 5% | Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent) | 5.50 Years | X |
| Agency Mortgage-Backed Securities (MBS) | 25% | 40% ³ | N/A | 5.50 Years Avg. Life ⁴ | |
| Asset-Backed Securities (ABS) | 25% | 5% | Highest ST or LT Rating (A-1+/P-1, AAA/Aaa, or equivalent) | 5.50 Years Avg. Life ⁴ | |
| Depository Accounts with Qualified Public Depositories | 75% | 50% | N/A | N/A | X |
| Non-Negotiable Collateralized Bank Deposits or Savings Accounts | 50% | None, if fully collateralized | None, if fully collateralized. | 2 Years | X |
| Commercial Paper (CP) | 50% ² | 5% | Highest ST Rating Category (A-1/P-1, or equivalent) | 270 Days | X |
| Bankers' Acceptances (BAs) | 10% ² | 5% | Highest ST Rating Category (A-1/P-1, or equivalent) | 180 Days | X |
| Repurchase Agreements (Repo or RP) | 40% | 20% | Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent) If the counterparty is a Federal Reserve Bank, no rating is required | 1 Year | X |
| Money Market Funds (MMFs) | 50% | 25% | Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent) | N/A | X |
| Fixed-Income Mutual Funds | 25% | 10% | N/A | 3 Years | |
| Intergovernmental Pools (LGIPs) | 50% | 25% | Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent) | N/A | |
| Florida Local Government Surplus Funds Trust Funds ("Florida Prime") | 25% | N/A | Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent) | N/A | X |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

| Sector | Sector Maximum (%) | Per Issuer Maximum (%) | Minimum Ratings Requirement ¹ | Maximum Maturity | Master Bond Resolution Permitted Investments |
|---|--------------------|------------------------|--|------------------|--|
| Notes: | | | | | |
| ¹ Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term. | | | | | |
| ² Maximum allocation to all corporate and bank credit instruments is 50% combined. | | | | | |
| ³ Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%. | | | | | |
| ⁴ The maturity limit for MBS and ABS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods. | | | | | |
| * Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB). | | | | | |

Additionally, investments in any derivative products or the use of reverse repurchase agreements are specifically prohibited, unless permitted in Section XV of CFX’s Investment Policy.

Deposits

On June 30, 2016, the carrying amount of CFX’s various deposits accounts was \$388,667,000. CFX’s cash deposits are held by banks that qualify as public depositories under the Florida Security for Public Deposits Act, as required by Chapter 280, Florida Statutes.

Investments

Concentration of Credit Risk - The following is the percent of any issuer with whom CFX had invested more than 5% of the total portfolio as of June 30, 2016 and 2015:

| Issuer | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Federal Home Loan Bank | N/A | 7.72% |
| Federal National Mortgage Association | 5.21% | N/A |
| Federal Home Loan Mortgage Corporation | N/A | 7.03% |
| U.S Treasury Notes | 35.35% | 44.66% |

Interest Rate Risk - CFX’s Investment Policy states that portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. To the extent possible, an attempt will be made to match investment maturities with known cash needs. Investments of current operating funds shall have maturities of no longer than 24 months. Investments of debt obligation reserves, construction funds and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants. The purchase of investments for core funds with maturities longer than five and a half (5.5) years requires CFX’s approval prior to purchase. However, final maximum maturity for any investment is limited to ten (10) years.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 2 - Deposits and Investments (Continued)

CFX uses the distribution of maturities to manage interest rate risk. As of June 30, 2016, 40% of CFX's investments had a maturity of less than 6 months, 16% had a maturity of 6 to 12 months, 22% had a maturity of 1 to 2 years, 16% had a maturity of 2 to 3 years, 3% had a maturity of 3 to 4 years, and 3% had a maturity of over 4 years. As of June 30, 2015, 6% of CFX's investments had a maturity of less than 6 months, 13% had a maturity of 6 to 12 months, 43% had a maturity of 1 to 2 years, 34% had a maturity of 2 to 3 years, and 4% had a maturity of over 4 years.

Total distributions of maturities are as follows:

| | As of June 30, 2016 | | | | | Total |
|-------------------------|-------------------------------|--------------------------|------------------------|------------------------|---------------------|-------------------|
| | (in thousands) | | | | | |
| | Less than 6 months | 6 - 12 months | 1 - 2 years | 2 - 3 years | 3+ years | |
| US Treasury Securities | \$ 45,331 | \$ 1,555 | \$ 63,956 | \$ 36,466 | \$ 4,523 | \$ 151,831 |
| Federal Instruments | 9,987 | 11,035 | 10,890 | 10,682 | 8,180 | 50,774 |
| Corporate Note | 9,393 | 47,040 | 18,103 | 20,783 | 1,091 | 96,410 |
| Commercial Paper | 106,870 | 6,952 | 2,000 | - | - | 115,822 |
| Municipal Bond Note | - | - | 1,655 | - | 3,346 | 5,001 |
| Corp. Asset Backed Sec. | - | - | - | 1,587 | 8,125 | 9,712 |
| Total | \$ 171,581 | \$ 66,582 | \$ 96,604 | \$ 69,518 | \$ 25,265 | \$ 429,550 |

| | As of June 30, 2015 | | | | | Total |
|------------------------|-------------------------------|--------------------------|------------------------|------------------------|---------------------|-------------------|
| | (in thousands) | | | | | |
| | Less than 6 months | 6 - 12 months | 1 - 2 years | 2 - 3 years | 3+ years | |
| US Treasury Securities | \$ - | \$ 4,604 | \$ 45,418 | \$ 60,075 | \$ - | \$ 110,097 |
| Federal Instruments | - | 8,011 | 26,051 | 4,986 | 9,368 | 48,416 |
| Corporate Note | - | 2,912 | 32,863 | 17,234 | - | 53,009 |
| Commercial Paper | 11,188 | 15,842 | - | 2,001 | - | 29,031 |
| Municipal Bond Note | 3,001 | 1,003 | 1,943 | - | - | 5,947 |
| Total | \$ 14,189 | \$ 32,372 | \$ 106,275 | \$ 84,296 | \$ 9,368 | \$ 246,500 |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 2 - Deposits and Investments (Continued)

Credit Risk and Fair Value Measurement - Total CFX deposits and investments are as follows:

| | June 30, 2016 | Fair Value Measurements Using (in thousands) | |
|---|------------------|---|---|
| | | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Quoted Prices in Active Markets for Similar Assets or Liabilities (Level 2) |
| United States Treasury Securities | \$ 151,831 | \$ 151,831 | |
| Commercial Paper | 115,822 | 115,822 | |
| Federal Instrumentalities | 50,774 | 50,774 | |
| Money Market Mutual Funds | 125,359 | 125,359 | |
| Municipal Bond Note | 5,001 | 5,001 | |
| Corporate Note | 96,410 | 96,410 | |
| Corporate Asset Backed Securities | 9,712 | - | \$ 9,712 |
| Total investments by fair value measure | 554,909 | \$ 545,197 | \$ 9,712 |
| Total deposits | 263,308 | | |
| Total deposits and investments | 818,217 | | |
| Restricted | 291,967 | | |
| Unrestricted | \$ 526,250 | | |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 2 - Deposits and Investments (Continued)

| | June 30, 2015 | Fair Value Measurements Using (in thousands) Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) |
|---------------------------------------|------------------|--|
| United States Treasury Securities | \$ 110,097 | \$ 110,097 |
| Commercial Paper | 29,031 | 29,031 |
| Federal Instrumentalities | 48,416 | 48,416 |
| Money Market Mutual Funds | 75,916 | 75,916 |
| Municipal Bond Note | 5,947 | 5,947 |
| Corporate Note | 53,009 | 53,009 |
| Total investments by fair value level | 322,416 | \$ 322,416 |
| Total deposits | 303,140 | |
| Total deposits and investments | 625,556 | |
| Restricted | 171,212 | |
| Unrestricted | \$ 454,344 | |

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets or liabilities. Securities classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets or liabilities.

Federal Instrumentalities, and U.S. Government Supported Corporate Debt Notes/Bonds are rated "AA+" by Standard & Poor's. The investments in Municipal Obligations are rated "AA" by Standard & Poor's. The Corporate Notes Standard & Poor's credit ratings are "AAA", "AA+", "AA", "AA-", "A+", and "A". The Commercial Paper is rated "A-1+" and "A-1" by Standard & Poor's. The Florida PRIME and Money Market Mutual Funds are rated "AAAm" by Standard & Poor's. The Florida State Board of Administration Fund B ("Fund B") is not rated for credit quality.

Custodial Credit Risk - All CFX depositories are members of the State of Florida collateral pool. The State of Florida collateral pool is a multiple, financial institution collateral pool with the ability to make additional assessments to satisfy the claims of governmental entities if any member institution fails. This ability provides protection, which is similar to depository insurance.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 2 - Deposits and Investments (Continued)

CFX's Investment Policy requires execution of a third-party custodial safekeeping agreement for all purchased securities and requires that securities be designated as an asset of CFX. One required exception to this policy is the amount of posted collateral required under the interest rate exchange agreement with Morgan Stanley, as described in Note 5. Under this agreement, the counterparty is holding as collateral securities valued at an amount in excess of the termination value above \$15,000,000. As of June 30, 2016 and 2015, no collateral posting was requested by Morgan Stanley.

As of June 30, 2016 and 2015, all of CFX's securities were held in a bank's trust/custodial department in CFX's name.

Restricted Cash and Investments - Cash, cash equivalents and investments restricted in accordance with bond provisions and other agreements are as follows:

| | June 30, | |
|--|-------------------|------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Reserve funds: | | |
| Operations, maintenance and administrative reserve | \$ 8,901 | \$ 7,929 |
| Renewal and replacement reserve | 32,048 | 29,706 |
| Total reserve funds | <u>40,949</u> | <u>37,635</u> |
| Bond funds: | | |
| Principal and interest accounts | 83,536 | 74,963 |
| Reserve accounts | 59,357 | 58,614 |
| Total bond funds | <u>142,893</u> | <u>133,577</u> |
| Construction funds: | | |
| 2015 BAN construction funds | 108,125 | - |
| Total construction funds | <u>108,125</u> | <u>-</u> |
| Total restricted cash, cash equivalents and investments | 291,967 | 171,212 |
| Portion related to cash and cash equivalents | 168,617 | 104,220 |
| Portion related to investments | <u>\$ 123,350</u> | <u>\$ 66,992</u> |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 3 - Due From Governmental Agencies

Due from governmental agencies consists of the following:

| | June 30, | |
|--|-----------------------|----------|
| | 2016 | 2015 |
| | <i>(in thousands)</i> | |
| City of Orlando - Crystal Lake Project | \$ 757 | \$ 1,555 |
| City of Orlando - Utility Reimbursement | - | 5 |
| City of Orlando - Toll Suspension Reimbursement | 8 | - |
| Florida Department of Transportation - Operations and Maintenance Reimbursement | 1,337 | 2,408 |
| Florida Department of Transportation - SunPass Customers' use of E-PASS Roads | 5,036 | 2,512 |
| Florida Department of Transportation - Lighting Improvements | 135 | - |
| Florida Department of Transportation - LiDAR Reimbursement | 100 | - |
| Florida's Turnpike Enterprise - Road Ranger Joint Contract | 126 | 94 |
| Lee County - LeeWay Customers' use of E-PASS | 5 | 3 |
| Orange County - Fines/Fees | 353 | 154 |
| | \$ 7,857 | \$ 6,731 |
| Less current portion | (7,857) | (5,964) |
| | \$ - | \$ 767 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 4 - Capital Assets

Capital assets are summarized as follows (in thousands):

| | June 30, 2015 | Additions | Reductions | Transfers | June 30, 2016 |
|--|---------------------|-------------------|-----------------|-----------------|---------------------|
| Infrastructure (non-depreciable): | | | | | |
| Right-of-way | \$ 657,301 | \$ 229 | \$ (153) | \$ 2 | \$ 657,379 |
| Highways and bridges | 2,610,985 | 628 | (264) | 96,014 | 2,707,363 |
| Total infrastructure (non-depreciable) | <u>3,268,286</u> | <u>857</u> | <u>(417)</u> | <u>96,016</u> | <u>3,364,742</u> |
| Construction in progress (non-depreciable): | | | | | |
| Right-of-way | 154,173 | 47,525 | - | (2) | 201,696 |
| Highways and bridges | 170,519 | 138,292 | - | (96,014) | 212,797 |
| Buildings and toll facilities | - | 1,638 | - | (642) | 996 |
| Toll equipment | 3,580 | 13,797 | - | (210) | 17,167 |
| Furniture, equipment and other | 730 | 3,026 | - | (1,289) | 2,467 |
| Total construction in progress (non-depreciable) | <u>329,002</u> | <u>204,278</u> | <u>-</u> | <u>(98,157)</u> | <u>435,123</u> |
| Property and equipment (depreciable): | | | | | |
| Toll equipment | 99,392 | 442 | (75) | 210 | 99,969 |
| Buildings and toll facilities | 163,235 | - | (4,930) | 642 | 158,947 |
| Furniture, equipment and other | 59,993 | 322 | (361) | 1,289 | 61,243 |
| Total property and equipment (depreciable) | <u>322,620</u> | <u>764</u> | <u>(5,366)</u> | <u>2,141</u> | <u>320,159</u> |
| Less accumulated depreciation for: | | | | | |
| Toll equipment | (73,335) | (6,626) | 61 | - | (79,900) |
| Buildings and toll facilities | (55,112) | (5,386) | 4,638 | - | (55,860) |
| Furniture, equipment and other | (36,710) | (2,251) | 297 | - | (38,664) |
| Total accumulated depreciation | <u>(165,157)</u> | <u>(14,263)</u> | <u>4,996</u> | <u>-</u> | <u>(174,424)</u> |
| Total property and equipment being depreciated, net | <u>157,463</u> | <u>(13,499)</u> | <u>(370)</u> | <u>2,141</u> | <u>145,735</u> |
| Total capital assets | <u>\$ 3,754,751</u> | <u>\$ 191,636</u> | <u>\$ (787)</u> | <u>\$ -</u> | <u>\$ 3,945,600</u> |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 4 - Capital Assets (Continued)

| | June 30, 2014 | Additions | Reductions | Transfers | June 30, 2015 |
|--|---------------------|-------------------|-------------------|-----------------|---------------------|
| Infrastructure (non-depreciable): | | | | | |
| Right-of-way | \$ 658,362 | \$ 371 | \$ (3,383) | \$ 1,951 | \$ 657,301 |
| Highways and bridges | 2,535,425 | 258 | - | 75,302 | 2,610,985 |
| Total infrastructure (non-depreciable) | <u>3,193,787</u> | <u>629</u> | <u>(3,383)</u> | <u>77,253</u> | <u>3,268,286</u> |
| Construction in progress (non-depreciable): | | | | | |
| Right-of-way | 92,605 | 63,519 | - | (1,951) | 154,173 |
| Highways and bridges | 133,575 | 110,671 | - | (73,727) | 170,519 |
| Buildings and toll facilities | - | - | - | - | - |
| Toll equipment | 2,085 | 7,048 | - | (5,553) | 3,580 |
| Furniture, equipment and other | 1,893 | 4,175 | - | (5,338) | 730 |
| Total construction in progress (non-depreciable) | <u>230,158</u> | <u>185,413</u> | <u>-</u> | <u>(86,569)</u> | <u>329,002</u> |
| Property and equipment (depreciable): | | | | | |
| Toll equipment | 93,917 | 44 | (122) | 5,553 | 99,392 |
| Buildings and toll facilities | 163,235 | - | - | - | 163,235 |
| Furniture, equipment and other | 57,305 | 365 | (1,440) | 3,763 | 59,993 |
| Total property and equipment (depreciable) | <u>314,457</u> | <u>409</u> | <u>(1,562)</u> | <u>9,316</u> | <u>322,620</u> |
| Less accumulated depreciation for: | | | | | |
| Toll equipment | (65,363) | (8,054) | 82 | - | (73,335) |
| Buildings and toll facilities | (49,736) | (5,376) | - | - | (55,112) |
| Furniture, equipment and other | (35,573) | (2,175) | 1,038 | - | (36,710) |
| Total accumulated depreciation | <u>(150,672)</u> | <u>(15,605)</u> | <u>1,120</u> | <u>-</u> | <u>(165,157)</u> |
| Total property and equipment being depreciated, net | <u>163,785</u> | <u>(15,196)</u> | <u>(442)</u> | <u>9,316</u> | <u>157,463</u> |
| Total capital assets | <u>\$ 3,587,730</u> | <u>\$ 170,846</u> | <u>\$ (3,825)</u> | <u>\$ -</u> | <u>\$ 3,754,751</u> |

Total bond interest cost incurred amounted to approximately \$138,825,000 and \$131,548,000 during the years ended June 30, 2016 and 2015, respectively, of which \$10,861,000 and \$36,180,000 were capitalized as construction in progress.

Goldenrod Project - On March 24, 1999, CFX signed the Goldenrod Road Extension Development Agreement (the "Agreement") for the extension of Goldenrod Road to SR 528 (the "Extension"). The Agreement is between CFX and other local agencies and governments, including the City of Orlando (the "City"), Greater Orlando Aviation Authority ("GOAA") and Orange County (the "County"). Under the Agreement, each of the parties agreed to contribute a set amount toward construction of the Extension. The contributions made by each party for construction are as follows:

| | |
|-----------------|---------------|
| City of Orlando | \$ 2,000,000 |
| GOAA | \$ 4,500,000 |
| Orange County | \$ 1,000,000 |
| CFX | \$ 36,961,675 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 4 - Capital Assets (Continued)

CFX's responsibilities under the Agreement were to acquire, design and construct the right-of-way for the Extension. Construction of the Extension began in January 2001 and opened to traffic in March 2004. Under the terms of the Agreement, toll revenues generated from the Extension will be distributed, first to operating cost, then to repay the contributions to each contributing party.

The construction costs of the roadway, toll plaza and toll equipment are included in CFX's capital assets. These assets will remain the property of CFX until the final payments of all contributions are made. Upon the final repayment of all contributions, ownership of the roadway will revert to the City and the City will be responsible for all future maintenance costs. CFX will retain ownership of the interchange to SR 528 and certain portions of the right-of-way. Since this project is a non-System project, it is reported net in the non-operating section of the statements of revenues, expenses and changes in net position. The toll revenues generated from the Extension are not pledged to CFX's bond indebtedness.

Note 5 - Long-Term Debt

Revenue Bonds Payable - A summary of changes in revenue bonds payable is as follows (in thousands):

| | June 30, 2015 | Additions | Deletions | June 30, 2016 |
|--|--------------------|------------|--------------|---------------|
| Series 1990 | \$ 23,655 | \$ - | \$ (11,360) | \$ 12,295 |
| Series 2007A | 425,000 | - | (156,020) | 268,980 |
| Series 2008B1 | 130,870 | - | (165) | 130,705 |
| Series 2008B2 | 118,335 | - | (155) | 118,180 |
| Series 2008B3 | 149,655 | - | (215) | 149,440 |
| Series 2008B4 | 99,715 | - | (100) | 99,615 |
| Series 2010A | 334,565 | - | - | 334,565 |
| Series 2010B | 180,895 | - | (5,505) | 175,390 |
| Series 2010C | 283,610 | - | - | 283,610 |
| Series 2012 | 201,925 | - | - | 201,925 |
| Series 2012A | 59,060 | - | - | 59,060 |
| Series 2013A | 242,320 | - | - | 242,320 |
| Series 2013B | 173,775 | - | (675) | 173,100 |
| Series 2013C | 107,125 | - | (800) | 106,325 |
| Series 2015 Senior Lien BANs | - | 193,695 | - | 193,695 |
| Series 2016A | - | 151,695 | - | 151,695 |
| | <hr/> 2,530,505 | 345,390 | (174,995) | 2,700,900 |
| Add unamortized bond premium | 118,508 | 14,192 | (12,249) | 120,451 |
| Less unamortized bond discount | (110) | - | 110 | - |
| Less current portion of revenue bonds payable | (18,975) | (20,360) | 18,975 | (20,360) |
| Revenue bonds payable - net of current portion | <hr/> \$ 2,629,928 | \$ 339,222 | \$ (168,159) | \$ 2,800,991 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

| | June 30, 2014 | Additions | Deletions | June 30, 2015 |
|--|---------------|-------------|-------------|---------------|
| Series 1990 | \$ 34,155 | \$ - | \$ (10,500) | \$ 23,655 |
| Series 2007A | 425,000 | - | - | 425,000 |
| Series 2008B1 | 131,025 | - | (155) | 130,870 |
| Series 2008B2 | 118,500 | - | (165) | 118,335 |
| Series 2008B3 | 149,760 | - | (105) | 149,655 |
| Series 2008B4 | 99,820 | - | (105) | 99,715 |
| Series 2010A | 334,565 | - | - | 334,565 |
| Series 2010B | 186,200 | - | (5,305) | 180,895 |
| Series 2010C | 283,610 | - | - | 283,610 |
| Series 2012 | 201,925 | - | - | 201,925 |
| Series 2012A | 59,060 | - | - | 59,060 |
| Series 2013A | 242,320 | - | - | 242,320 |
| Series 2013B | 174,315 | - | (540) | 173,775 |
| Series 2013C | 107,125 | - | - | 107,125 |
| | 2,547,380 | - | (16,875) | 2,530,505 |
| Add unamortized bond premium | 127,445 | - | (8,937) | 118,508 |
| Less unamortized bond discount | (220) | - | 110 | (110) |
| Less current portion of revenue bonds payable | (16,875) | (18,975) | 16,875 | (18,975) |
| Revenue bonds payable - net of current portion | \$ 2,657,730 | \$ (18,975) | \$ (8,827) | \$ 2,629,928 |

In the 2002 legislative session, the Florida Legislature amended Chapter 348, Part V (now Part III of the "Expressway Act") to, among other things, revise and expand the powers of CFX to finance or refinance its projects, including the power to refund bonds previously issued on behalf of CFX by the State of Florida Division of Bond Finance of the State Board of Administration (Division of Bond Finance), through the issuance of its own bonds or other obligations. Consistent with the authority granted in the Expressway Act, CFX adopted an Authority Bond Resolution on July 2, 2002, authorizing the issuance of up to \$2,000,000,000 of additional bonds or other indebtedness to finance projects of CFX. Although not required, the first issuance of bonds by CFX under the Authority Bond Resolution was validated by the Circuit Court of the Ninth Judicial Circuit of Florida, in Orange County, Florida, on September 20, 2002.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

On January 28, 2003, the Division of Bond Finance adopted a resolution formally recognizing CFX as the issuer of bonds under that certain Master Junior Lien Bond Resolution pursuant to which the Division of the Bond Finance had previously issued bonds on behalf of CFX. CFX further adopted, on February 3, 2003, an Amended and Restated Master Bond Resolution pursuant to which CFX amended and restated the Authority Bond Resolution and the Master Junior Lien Resolution into a single, consolidated, single-lien resolution to govern the existing outstanding bonds and future bond indebtedness of CFX. All bonds or other obligations issued under the Amended and Restated Master Bond Resolution are payable from, and secured by, a pledge of net revenues from the operation of the System.

As notated in Note 1, on June 20, 2014, the Governor of Florida signed a bill to create CFX, which assumed the governance and control of the former Orlando-Orange County Expressway Authority, including its assets, personnel, contracts, obligations, liabilities, facilities and tangible and intangible property. The Central Florida Expressway Authority assumed all of the debt of the former Orlando-Orange County Expressway Authority pursuant to Chapter 2014-171, Public Laws of Florida.

Fixed Rate Debt

The Central Florida Expressway Authority Refunding Revenue Bonds, Series 2016A, were originally issued on April 26, 2016 and were outstanding in the aggregate principal amount of \$151,695,000 on June 30, 2016, all of which were serial bonds. The outstanding serial bonds are due in annual installments beginning on July 1, 2017 through July 1, 2032 and July 1, 2036 through July 1, 2037 in amounts ranging from \$710,000 to \$28,000,000, plus interest. The 2016A Bonds are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2016A Bonds is due and paid semiannually. The purpose of the Series 2016A Bonds was to refund a portion of the Series 2007A Bonds for net present value savings of \$27,251,546, which represents \$40,378,823 of lower debt service payments over the life of the debt. The deferred outflow on the refunding for accounting purposes was \$5,296,435.

The Central Florida Expressway Authority Revenue Bond Anticipation Notes (BANs), Series 2015, were originally issued on July 21, 2015 and were outstanding in the aggregate principal amount of \$193,695,000 on June 30, 2016. The outstanding principal is due at maturity on January 1, 2019. The 2015 BANs are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. CFX entered into a Transportation Infrastructure Finance and Innovation (TIFIA) loan agreement with the U.S. Department of Transportation, acting by and through the Federal Highway Administrator on March 25, 2015. The proceeds from the Junior TIFIA loan are expected to be available to pay the Series 2015 BANs on their maturity date. Interest on the 2015 BANs is due and paid semiannually. The purpose of the 2015 BANs was to provide funds to finance certain capital costs for the Wekiva Parkway Project.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

Fixed Rate Debt (Continued)

The Central Florida Expressway Authority Refunding Revenue Bond, Series 2013C, was originally issued on September 12, 2013 and was outstanding in the aggregate principal amount of \$106,325,000 and \$107,125,000 on June 30, 2016 and 2015, respectively. The bond was issued in the form of a bank loan directly with the bondholder, STI Institutional & Government, Inc. The outstanding amount of the bond is due in annual installments beginning on July 1, 2016 through July 1, 2032 in amounts ranging from \$840,000 to \$15,740,000, plus interest. The 2013C Bond is payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2013C Bond is due and paid semiannually. The Series 2013C Bond was issued for the purpose of refunding the Series 2003D and to fund the termination payment related to the associated swap. The refunding resulted in a deferred outflow of \$15,599,396, most of which was related to the swap termination payment. The difference between the cash flow of the old debt and the cash flow of the new debt was \$3,440,975 lower post-refunding, which represents \$2,500,470 on a net present value basis. The purpose of this refunding was to lower the risk profile of CFX's debt at an attractive rate.

The Central Florida Expressway Authority Refunding Revenue Bonds, Series 2013B, were originally issued on January 2, 2013 and were outstanding in the aggregate principal amount of \$173,100,000 and \$173,775,000 on June 30, 2016 and 2015, respectively, all of which were serial bonds. The outstanding serial bonds are due in annual installments on July 1, 2016 through July 1, 2025 in amounts ranging from \$740,000 to \$24,710,000, plus interest. The 2013B Bonds are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2013B Bonds is due and paid semiannually. The Series 2013B Bonds were issued for the purpose of refunding the Series 2003C2 and 2003C4 Bonds and to fund the termination payments related to the associated swaps. The refunding resulted in a deferred outflow of \$42,223,850, most of which was related to the swap termination payments. The difference between the cash flow of the old debt and the cash flow of the new debt was \$5,959,376 higher post-refunding, which represents \$4,868,985 on a net present value basis. The purpose of this refunding was to lower the risk profile of CFX's debt at an attractive rate.

The Central Florida Expressway Authority Refunding Revenue Bonds, Series 2013A, were originally issued on April 3, 2013 and were outstanding in the aggregate principal amount of \$242,320,000 on June 30, 2016 and 2015, including \$110,545,000 of serial bonds and \$131,775,000 of term bonds. The serial bonds are due in annual installments beginning on July 1, 2026 through July 1, 2032 in amounts ranging from \$7,065,000 to \$24,875,000, plus interest. The term bond is due on July 1, 2035. The 2013A Bonds are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2013A Bonds is due and paid semiannually. The purpose of the Series 2013A Bonds was to refund the Series 2003B Bonds for net present value savings of \$35,842,015, which represents \$60,831,999 of lower debt service payments over the life of the debt. The deferred outflow on the refunding for accounting purposes was \$2,750,505.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Fixed Rate Debt (Continued)

The Central Florida Expressway Authority Refunding Revenue Bonds, Series 2012, were originally issued on November 29, 2012 and were outstanding in the aggregate principal amount of \$201,925,000 on June 30, 2016 and 2015, all of which were serial bonds. The serial bonds are due in annual installments beginning on July 1, 2017 through July 1, 2025 in amounts ranging from \$12,500,000 to \$28,005,000, plus interest. The 2012 Bonds are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2012 Bonds is due and paid semiannually. See below for the purpose, economic and accounting impacts of the refunding.

The Central Florida Expressway Authority General Reserve Fund Obligation Bond, Series 2012A, was originally issued on November 29, 2012 and was outstanding in the aggregate principal amount of \$59,060,000 on June 30, 2016 and 2015. The bond was issued in the form of a subordinate bank loan directly with the bondholder, SunTrust Bank. The bond is due in annual installments beginning on July 1, 2017 through July 1, 2025 in amounts ranging from \$5,245,000 to \$8,485,000, plus interest. The 2012A Bond is payable from, and secured by, a pledge of the general fund, which is junior and subordinate to the net revenues from the operation of the expressway System pledged to senior lien parity bonds. Interest on the 2012A Bond is due and paid semiannually.

Collectively, the purpose of the Series 2012 and 2012A Bonds was to refund the Series 2003C1 and 2003C3 Bonds and to fund the termination payments on the associated swaps. The refunding resulted in a deferred outflow of \$60,159,863, most of which was related to the swap termination payments. The difference between the cash flow of the old debt and the cash flow of the new debt was \$7,202,160 higher post-refunding, which represents \$4,712,369.37 on a net present value basis. The purpose of this refunding was to lower the risk profile of CFX's debt at an attractive rate.

The Central Florida Expressway Authority Revenue Bonds, Series 2010C, were originally issued on November 10, 2010 and were outstanding in the aggregate principal amount of \$283,610,000 on June 30, 2016 and 2015, including \$27,420,000 of serial bonds and \$256,190,000 of term bonds. The serial bonds are due in annual installments beginning on July 1, 2025 through July 1, 2030 in amounts ranging from \$2,375,000 to \$16,660,000, plus interest. The three term bonds are outstanding in the following principal amounts and maturing on the following dates: \$4,750,000, due on July 1, 2035; \$89,120,000, due on July 1, 2035 and \$162,320,000, due on July 1, 2040. The 2010C Bonds are payable from, and secured by, a pledge of net revenues from the operation of the expressway System. Interest on the 2010C Bonds is due and paid semiannually.

The Central Florida Expressway Authority Refunding Revenue Bonds, Series 2010B, were originally issued on June 30, 2010 and were outstanding in the aggregate principal amount of \$175,390,000 and \$180,895,000 on June 30, 2016 and 2015, respectively. The bonds were issued as serial bonds and the outstanding bonds are due in annual installments on July 1, 2016 through July 1, 2029 in amounts ranging from \$5,775,000 to \$53,880,000, plus interest. Interest on the 2010B Bonds is due and paid semiannually.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Fixed Rate Debt (Continued)

The Central Florida Expressway Authority Revenue Bonds, Series 2010A, were originally issued on March 25, 2010 in the aggregate principal amount of \$334,565,000, all of which was outstanding on June 30, 2016 and 2015, including \$91,355,000 of serial bonds and \$243,210,000 of term bonds. The serial bonds are due in annual installments beginning on July 1, 2025 through July 1, 2030 in amounts ranging from \$12,855,000 to \$18,415,000, plus interest. The two term bonds are outstanding in the following principal amounts and maturing on the following dates: \$106,850,000, due on July 1, 2035 and \$136,360,000, due on July 1, 2040. Interest on the 2010A Bonds is due and paid semiannually.

The Central Florida Expressway Authority Revenue Bonds, Series 2007A, were originally issued on June 28, 2007 and were outstanding in the aggregate principal amount of \$268,980,000 and \$425,000,000 on June 30, 2016 and 2015, including term bonds in the following principal amounts and maturing on the following dates: \$83,095,000, due on July 1, 2035 and \$185,885,000 due on July 1, 2042. A portion of the Series 2007A Bonds was refunded by the Series 2016A Bonds as stated above. Interest on the 2007A Bonds is due and paid semiannually.

The State of Florida, Central Florida Expressway Authority Junior Lien Revenue Bonds, Series 1990, were originally issued as \$98,940,000 serial bonds and \$286,060,000 term bonds, of which \$12,295,000 and \$23,655,000 were outstanding on June 30, 2016 and 2015, respectively. A portion of the Series 1990 Bonds was refunded with the previously outstanding bonds issued by CFX in 1993. The bonds are payable solely from, and secured by, a pledge of net revenues from the operation of the expressway System and from monies received from the County pursuant to the Interlocal Agreement. The outstanding serial bond plus interest is due on July 1, 2016. Because all of the then senior lien bonds were redeemed in 2003, the Series 1998 Bonds, as well as the Series 1990 Bonds, ascended to the senior level and were then on parity with the remaining outstanding Central Florida Expressway Authority Bonds.

Variable Rate Debt

On May 1, 2008, CFX issued Central Florida Expressway Authority Variable Rate Refunding Revenue Bonds, Series 2008B1, 2008B2, 2008B3 and 2008B4 (collectively, "2008B Bonds"), for the purpose of refunding the Series 2005A, 2005B, 2005C, 2005D, and 2005E Bonds (collectively, "2005 Bonds"), of which \$130,705,000, \$118,180,000, \$149,440,000, \$99,615,000 and \$130,870,000, \$118,335,000, \$149,655,000, \$99,715,000 was outstanding on June 30, 2016 and 2015, respectively. The 2008B Bonds were issued in four sub-series in the initial aggregate principal amount of \$499,105,000, including Series 2008B1 in the initial principal amount of \$131,025,000; Series 2008B2 in the initial principal amount of \$118,500,000; Series 2008B3 in the initial principal amount of \$149,760,000; and 2008B4 in the initial principal amount of \$99,820,000. The Series 2008B Bonds are dated the date of their original issuance and delivery and mature on July 1, 2040. The Series 2008B Bonds were initially issued and currently outstanding in a variable rate mode, with the interest rate on the Series 2008B Bonds resetting on a weekly basis and interest payable on a monthly basis.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Variable Rate Debt (Continued)

In fiscal year 2012, the Series 2008B3 and 2008B4 Bonds were converted to a bank rate mode and directly placed with the bondholder. In fiscal year 2015, the Series 2008B1 Bonds were converted to a bank rate mode and directly placed with the bondholder. In fiscal year 2016, the Series 2008B2 Bonds were converted to a bank rate mode and directly placed with the bondholder. The bank rate also resets on a weekly basis and is tied to the SIFMA index plus a spread. The 2008B Bonds are subject to optional and mandatory redemption and optional and mandatory tender for purchase prior to maturity. Amortization installments for the mandatory redemption of the 2008B Bonds began on July 1, 2014.

The annual requirements to amortize all revenue bonds and revenue refunding bonds outstanding as of June 30, 2016, are summarized as follows (all amounts in thousands). The totals below are net of capitalized interest funds available for debt service. For purposes of this note, the interest rate applicable to variable rate bonds is the synthetic fixed rate of 4.7753% for the 2008 Bonds. None of the fees associated with liquidity, letters of credit, or remarketing arrangements are included in the chart below, nor are the incremental rates paid on any floating rate note arrangements.

| | <u>Principal</u> | <u>Interest</u> | <u>Total P&I Due</u> | <u>Capitalized Interest</u> | <u>Net Due</u> |
|-----------|---------------------|---------------------|------------------------------|---------------------------------|---------------------|
| 2017 | \$ 20,360 | \$ 118,865 | \$ 139,225 | \$ 3,148 | \$ 136,077 |
| 2018 | 53,025 | 118,920 | 171,945 | 3,148 | 168,797 |
| 2019 | 249,495 | 116,398 | 365,893 | 3,148 | 362,745 |
| 2020 | 58,545 | 110,642 | 169,187 | - | 169,187 |
| 2021 | 61,495 | 107,773 | 169,268 | - | 169,268 |
| 2022-2026 | 368,390 | 493,607 | 861,997 | - | 861,997 |
| 2027-2031 | 529,880 | 385,363 | 915,243 | - | 915,243 |
| 2032-2036 | 661,490 | 249,247 | 910,737 | - | 910,737 |
| 2037-2041 | 618,385 | 96,070 | 714,455 | - | 714,455 |
| 2042-2043 | 79,835 | 4,040 | 83,875 | - | 83,875 |
| | <u>\$ 2,700,900</u> | <u>\$ 1,800,925</u> | <u>\$ 4,501,825</u> | <u>\$ 9,444</u> | <u>\$ 4,492,381</u> |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

Hedging Derivative Instruments – Cash Flow Hedges

Variable-to-Fixed Rate Interest Rate Swaps - On July 13, 2004, CFX entered into five forward-starting, synthetic fixed rate swap agreements totaling \$499,105,000 ("2004 Swaps"), attributable to the \$199,645,000 Series 2005A Bonds, the \$149,760,000 Series 2005B Bonds, the \$99,820,000 Series 2005C Bonds, the \$24,940,000 Series 2005D Bonds, and the \$24,940,000 Series 2005E Bonds. On May 1, 2008, all Series 2005 Bonds were redeemed and the 2004 Swaps are now associated with the Series 2008B Refunding Bonds described above.

Objective of Swaps and Nature of Hedged Risk: CFX entered into the 2004 Swaps in order to ensure its ability to fund its Five-Year Work Plan, then valued at \$1,240,300,000 and in order to manage the interest rate exposure that CFX was subject to as a result of issuing its variable rate bonds.

Strategy to Accomplish Hedge Objective: In order to achieve the stated objectives, CFX issued variable rate bonds with a weekly reset and entered into swap agreements to obtain the synthetic fixed rate. In 2004, CFX entered into five separate forward-starting, interest rate swap agreements with five separate counterparties. The 2004 Swaps remained in place at the time of issuance of the 2005 Bonds.

Summary Derivative Hedging Instruments: On July 13, 2004, CFX entered into five separate forward-starting, interest rate swap agreements with an effective date of March 1, 2005, all of which were associated with the Series 2005 Bonds. There was no cash exchanged at the time these forward agreements were entered into.

The interest rate swap transactions were executed in order to accomplish the synthetic fixed rates, as noted below. CFX has a cancellation option in the swap with UBS AG. A summary of these transactions and the significant terms, as well as the credit ratings on the counterparties as of June 30, 2016 and 2015, are as follows:

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Hedging Derivative Instruments – Cash Flow Hedges (Continued)

| | <u>Series 2005A</u> | <u>Series 2005B</u> | <u>Series 2005C</u> | <u>Series 2005D</u> | <u>Series 2005E</u> |
|--|---------------------|---------------------|--|---------------------|---------------------|
| <i>Notional Value (as of 6/30/2016)</i> | \$199,176,000 | \$149,406,000 | \$99,588,000 | \$24,885,000 | \$24,885,000 |
| <i>Fixed Rate</i> | 4.7753% | 4.7753% | 4.7753% | 4.7753% | 4.7753% |
| <i>Fixed Payer</i> | CFX | CFX | CFX | CFX | CFX |
| <i>Floating Rate</i> | SIFMA | SIFMA | SIFMA | SIFMA | SIFMA |
| | Weekly Index | Weekly Index | Weekly Index | Weekly Index | Weekly Index |
| <i>Maturity Date</i> | 1-Jul-40 | 1-Jul-40 | 1-Jul-40 | 1-Jul-40 | 1-Jul-40 |
| <i>Settlement</i> | Monthly | Monthly | Monthly | Monthly | Monthly |
| <i>Premium Paid</i> | None | None | None | None | None |
| <i>Counterparty</i> | UBS AG | Citibank | Morgan Stanley Capital Services Inc. | RBC Dain | JP Morgan* |
| <i>Ratings 6/30/2015 (S&P/Moody's/Fitch)</i> | A/A2/A | A/A1/A | A-/A3/A | AA-/Aa3/AA | A+/Aa3/AA- |
| <i>Ratings 6/30/2016 (S&P/Moody's/Fitch)</i> | A/A1/A | A/A1/A+ | BBB+/A3/A | AA-/Aa3/AA | A+/Aa3/AA- |

*Originally with Bear Stearns Financial Products, Inc. By novation agreement dated April 22, 2009, this swap was transferred to JP Morgan Chase Bank, N.A.

Type of Hedge: Discrete Cash Flow

Fair Value: All of CFX's derivative instruments are considered effective cash flow hedges because they meet the consistent critical terms method criteria. Therefore, the fair value is reported as a deferred outflow on the balance sheets.

CFX has obtained independent market value evaluations of its swap transactions. These fair value estimates are based on expected forward LIBOR swap rates and discounted expected cash flows (Level 3 inputs). The appropriate LIBOR percentages that relate to the tax-exempt SIFMA swap rates are applied to the LIBOR swap curve to derive the expected forward SIFMA swap rates. On a current mark-to-market basis, the net present value of the swaps would require CFX to make an estimated combined termination payment, in the event that all of the outstanding swaps were terminated on June 30, 2016 or June 30, 2015, of \$234,688,561 and \$168,782,310, respectively. The change in fair value at FYE 2016 was \$65,906,251 higher than at FYE 2015 and the change in fair value at FYE 2015 was \$27,373,173 higher than at the prior year end.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Hedging Derivative Instruments – Cash Flow Hedges (Continued)

The table below provides the fair value of the Swaps:

Estimated Termination Payments Based on Net Present Value

| | June 30, 2016 | June 30, 2015 |
|--------------|----------------------|----------------------|
| Series 2008B | \$ 234,688,561 | \$ 168,782,310 |

Risks: CFX monitors the various risks associated with the Swap Agreements. Based upon the assessment, CFX reviewed the following risks:

Credit Risk: CFX has adopted an Interest Rate Risk Management Policy whereby, prior to entering into an interest rate exchange agreement, CFX will require the counterparty to (i) have an initial rating of at least AA-/Aa3/AA- by at least one of the three nationally recognized credit rating agencies and not be rated lower than A/A2/A by any of the three nationally recognized credit rating agencies or (ii) alternatively, post suitable and adequate collateral, given the undertaking involved with the particular transaction. For all executed agreements, the counterparties met the criteria in (i) above at the time of execution.

Similar to the experience of many financial product providers in recent years, four of the five counterparties have dropped below the initial required rating levels. A summary of the credit ratings of the counterparties as of June 30, 2015 and 2016, is shown previously under *Summary of Derivative Hedging Instruments*. CFX's Interest Rate Risk Management Policy does not contain a specific requirement for collateral posting in the event of a counterparty downgrade below the minimum requirements; however, the agreements require that the counterparties post suitable and adequate collateral if the termination values were such that a payment would be due to CFX. As of June 30, 2016 and 2015, that is not the case; therefore, there is no reportable risk of loss to CFX due to credit risk. The following terms of the Swaps and all Series 2008B Bond obligations are identical:

1. The total notional amount of the Swaps equals the total issued principal amount of CFX's revenue bonds that are subject to the Swaps.
2. The re-pricing dates of the Swaps match those of the related bonds, specifically, all Series 2008B Bonds.
3. The amortization of the Swaps matches the amortization of the bonds.

CFX does not have a specific policy regarding entering into master netting arrangements, nor has it entered into any such master arrangements.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

Interest Rate Risk: CFX implemented a strategy on the Swaps associated with the Series 2008B Bonds, which was designed to provide a synthetic fixed rate.

Basis Risk: Basis risk for CFX's derivatives would be the risk that the weekly rates on its variable rate bonds would not match the index referenced in the interest rate exchange agreements. The Series 2005 variable rate bonds were issued to bear interest at the seven-day market rate, whereas the underlying swap agreements pay CFX interest at the weekly TBMA (now known as SIFMA) index rate. Since the variable rate paid by the counterparties on the interest rate swaps is the SIFMA index, CFX reasonably assumed that the hedging relationship would be highly effective in providing counterparty payments to CFX in amounts necessary to pay the synthetic fixed rate on the Series 2005 Bonds. However, during fiscal year 2008, CFX experienced some basis spread on the Series 2005 Bonds subsequent to Fitch's downgrade of Ambac, the bonds' insurer. In order to mitigate this spread, CFX took action to redeem the bonds and issued the Series 2008B Refunding Bonds, backed by letters of credit. In fiscal year 2012, the Series 2008B3 and 2008B4 Bonds were converted to a bank rate mode and directly placed with the bondholder. In fiscal year 2015, the Series 2008B1 Bonds were converted to a bank rate mode and directly placed with the bondholder. In fiscal year 2016, the Series 2008B2 Bonds were converted to a bank rate mode and directly placed with the bondholder. The bank rates for all of the Series are reset on a weekly basis and are tied to the SIFMA index plus a spread. Therefore, basis risk for these bonds has been eliminated during the bank rate period.

Termination Risk: CFX is subject to termination risk, but determined at the time to mitigate that risk by acquiring swap insurance policies for the swaps associated with the Series 2008B Bonds. Each of CFX's outstanding interest rate exchange agreements contains an Additional Termination Event provision, which is triggered by certain downgrades in the credit ratings of the respective parties, but each such provision is subject to the Insurer Provisions contained therein.

Under certain conditions set forth in the swap agreements, neither CFX nor the counterparty may designate an early termination date without the consent of the Insurer, unless an "Insurer Event" has occurred whereby the Swap Insurer (i) fails to meet its payment obligations under the swap, (ii) fails to maintain a minimum claims-paying ability rating or financial-strength rating from either S&P or Moody's described in the respective swap agreements or (iii) has its rating from either S&P or Moody's withdrawn or suspended and such rating is not reinstated within 30 days of such withdrawal or suspension.

Additionally, for the 2004 Swaps, a Credit Support Annex was negotiated with the counterparties. During fiscal year 2009, the insurer on the swaps now associated with the Series 2008B Bonds (the "2004 Swaps"), was downgraded below the A-/A3 (S&P/Moody's) level. As such, an Insurer Event did take place. Three of the five agreements required that CFX demonstrate that it had maintained its own rating above the A-/A3 levels to prevent a termination. CFX has maintained its ratings at A/A2; therefore, it has complied with the requirements and no termination event has occurred.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

One agreement did not consider an Insurer Event grounds for early termination, unless some additional event of default had taken place, such as failure to meet the payment obligations, none of which have taken place. One agreement required that CFX either replace the insurer with another credit support facility or post collateral in the amount of the termination value in excess of \$15,000,000, based on CFX's credit rating. CFX received the notice of an Insurer Event from this counterparty on June 25, 2009, and posted collateral in July 2009. All investment income on the security posted as collateral, and the security itself, is income to, and an asset of, CFX. Per the agreement, the counterparty could request a maximum amount of \$33,182,020 as of June 30, 2016. However, the agreement only requires CFX to post collateral at the request of the counterparty. In compliance with the agreement and the most recent request, there was not a collateral posting as of June 30, 2016 or June 30, 2015.

As a result of CFX's compliance with the terms of the swap agreements and each applicable Credit Support Annex, as explained above, as of June 30, 2016 and 2015, no termination events have occurred.

Notwithstanding the Insurer Provisions under the swap agreements, CFX has the option to terminate all but one of the swaps at any time upon at least two business days' written notice to the counterparty. One agreement requires 30 days' written notice, a requirement which can be waived. Absent the Insurer Provisions, the counterparties may terminate the swap in the event of a default, such as: nonpayment, credit downgrade or failure to provide collateral.

Credit and Liquidity Access and Repricing Risk: CFX has reduced its basis and credit provider risks by placing the 2008B1, 2008B2, 2008B3 and 2008B4 Bonds in the bank rate mode directly with the bondholder at SIFMA plus a spread.

As of June 30, 2016, the expirations of the respective contracts were as follows:

| <u>Bond Series</u> | <u>Type/Provider</u> | <u>Expiration Date</u> |
|--------------------|----------------------------|------------------------|
| Series 2008B1 | FRN/Barclays Bank PLC | May-2020 |
| Series 2008B2 | FRN/RBC Municipal Products | Jul-2018 |
| Series 2008B3 | FRN/Wells Fargo | Sep-2019 |
| Series 2008B4 | FRN/Wells Fargo | Sep-2019 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 5 - Long-Term Debt (Continued)

Associated Debt: The net cash flow of the underlying swap agreements compared to the variable rate bonds resulted in the following net cash inflows (outflows):

| | <u>2003 Series</u> | <u>2005 Series</u> | <u>2008 Series</u> | <u>Total</u> |
|--------------|------------------------|-----------------------|-----------------------|------------------------|
| FY 2003 | \$ 18,664 | \$ - | \$ - | \$ 18,664 |
| FY 2004 | 74,400 | - | - | 74,400 |
| FY 2005 | 67,609 | 1,827 | - | 69,436 |
| FY 2006 | 69,018 | 97,163 | - | 166,181 |
| FY 2007 | 101,643 | 82,950 | - | 184,593 |
| FY 2008 | 161,325 | (2,434,950) | 61,270 | (2,212,355) |
| FY 2009 | (8,421,180) | - | (487,400) | (8,908,580) |
| FY 2010 | (506,773) | - | (165,018) | (671,791) |
| FY 2011 | (1,115,769) | - | (263,904) | (1,379,673) |
| FY 2012 | (1,742,406) | - | (242,174) | (1,984,580) |
| FY 2013 | (6,639) | - | (35,814) | (42,453) |
| FY 2014 | - | 176 | 26,148 | 26,324 |
| FY 2015 | - | - | 11,919 | 11,919 |
| FY 2016 | - | - | 939 | 939 |
| Total | <u>\$ (11,300,108)</u> | <u>\$ (2,252,834)</u> | <u>\$ (1,094,034)</u> | <u>\$ (14,646,976)</u> |

Debt Service Reserve Requirements – CFX has purchased surety policies from bond insurers for all outstanding bonds, except for the 2008B, 2010A, 2010C, and 2012A Bonds. Bond covenants do not require minimum ratings for providers of surety policies. For the Series 2010A and 2010C Bonds, the debt service reserve is cash funded with proceeds from the bond issuance. For the Series 2016A Bonds, the debt service reserve is funded with a surety policy.

Defeased Bonds – During 1998, CFX defeased the Series 1988 Bonds by placing the proceeds of the unused portion of the 1998 Bonds and a portion of the 1998 Bonds in an irrevocable escrow account to provide for all future debt service payments. Additionally, on October 31, 2012, CFX cash defeased all of the outstanding Series 2003A Bonds by placing cash from operations in an irrevocable escrow account to provide for the payment and redemption of the bonds as of the call date of July 1, 2013. CFX also issued the Series 2013A Bonds for the purpose of redeeming all of the outstanding 2003B Bonds on the call date of July 1, 2013. Proceeds from the bond issuance were placed in an irrevocable escrow account. As of July 1, 2013, the 2003A and 2003B Bonds were redeemed and are no longer outstanding.

The purpose of these defeasances was to provide additional financing flexibility, while maintaining CFX's targeted debt service ratio. As a result, the trust account assets and the liability for the defeased bonds are not included in CFX's balance sheets. The balance of defeased bonds outstanding was \$48,505,000 and \$52,100,000 on June 30, 2016 and 2015, respectively, representing the outstanding balance on the 1988 Bonds.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

CFX maintained that it had retained the call rights on the 1988 Series Bonds. In 2004, CFX filed a declaratory action in the Ninth Judicial Circuit Court to determine CFX's rights with respect to the call rights on the 1988 Series Bonds. The business court entered an order granting summary judgment in favor of Emmet & Co., Inc., finding that CFX had not reserved its optional redemption rights with respect to the 1988 Series Bonds. This decision was upheld by the appellate Court in October 2007.

On April 26, 2016 CFX utilized proceeds from the issuance of the Series 2016A Refunding Bonds to fund an escrow to provide the for the payment of principal and interest on the refunded portion of the Series 2007A Bonds as of the call date of July 1, 2017.

Principal maturities on those defeased bonds, based on July 1 payments each year, are as follows (in thousands):

| <u>Year Ending June 30,</u> | <u>1988 Bonds</u> | <u>2007A Bonds</u> | <u>Total</u> |
|-----------------------------|-------------------|--------------------|-------------------|
| 2017 | \$ 3,865 | \$ - | \$ 3,865 |
| 2018 | 21,500 | 156,020 | 177,520 |
| 2019 | 23,140 | - | 23,140 |
| | <u>\$ 48,505</u> | <u>\$ 156,020</u> | <u>\$ 204,525</u> |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 5 - Long-Term Debt (Continued)

Due to Governmental Agencies

Due to governmental agencies consists of the following (in thousands):

| | June 30, 2015 | Additions | Deletions | June 30, 2016 |
|--|---------------|-------------|-------------|---------------|
| Advances from FDOT for construction, operations and maintenance of certain plazas and roadways | \$ 193,274 | \$ 2,023 | \$ (22,407) | \$ 172,890 |
| Loans and advances for specific projects | 18,506 | 34 | (10,560) | 7,980 |
| Toll revenue due to other state agencies | 1,893 | 76,517 | (75,784) | 2,626 |
| | 213,673 | 78,574 | (108,751) | 183,496 |
| Less current portion | (26,985) | (176,781) | 26,985 | (176,781) |
| Due to other governments, net of current portion | \$ 186,688 | \$ (98,207) | \$ (81,766) | \$ 6,715 |

The following is a schedule by years of the minimum future payments on the amounts due to governmental agencies (all amounts in thousands):

| Year Ending June 30, | Amount |
|-------------------------|-------------------|
| 2017 | \$ 176,781 |
| 2018 | 1,061 |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| Thereafter | 5,654 |
| | <u>\$ 183,496</u> |

Amounts included in "thereafter" are payable based on future events, as described below:

Included in the Loans and Advances for specific projects is \$5,654,000 for advances from the Greater Orlando Aviation Authority, the City of Orlando and Orange County for the extension of Goldenrod Road. The extension is a non-System project, and revenues from this project are utilized solely to pay expenses for the extension and to reimburse the funding partners, including CFX, for their original contribution to the project.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 6 - Leases

Operating Leases - CFX leases excess capacity of the Fiber Optic Network (FON) to Sprint Communications Company L.P. The original historic cost of this FON of \$19,172,000 is not depreciated because its expected life exceeds 100 years. This is a ten-year lease with three five-year renewal options. The annual rate of \$464,640, adjusted annually by the local Consumer Price Index, is presented as miscellaneous nonoperating revenues. If CFX terminates this agreement because of licensee's (Sprint's) default, the licensee shall pay CFX, as liquidated damages, an amount equal to the minimum total fees and charges for the remaining agreement term. There is no termination clause for the licensee except by default of CFX. The second five-year renewal was executed at the end of fiscal year 2016. The minimum future rentals for the next five years are \$464,640 per year for four years and \$425,920 for the fifth year, for a total of \$2,284,480.

CFX leases a building located at 525 South Magnolia Ave., Orlando, FL to Women's Care Florida LLC. The assessed value of the building is \$3,100,000. This is a ten-year seven-month lease that terminates at midnight on June 15, 2021. The lease requires a 360-day notice by the tenant for termination. The minimum CFX would receive on this lease would be \$303,058 for fiscal year 2017. If CFX decides to terminate the lease in fiscal year 2017, it will be obligated to pay the tenant \$209,299 for improvements and fixtures that were installed by the tenant at the commencement of the lease.

Note 7 - Commitments and Contingencies

Commitments - Outstanding construction and other significant commitments for improvements, maintenance and operation of the System totaled approximately \$618,514,000 at June 30, 2016.

Pending Litigation - Various lawsuits and claims arising in the ordinary course of CFX's operations are pending against CFX. Currently, CFX is party to a pending litigation claim for parcel 236 on SR 429. The owner estimated the property to be valued much higher than what CFX offered and subsequent negotiations resulted in a settlement of \$2,999,995 plus attorney's fees, experts' fees and costs. The agreement was put on hold due to the owner filing for Chapter 11 bankruptcy. The new owner of the property has tentatively agreed to accept this settlement, however, details of the settlement have not been finalized.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 8 - Retirement Plans

Plan Descriptions

Florida Retirement System (FRS) Pension Plan - Most employees of CFX participate in the State of Florida Retirement System (the "FRS"), a multiple-employer, cost-sharing, defined-benefit retirement plan, or defined-contribution retirement plan, administered by the Florida Department of Administration, Division of Retirement. As a general rule, membership in the FRS is compulsory for all employees working in a regular, established position for a state agency, county government, district school board, state university, community college or a participating city or special district within the state of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Employees are classified in either the regular service class or the senior management service class ("SMSC"). The SMSC is for members who fill senior-level management positions. Employees classified as SMSC may opt out of participation in the FRS. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida Legislature.

Retiree Health Insurance Subsidy (HIS) Program - Employees of CFX also participate in the Retiree Health Insurance Subsidy (HIS) Program, which is a cost-sharing, multiple-employer defined-benefit pension plan established and administered in accordance with Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which can include Medicare.

Public Employee Optional Retirement Program - Employees may participate in the Public Employee Optional Retirement Program (the "Investment Plan"), a defined-contribution retirement program, in lieu of participation in the defined-benefit retirement plan ("Pension Plan"). If the Investment Plan is elected, active membership in the defined-benefit retirement plan is terminated. Eligible members of the Investment Plan are vested at one year of service and receive a contribution for self-direction in an investment product with a third-party administrator selected by the State Board of Administration. The contribution rates for both fiscal 2016 and 2015 were 6.3% for regular class and 7.67% for senior management class.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 8 - Retirement Plans (Continued)

Benefits Provided – For employees in FRS, benefits are computed on the basis of age, average final compensation and service credit. Regular class and senior management class employees who were enrolled in the FRS prior to July 1, 2011 and retire at or after age 62 with at least six years of credited service, or 30 years of service, regardless of age, are entitled to a retirement benefit payable monthly for life, based on their final average compensation of their five highest fiscal years of pay for each year of credited service. Employees enrolled on or after July 1, 2011 and who retire at or after age 65 with at least eight years of credited service, or 33 years of service, regardless of age, are entitled to a retirement benefit payable monthly for life, as explained above based on their eight highest fiscal years of pay. Using their date of enrollment as a basis, vested employees with less than the minimum years of service may retire before the minimum age and receive reduced retirement benefits. A post-retirement health insurance subsidy is also provided to eligible retired employees through the FRS defined benefit, in accordance with Florida Statutes.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program (“DROP”). This program allows eligible employees to defer receipt of monthly retirement benefit payments, while continuing employment with an FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

Contributions - Starting on July 1, 2011, Chapter 2011-68 of the Laws of Florida required members of the FRS not enrolled in DROP to contribute 3% of their salary to their retirement. Governmental employers are required to make contributions to the FRS based on statewide contribution rates. The fiscal year 2016 contribution rate applied to regular employee salaries was 7.26%, including 1.66% for a post-retirement health insurance subsidy (“HIS”). The fiscal year 2015 contribution rate was 7.37%, which included 1.26% for HIS. The fiscal year 2016 contribution rate applied to senior management salaries was 21.43%, including 1.66% HIS. The fiscal year 2015 contribution rate was 21.14%, which included 1.26% for HIS. The fiscal year 2016 contribution rate applied to the salaries of the employees in DROP was 12.88%, including 1.66% for HIS. The fiscal year 2015 contribution rate was 12.28%, which included 1.26% for HIS.

CFX’s actual contributions to the FRS for the fiscal years ended June 30, 2016 and 2015 were \$623,000 and \$546,000, respectively. Employee contributions were \$159,000 and \$142,000 for the fiscal years ended June 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

CFX reported a liability of \$3,852,000 and \$2,377,000, at June 30, 2016 and 2015, respectively, for its proportionate share of the net pension liability of FRS and HIS. The net pension liability as of June 30, 2016 and 2015 was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. CFX’s proportion of the net pension liability was based on CFX’s historical employer contributions to the pension plans for fiscal year 2014 and 2015 relative to the historical contributions of all participating employers. At June 30, 2015, CFX’s proportion was 0.0174% and 0.0157% for FRS and HIS, respectively, which was an increase of 0.0017% and an increase of 0.0006% from its respective proportion measured as of June 30, 2014.

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 8 - Retirement Plans (Continued)

At June 30, 2014, CFX's proportion was 0.0157% and 0.0151% for FRS and HIS, respectively, which was an increase of 0.0066% and a decrease of 0.0002% from its respective proportion measured as of June 30, 2013.

For the years ended June 30, 2016 and June 30, 2015, CFX recognized pension expense of \$576,000 and \$429,000, respectively.

At June 30, 2016 and June 30, 2015, CFX reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | As of June 30, 2016 | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 237 | \$ 53 |
| Changes of assumptions | 275 | - |
| Differences between projected and actual earnings on pension plan investments | 1 | 537 |
| Changes in proportion | 1,042 | 16 |
| CFX contributions subsequent to the measurement date | 554 | - |
| | <u>2,109</u> | <u>606</u> |
| Total | \$ 2,109 | \$ 606 |

| | As of June 30, 2015 | |
|---|---|--|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 59 |
| Changes of assumptions | 217 | - |
| Differences between projected and actual earnings on pension plan investments | 1 | 1,599 |
| Changes in proportion | 958 | 20 |
| CFX contributions subsequent to the measurement date | 484 | - |
| | <u>1,660</u> | <u>1,678</u> |
| Total | \$ 1,660 | \$ 1,678 |

\$554,000 and \$484,000 reported as deferred outflows of resources related to pensions resulting from CFX contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017 and June 30, 2016 respectively.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

| <u>Years Ending June 30:</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2017 | \$ 190 |
| 2018 | 190 |
| 2019 | 190 |
| 2020 | 190 |
| 2021 | 63 |
| Thereafter | 128 |

Actuarial Assumptions – The actuarial assumptions that determined the total pension liability as of June 30, 2016 and June 30, 2015, were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

| | | |
|---------------------------------------|--|--|
| Valuation date | July 1, 2014 | July 1, 2015 |
| Measurement date | June 30, 2014 | June 30, 2015 |
| Inflation | 2.60% | 2.60% |
| Salary increases, including inflation | 3.25% | 3.25% |
| Mortality | Generational RP-2000 with Projection Scale BB | Generational RP-2000 with Projection Scale BB |
| Actuarial Cost Method | Individual Entry Age | Individual Entry Age |

The long-term expected rate of return, net of investment expense on pension plan investments was 7.65% as of June 30, 2015 and June 30, 2014. This rate was determined using a forward-looking capital market economic model. The table below shows the assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The expected real rate of return is presented in arithmetic means.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Annual Arithmetic Return</u> |
|------------------------|------------------------------|---|
| Cash | 1% | 3.2% |
| Fixed Income | 18% | 4.8% |
| Global equity | 53% | 8.5% |
| Real Estate (property) | 10% | 6.8% |
| Private equity | 6% | 11.9% |
| Strategic investments | 12% | 6.7% |
| Total | 100.00% | |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 8 - Retirement Plans (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for FRS for June 30, 2015 and June 30, 2014. The discount rate used to measure the total pension liability was 3.80% and 4.29% for HIS as of June 30, 2015 and June 30, 2014 respectively. For FRS, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor.

Sensitivity of CFX’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents CFX’s proportionate share of the net pension liability calculated using the discount rate of 7.65% for FRS for June 30, 2015 and June 30, 2014. The discount rate of 3.80% and 4.29% was used for HIS for June 30, 2015 and June 30, 2014 respectively. The following also presents what CFX’s proportionate share of the net pension liability would be at June 30, 2016 and 2015 if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the respective current rate:

| As of June 30, 2016 | | | |
|--|----------------------|-----------------------------------|----------------------|
| FRS | | | |
| | 1% Decrease 6.65% | Current Discount Rate 7.65% | 1% Increase 8.65% |
| CFX’s proportionate share of the net pension liability (asset) | \$ 5,826,098 | \$ 2,248,394 | \$ (728,843) |
| HIS | | | |
| | 1% Decrease 2.8% | Current Discount Rate 3.8% | 1% Increase 4.8% |
| CFX’s proportionate share of the net pension liability (asset) | \$ 1,826,666 | \$ 1,603,107 | \$ 1,416,693 |
| As of June 30, 2015 | | | |
| FRS | | | |
| | 1% Decrease 6.65% | Current Discount Rate 7.65% | 1% Increase 8.65% |
| CFX’s proportionate share of the net pension liability (asset) | \$ 4,100,515 | \$ 958,706 | \$ (1,654,679) |
| HIS | | | |
| | 1% Decrease 3.29% | Current Discount Rate 4.29% | 1% Increase 5.29% |
| CFX’s proportionate share of the net pension liability (asset) | \$ 1,613,416 | \$ 1,418,488 | \$ 1,255,780 |

**CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015**

Note 8 - Retirement Plans (Continued)

Change in Net Pension Liability - The following is a summary of changes in net pension liability (in thousands):

| | June 30, 2015 | Additions | Deletions | June 30, 2016 | Due Within One year |
|-----------------------|---------------|-----------|-----------|---------------|------------------------|
| Net pension liability | \$ 2,377 | \$ 1,959 | \$ 484 | \$ 3,852 | \$ - |

| | June 30, 2014 | Additions | Deletions | June 30, 2015 | Due Within One year |
|-----------------------|---------------|-----------|-----------|---------------|------------------------|
| Net pension liability | \$ 2,909 | \$ 1,523 | \$ 2,055 | \$ 2,377 | \$ - |

Pension Plan Fiduciary Net Position – Detailed information about FRS and HIS fiduciary net position is available in the separately issued FRS financial report. The latest available report may be obtained by writing to the Department of Management Services, Office of the Secretary, 4050 Esplanade Way, Tallahassee, FL 32399-0950 or from the website: http://www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports.

Note 9 - Risk Management

CFX is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which CFX purchases commercial insurance.

No settlements have exceeded coverage levels in place during 2014, 2015 and 2016.

CFX is covered by the State of Florida's State Group Insurance program, a risk management pool to which risk is transferred in exchange for annual premium payments.

Note 10 - Subsequent Events

A) Lease Purchase Agreement

On October 12, 2016, CFX made the final payment satisfying the long term obligation of the advances from FDOT for construction, operations and maintenance of certain plazas and roadways in the amount of \$150,870,000. This repayment was made ahead of schedule. Details of the balance of advances from FDOT for construction, operations and maintenance of certain plazas and roadways as of June 30, 2016 are shown in Note 5.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Note 10 - Subsequent Events (Continued)

B) Bonds

On September 22, 2016, CFX priced its Senior Lien Refunding Revenue Series 2016B Bonds at a par value of \$631,330,000 and an average coupon rate of 4.29%. The delivery date is scheduled for November 2, 2016 with a final maturity date of July 1, 2040. The 2016B series has been priced with the intent to issue a refunding on the following series:

| <u>Series</u> | <u>Par Amount</u> |
|---------------|-------------------|
| 2007A | \$ 83,095,000 |
| 2010A | 213,805,000 |
| 2010B | 59,870,000 |
| 2010C | 270,705,000 |

The net present value of savings for the refunding is approximately \$65 million.

C) Other

On October 5, 2016 Governor Rick Scott suspended tolls on all CFX roadways due to the threat of Hurricane Matthew. This toll suspension was lifted in the early hours of October 10, 2016. It is projected that approximately \$3,500,000 was lost in toll revenue due to both the direct suspension of tolls, and the change in driving habits on CFX's system.

Note 11 - Change in Accounting Principles

CFX participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by the Florida Division of Retirement. As a participating employer, CFX implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required employers participating in cost-sharing, multiple-employer, defined-benefit pension plans to report the employers' proportionate share of the net pension liabilities of the defined-benefit pension plans. The requirements of GASB No. 68 are being implemented prospectively, with CFX reporting its proportionate share of the actuarially determined liabilities of \$2,909,000 at July 1, 2014. In addition, CFX reported beginning deferred outflows for contributions subsequent to the measurement date of \$396,000 as of July 1, 2014. The net effect of these items was a restatement of beginning net position in the amount of \$2,513,000.

Financial information for the year ended June 30, 2014 was not restated because a measurement of net pension liability and deferred outflows of resources related to pensions as of July 1, 2013 was not available.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Trend Data on Infrastructure Condition

CFX elected to use the modified approach to account for maintenance of its infrastructure assets starting in fiscal year 1997. The FDOT annually inspects CFX's roadways. The FDOT utilizes the Maintenance Rating Program (the "MRP") to assess the condition of the System. Copies of the MRP manual may be obtained from the State Maintenance Office, 605 Suwannee Street, Mail Station 52, Tallahassee, FL 32399-0450. The MRP manual provides a uniform evaluation system for maintenance features of the State Highway System. The roadways are rated on a 100-point scale, with 100 meaning that every aspect of the roadway is in new and perfect condition. CFX's System, as a whole, is given an overall rating, indicating the average condition of all roadways operated by CFX. The assessment of condition is made by visual and mechanical tests designed to reveal any condition that would reduce highway-user benefits below the maximum level of service. CFX's policy is to maintain the roadway condition at a MRP rating of 80 or better. The results of the last three completed inspections are as follows:

| <u>Evaluation Period</u> | |
|--------------------------|---------------|
| <u>Fiscal Year</u> | <u>Rating</u> |
| 2016 | 89% |
| 2015 | 90% |
| 2014 | 92% |

The budget-to-actual expenditures for preservation for the past five years are as follows:

| <u>Fiscal Year</u> | <u>Budget</u> | <u>Actual</u> |
|--------------------|-----------------------|---------------|
| | <i>(in thousands)</i> | |
| 2016 | \$ 42,406 | \$ 15,964 |
| 2015 | \$ 26,085 | \$ 3,975 |
| 2014 | \$ 2,998 | \$ 468 |
| 2013 | \$ 7,094 | \$ 880 |
| 2012 | \$ 13,833 | \$ 13,679 |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Schedule of CFX's Proportionate Share of the Net Pension Liability

Florida Retirement System (FRS) Defined Benefit Pension Plan
(in thousands)

| CFX Fiscal Year Ending June 30, | Plan Sponsor Measurement Date June 30, | CFX's Proportion of the FRS Net Pension Liability | CFX's Proportionate Share of the FRS Net Pension Liability | CFX's Covered Employee Payroll | CFX's Proportionate Share of the FRS Net Pension Liability as a Percentage of Covered Payroll | FRS Plan Fiduciary Net Position as a Percentage of Total Pension Liability |
|---------------------------------|--|---|--|--------------------------------|---|--|
| 2016 | 2015 | 0.0174% | \$ 2,249 | \$ 3,746 | 60.04% | 92.00% |
| 2015 | 2014 | 0.0157% | \$ 959 | \$ 3,212 | 29.86% | 96.09% |
| 2014 | 2013 | 0.0091% | \$ 1,566 | \$ 2,987 | 52.43% | 88.54% |

Retiree Health Insurance Subsidy (HIS) Program Defined Benefit Pension Plan
(in thousands)

| CFX Fiscal Year Ending June 30, | Plan Sponsor Measurement Date June 30, | CFX's Proportion of the HIS Net Pension Liability | CFX's Proportionate Share of the HIS Net Pension Liability | CFX's Covered Employee Payroll | CFX's Proportionate Share of the HIS Net Pension Liability as a Percentage of Covered Payroll | HIS Plan Fiduciary Net Position as a Percentage of Total Pension Liability |
|---------------------------------|--|---|--|--------------------------------|---|--|
| 2016 | 2015 | 0.0157% | \$ 1,603 | \$ 5,345 | 29.99% | 0.50% |
| 2015 | 2014 | 0.0152% | \$ 1,418 | \$ 4,769 | 29.73% | 0.99% |
| 2014 | 2013 | 0.0154% | \$ 1,343 | \$ 4,507 | 29.80% | 1.78% |

Notes:

- 1) CFX implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015, including a restatement as of June 30, 2014. Information for prior years is not available.

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Schedule of CFX Contributions

Florida Retirement System (FRS) Defined Benefit Pension Plan
(in thousands)

| Fiscal Year Ending June 30, | FRS Contributions in Relation to the | | FRS Contribution Deficiency (Excess) | CFX's Covered Employee Payroll | FRS Contributions as a Percentage of Covered Payroll |
|-----------------------------------|--|---|--|--------------------------------------|--|
| | Contractually Required Contribution | Contractually Required Contribution | | | |
| 2016 | \$ 465 | \$ 465 | \$ - | \$ 3,746 | 12.41% |
| 2015 | \$ 424 | \$ 424 | \$ - | \$ 3,212 | 13.20% |
| 2014 | \$ 344 | \$ 344 | \$ - | \$ 2,987 | 11.52% |

Retiree Health Insurance Subsidy (HIS) Program Defined Benefit Pension Plan
(in thousands)

| Fiscal Year Ending June 30, | HIS Contributions in Relation to the | | HIS Contribution Deficiency (Excess) | CFX's Covered Employee Payroll | HIS Contributions as a Percentage of Covered Payroll |
|-----------------------------------|--|---|--|--------------------------------------|--|
| | Contractually Required Contribution | Contractually Required Contribution | | | |
| 2016 | \$ 89 | \$ 89 | \$ - | \$ 5,345 | 1.67% |
| 2015 | \$ 60 | \$ 60 | \$ - | \$ 4,769 | 1.26% |
| 2014 | \$ 52 | \$ 52 | \$ - | \$ 4,507 | 1.15% |

Notes:

- 1) CFX implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015, including a restatement as of June 30, 2014. Information for prior years is not available.

OTHER SUPPLEMENTARY INFORMATION

CENTRAL FLORIDA EXPRESSWAY AUTHORITY
Calculation of the Composite Debt Service Ratio, as Defined
by the Bond Resolutions and Related Documents

| | Years Ended June 30, | |
|---|-----------------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Schedule 1 | | |
| Revenues: | | |
| Tolls | \$ 390,902 | \$ 350,927 |
| Fees collected via PBPs and UTCs | 7,574 | 5,840 |
| Transponder sales | 167 | 63 |
| Other operating | 1,256 | 1,438 |
| Interest | 3,677 | 1,970 |
| Miscellaneous | 961 | 918 |
| Total revenues | 404,537 | 361,156 |
| Expenses: | | |
| Operations | 40,716 | 37,430 |
| Maintenance | 13,602 | 14,419 |
| Administration | 6,429 | 5,616 |
| Other operating | 1,806 | 2,827 |
| Total expenses | 62,553 | 60,292 |
| Add deposits into OMA reserve | 972 | 1,295 |
| Less advances allowable for operations and maintenance expenses received from FDOT | (7,699) | (8,663) |
| Net expenses | 55,826 | 52,924 |
| Net revenues, as defined, inclusive of advances received from the FDOT | \$ 348,711 | \$ 308,232 |
| Senior lien debt service payments | \$ 143,882 | \$ 140,047 |
| Senior lien debt service ratio of net revenues to debt service payments | 2.42 | 2.20 |
| Supplemental payments - County gas tax pledge | \$ 9,397 | \$ 9,088 |
| Senior lien debt service ratio of net revenues and supplemental payments to debt service payments* | 2.49 | 2.27 |
| Subordinate Payments | | |
| SIB Loan Payment | \$ 2,513 | \$ 10,188 |
| FDOT Lease Purchase Agreement Payment | 20,000 | 20,000 |
| SunTrust Bank Loan Payment | 1,400 | 1,400 |
| Total Subordinate Payments | \$ 23,913 | \$ 31,588 |
| Subordinate Debt Service Ratio** | 2.08 | 1.80 |

*These calculations apply to the 1990 Series Bonds, which are covered by the County's gas tax pledge.

**These calculations are done according to the Master Subordinate Lien Resolution.

Note: Revenues and expenses are presented on this schedule on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Certain amounts included on the statement of revenues, expenses, and changes in net position are not part of net revenues, as defined, and are, therefore, excluded from this schedule.

**REPORTS ON COMPLIANCE
AND INTERNAL CONTROL**



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the
Central Florida Expressway Authority
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements, as listed in the table of contents, of the Central Florida Expressway Authority (CFX) as of and for the year ended June 30, 2016, and have issued our report thereon dated November 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CFX's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CFX's internal control. Accordingly, we do not express an opinion on the effectiveness of CFX's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Members of the
Central Florida Expressway Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CFX's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management in a separate letter dated November 22, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CFX's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CFX's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 22, 2016



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH BOND COVENANTS**

To the Members of the
Central Florida Expressway Authority
Orlando, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements, as listed in the table of contents, of the Central Florida Expressway Authority (CFX) as of and for the year ended June 30, 2016, and have issued our report thereon dated November 22, 2016.

Other Matter

In connection with our audit, nothing came to our attention that caused us to believe that CFX failed to comply with the terms, covenants, provisions, or conditions of Sections 5.2, 5.5 to 5.7, 5.9, 5.10, 5.12, and 5.17, inclusive, of the Amended and Restated Master Bond Resolution dated February 3, 2003, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding CFX's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the Amended and Restated Master Bond Resolution, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

This communication related to compliance with the aforementioned Amended and Restated Master Bond Resolution report is intended solely for the information and use of CFX members, management, and the bondholders and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A."

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 22, 2016



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANT'S REPORT

To the Members of the
Central Florida Expressway Authority
Orlando, Florida

We have examined the compliance of the Central Florida Expressway Authority (CFX) with the requirements of Section 218.415, Florida Statutes, during the fiscal year ended June 30, 2016. Management is responsible for CFX's compliance with those requirements. Our responsibility is to express an opinion on CFX's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about CFX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on CFX's compliance with specified requirements.

In our opinion, CFX complied, in all material respects, with the aforementioned requirements for the fiscal year ended June 30, 2016.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 22, 2016



MOORE STEPHENS
LOVELACE, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

To the Members of the
Central Florida Expressway Authority
Orlando, Florida

Report on the Financial Statements

We have audited the financial statements of Central Florida Expressway Authority (CFX) as of and for the fiscal year ended June 30, 2016, and have issued our report thereon dated November 22, 2016.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, and Chapter 10.550, *Rules of the Auditor General*.

Other Reports

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*; Independent Auditor's Report on Compliance with Bond Covenants; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated November 22, 2016, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The legal authority is disclosed in the notes to the financial statements.

Financial Condition

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not CFX has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that CFX did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

To the Members of the
Central Florida Expressway Authority

Financial Condition (Continued)

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor CFX's financial condition, and our financial condition assessment was based, in part, on representations made by management and the review of financial information provided by same.

Annual Financial Report

Sections 10.554(1)(i)5.b. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether the annual financial report for CFX for the fiscal year ended June 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended June 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., *Rules of the Auditor General*, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. There were no special district component units that were required to provide financial information to CFX for the fiscal year ended June 30, 2016.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, federal and other granting agencies, the members of CFX's Board, and applicable management, and is not intended to be, and should not be, used by anyone other than these specified parties.

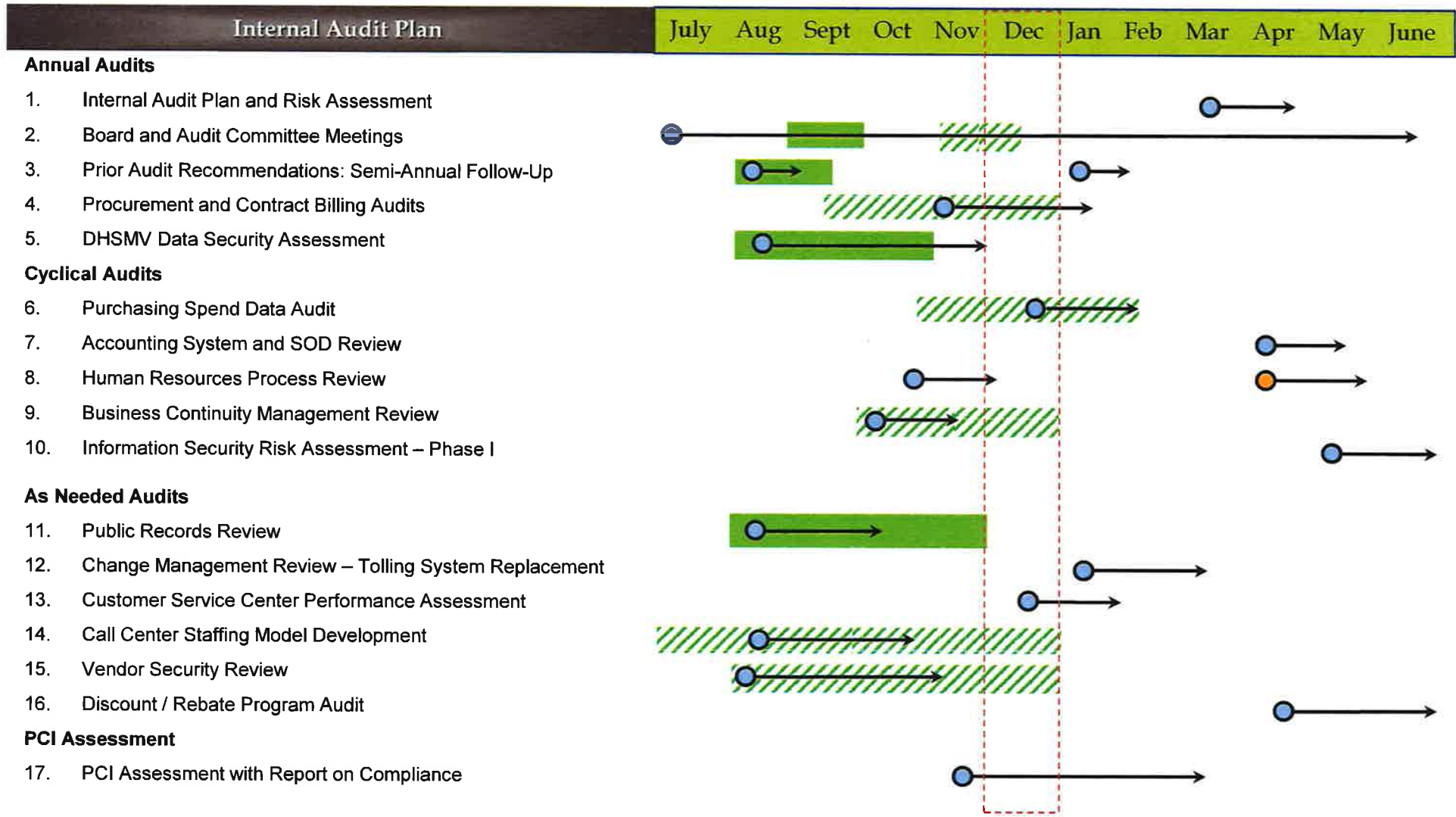


MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 22, 2016

FY 2017 Internal Audit Plan Dashboard

As of December 15, 2016





Central Florida Expressway Authority

2017 Public Records Review

November 4, 2016

© 2016 Protiviti Inc. All Rights Reserved. This document has been prepared for use by CFX's management, audit committee, and board of directors. This report provides information about the condition of risks and internal controls at one point in time. Future events and changes may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

protiviti[®]
Face the Future with Confidence

Table of Contents

| Section | Page(s) |
|-----------------------|---------|
| Executive Summary | 3 – 5 |
| Detailed Observations | 6 – 17 |

Executive Summary

Background

As a public agency, the Central Florida Expressway Authority (CFX) is required to comply with Chapter 119 of the Florida Statute, Florida Public Records Law. The law provides that any records made or received by any public agency in the course of its official business are available for inspection, unless specifically exempted by the Florida Legislature. Public records include all documents, papers, letters, maps, books, tapes, photographs, films, sound recordings, data processing software or other material, regardless of physical form, characteristics, or means of transmission, made or received pursuant to law or ordinance or in connection with the transaction of official business by CFX.

The CFX Records Management department consists of a Records Specialist and a Manager of Public Records, who also serves as the agency's Records Management Liaison Officer (RMLO) with Florida's Division of Library and Information Services. CFX selects Record Coordinators within each department to work with Records Management. The Records Management function and Record Coordinators are jointly responsible for maintenance, retention, preservation, and destruction of public records as required by the Public Records Law. CFX manages public records in various forms, including paper records, electronic documents, electronic mail (email), and text messages. CFX engages a document imaging vendor to microfilm permanent public records for preservation and an offsite storage vendor to store records with long-term or permanent retention. CFX uses a combination of the offsite storage vendor and a shredding vendor for public records destruction.

In accordance with the FY 2017 Internal Audit Plan, Internal Audit performed a review of CFX's process to manage public records, including electronic records management, record collection and document retention.

Objectives

The objectives of this review were to:

- (1) Evaluate CFX's public records management policy and procedures to comply with public records laws surrounding custodial requirements, maintenance, preservation, retention, and destruction of public records;
- (2) Assess the data retention processes, technologies, and software utilized to capture electronic records, such as mobile phone, email, and voice mail;
- (3) Evaluate the Records Management and Coordinator training program;
- (4) Benchmark CFX public records management policy and procedures with local industry practices.

Summary of Project Scope, Approach, and Results

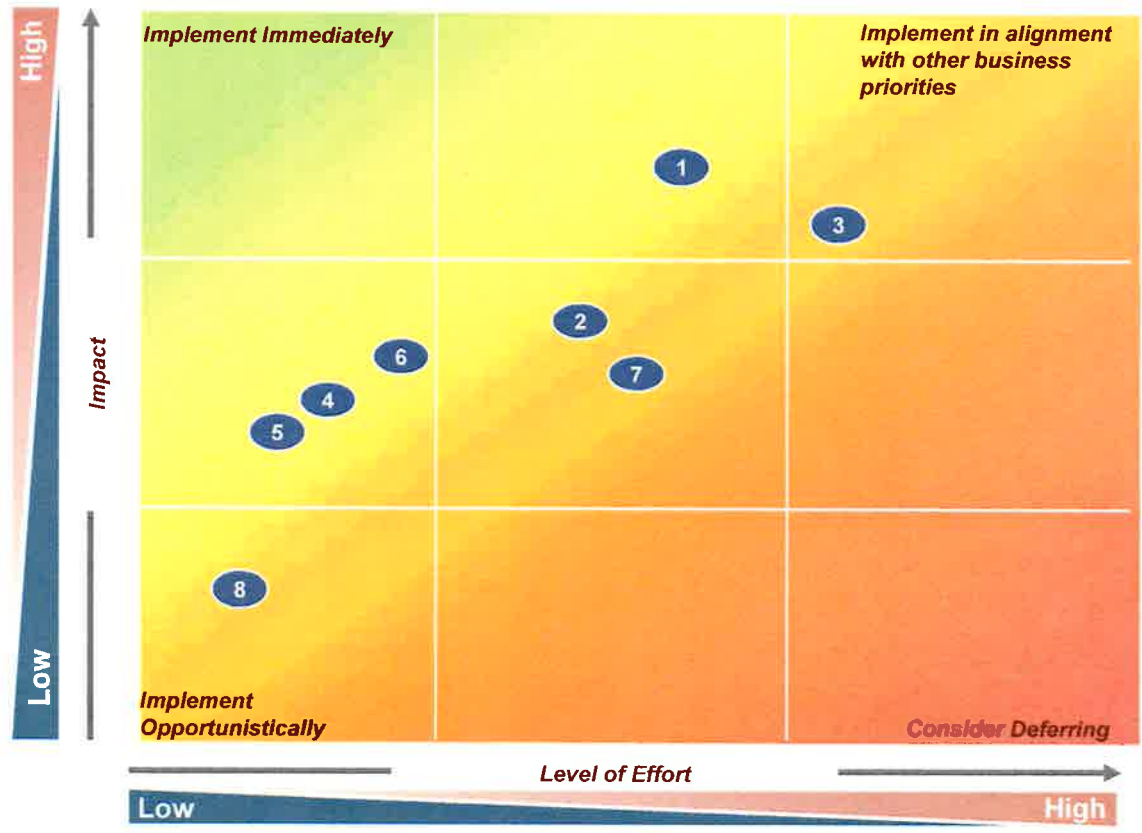
Internal Audit evaluated CFX's public records management processes and internal controls for design effectiveness based on the requirements of the Florida Public Records Law. Based upon the work performed, Internal Audit identified eight opportunities that would strengthen CFX's overall public records management process and internal control environment. The table below provides an overview of the areas reviewed and opportunities identified.

| Key Areas Reviewed | Procedures Performed | Number of Observations | Observation Reference |
|---|---|------------------------|-----------------------|
| Policies and Procedures | <ul style="list-style-type: none"> ✓ Reviewed CFX's public records management process to comply with the Florida Public Records statutes surrounding custodial requirements, maintenance, preservation, retention, exemptions, and destruction of public records. ✓ Benchmarked CFX's public records policy and procedures, including training requirements, with other Florida-based tolling agencies. | 1 | 1 |
| Training & Awareness | <ul style="list-style-type: none"> ✓ Determined how public records requirements are communicated to Authority employees, committee members, and the board of directors. ✓ Evaluate the public records management training procedures. | 1 | 2 |
| Technology | <ul style="list-style-type: none"> ✓ Determined what technologies are currently utilized to retain electronic communication via mobile phone, email, and voice mail at CFX. ✓ Reviewed the configurations of identified technologies to determine how electronic communication is stored within each. ✓ Reviewed the processes in place to review the records that are captured and stored within CFX's environment. | 2 | 3,4 |
| Records Collection and Retention | <ul style="list-style-type: none"> ✓ Reviewed CFX's records management process for organizing, identifying, and tracking offsite storage records. | 2 | 5,6 |
| Records Destruction | <ul style="list-style-type: none"> ✓ Reviewed CFX's process and internal controls for destroying public records that have met retention requirements. | 2 | 7,8 |
| TOTAL: | | 8 | |

Recommendations for Improvement

- I. Define Records Management Policy and Procedures**
 - 1. Revise records management policy and create desktop procedures
- II. Enhance Training & Awareness Program**
 - 2. Annual Record Coordinator training
- III. Enhance Technology**
 - 3. Update or replace outdated records management database
 - 4. Implement additional layers of protection for text message collection
- IV. Improve Records Collection and Retention Processes**
 - 5. Issue CFX electronic mail account to non-public board and committee members
 - 6. Develop a barcode tracking reconciliation
- V. Develop Records Destruction Processes**
 - 7. Limit record retention to required term
 - 8. Enforce offsite storage vendor contract compliance

Impact vs. Level of Effort



Impact versus level of effort was judgmentally evaluated through joint discussions between CFX management and Internal Audit.



Detailed Observations

Detailed Observations

Policies and Procedures

Observation 1 – Records Management Policy and Procedures

CFX has a records management policy in place and a records management plan, which was created in 2011 by a third-party consultant to provide long-term, forward-looking guidelines and recommendations for governing CFX's records management program. The CFX records management policy contains portions of the records management plan.

Training & Awareness

CFX does not have a records management procedural document that provides the detailed records management practices that are currently in place.

Technology

Policies should contain clear, simple statements of how an organization or entity intends to conduct its operations and provide a set of guiding principles to help management with decision making, while procedures should help govern the actions necessary to fulfill the organization's policies for operations. Procedures containing an appropriate level of detail can help reduce misunderstanding and increase distribution of pertinent information to those involved in the process.

Records Collection and Retention

Recommendation

CFX should consider revising the records management policy to clearly state the direction of the Records Management function and create separate "desktop" procedures that clearly define and document key aspects of CFX's records management activities that are currently in place, including, but not limited to the following:

- Record Coordinator procedures by department
- Frequently used GS1-SL Retention Schedules by department and any departures from the GS1-SL Retention Schedule for specific records
- Barcode and database tracking process for offsite storage of records
- Public records request tracking and quality control review process
- Use of the records management database and email search tool for public records requests
- Exemptions to public records law that are frequently used and/or relevant to CFX's business
- Examples of confidential information that should not be disclosed in response to a public records request
- Methods for electronic records retention
- Preservation process for permanent public records
- Public records destruction process

Continued on the following page...

Detailed Observations

Policies and
Procedures

Observation 1 – Records Management Policy and Procedures

Management Response

Concur.

Training &
Awareness

Management Action Plan

CFX will develop a revised policy and desktop procedures based on the recommendations in this report and the new records management plan from the third-party consultant.

Technology

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff /

Policy revision – June 30, 2017

Desktop procedures – June 30, 2018

Records Collection
and Retention

Records
Destruction

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 2 – Record Coordinator Training

CFX policy requires that all employees complete an annual public records training, which is currently accomplished in conjunction with Ethics and Sunshine Law training provided by the CFX Legal department. The Manager of Public Records receives additional training to ensure the employee has the appropriate knowledge and skills to serve as the Records Management Liaison Officer.

In addition, CFX selects Record Coordinators within each department to work with the Manager of Public Records to ensure departmental public records are managed in compliance with Florida Public Records Law. The Record Coordinators perform a key role in the organization's public records management processes. However, specialized training for Record Coordinators is not in place.

Recommendation

Management should implement an annual public records management training program for the Record Coordinator role. The training should include the following, at a minimum:

- Internal processes and expectations for Record Coordinators
- Application of Florida Public Records Law to accomplish assigned responsibilities
- Exemptions and confidential information per Florida Public Records Law as applicable to the individual departments
- Upcoming public records related projects
- Opportunities to discuss challenges and questions related to the Record Coordinator role

Management Response

Concur.

Management Action Plan

CFX will develop a formalized training process for the Record Coordinators with the assistance of the records management consultant. Training will be in addition to the basic public records training for all employees and will include detail specific to their role and responsibilities as Record Coordinators.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff / December 31, 2017

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 3 – Records Management Database

Although CFX's IT department built a custom Access Database for the Records Management department to store and retrieve location data for hard copy public records, it is no longer supported or maintained by the IT department (although it is stored on the Network File Share and subject to normal backup processes). Due to this, the Records Management department, the users of the database, have experienced issues and errors accessing the information contained within the database including:

- Reliance on web search results in order to troubleshoot problems with the database.
- Orphaned data that points to records that no longer exist, or have already been destroyed.
- Data integrity issues, such as the incorrect modification of the retention schedule of all records (which was changed to "retain permanently" for all documents).
- Unnecessary custom queries, tables, and search forms built approximately 10 years ago that affect the user interface and performance of the Access Database

Recommendation

CFX should consider migrating the current Access Database to a records management tool designed for this purpose. The selected tool should be provisioned and managed by the IT department, and should include a user-friendly interface, such as a web-based front end application to allow the Records Management department to access the information needed to fulfill public records requests. CFX should also consider contacting the offsite storage vendor to determine if they have a records management tool that can be leveraged to query, retrieve, and maintain records.

Management Response

Concur.

Management Action Plan

CFX will research solutions to replace the records management database and will include the procurement of a new database in the budget for next fiscal year.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff and Corey Quinn, Chief Technology/Operations / June 30, 2018

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 4 – Text Message Collection

CFX utilizes the Smarsh application to collect and store text messages sent to or from CFX cellular telephones. Due to the configuration of Apple devices, any text message sent between two Apple devices (e.g. iPhone to iPhone), whether the message is between two CFX employees or between CFX and an external party, is not captured in the Smarsh application. This is due to the manner in which the iMessage communication platform was designed by Apple.

Once the issue of record retention specific to Apple device messaging was identified, CFX's IT department quickly escalated the concern with the Smarsh application vendor. The solution provided by Smarsh included turning off the iMessage feature on each enrolled Apple device so that messages are forced to use Short Message Service (SMS) or Multimedia Messaging Service (MMS) instead of iMessage. The request to make this configuration change has been distributed to CFX's user base, and at the time of the audit, was completed for all iPhone users within the environment.

Recommendation

Management should update user procedures for CFX connected devices to include the requirement to keep iMessage turned off. Management should also enhance the current mobile phone provisioning process and related procedures to include a step for turning off iMessage on Apple devices before they are issued to the user.

Management should consider the following options to monitor compliance with the procedures and ensure collection of text message records:

- Develop a manual process to periodically review user settings on enrolled Apple devices
- Implement "parental controls" on enrolled devices with a password known by two CFX IT employees
- Implement a mobile device management (MDM) tool to automate the control process

Continued on the following page...

Detailed Observations

Policies and
Procedures

Observation 4 – Text Message Collection

Management Response

Concur.

Training &
Awareness

Management Action Plan

Management is completely confident that due to the redundancy of safeguards currently in place that all text messages are retrievable. Notwithstanding, management agrees to implementing additional layers of safeguards.

Technology

Action Plan Owner / Due Date

Corey Quinn, Chief of Technology/Operations /

Turn off iMessage capability – complete as of November 30, 2016

Procedure updates – June 30, 2017

Review vendor MDM capabilities – March 31, 2017

Records Collection
and Retention

Records
Destruction

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 5 – Electronic Mail Collection

The CFX Board is comprised of government employees and three gubernatorial appointed citizens. The gubernatorial appointed citizens serving on the CFX Board have been provided CFX electronic mail (email) addresses, which helps with record collection and retention for compliance with Florida Public Records law. However, Board members do not serve on committees, and instead appoint representatives to serve in their place. The non-government citizens serving at the Committee level have not been provided with CFX email addresses, creating greater opportunity for emails regarding agency business to be sent outside of CFX's Exchange deployment, leaving them absent from the public records files or CFX-established records retention schedules.

Recommendation

CFX should assign a CFX email address to each non-government Committee member and should communicate the expectation that all agency business be conducted using this email address. If this is not possible, CFX should consider requiring that any email messages related to agency business conducted outside of a CFX email address be forwarded to a designated CFX address for collection and retention.

Management Response

Concur.

Management Action Plan

CFX will issue email addresses to the non-government committee members and will require committee members to utilize the email address for agency business or to forward all related emails to the address for collection and retention.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff / December 31, 2017

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 6 – Records Barcode Tracking

To aid in tracking the movement, storage, and retrieval of paper records, when records are ready to be sent to the offsite storage vendor for retention, barcodes are issued to Record Coordinators or custodians by the Records Management department. The Record Coordinator or custodian completes and returns a box inventory form to Records Management, which identifies the records within the box, attaches the barcode, and sends the box to offsite storage. The Records Management department enters the detailed box contents into the records management database, by barcode, for record tracking and retrieval purposes. All available and issued barcodes are tracked by Records Management in Excel, but Records Management does not currently follow up on the status of barcodes where no box inventory form was returned and does not confirm receipt of the box by the offsite storage vendor.

During the audit, one instance was identified in which a barcode was issued to a Record Coordinator ten months prior but could not be located in the records management database, indicating that the box inventory form was not returned to Records Management. The box was subsequently located onsite; however, inadequate tracking of barcodes, box inventory forms, and receipt of boxes by the offsite storage vendor increases the risk of undetected loss and an inability to subsequently comply with any public records request specific to those records.

Recommendation

To improve the tracking process of public record boxes, Records Management should perform a monthly reconciliation of the barcodes issued, box inventory forms received, and boxes received by the offsite storage vendor. CFX may consider including a barcode tracking tool in the records management database and developing reports to facilitate and formalize the tracking and reconciliation processes for records sent to the offsite vendor for storage.

Management Response

Concur.

Management Action Plan

CFX will implement the monthly reconciliation process as recommended.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff / March 31, 2017

Detailed Observations

Policies and Procedures

Observation 7 – Electronic Public Records Destruction

Although a records retention schedule is clearly defined in policies, electronic records are not being destroyed according to the retention schedule. Currently, CFX is permanently retaining records for the following digital technologies with no defined procedures or technology in place to guide destruction beyond the required retention limits:

Training & Awareness

- Microsoft Exchange (electronic mail, calendar, and contacts)
- Smarsh (text messages)
- Network Shared Drive (electronic documents and other records)
- SharePoint (electronic documents and other records)

Technology

CFX's Records Management Policy and Public Records Training are documented and establish the records retention schedule. The training states that "a public record may only be destroyed or disposed of in accordance with the retention schedules", and "after the retention period, public records that are no longer needed must be systematically disposed".

Records Collection and Retention

Florida Administrative Code 1B-24.003(1)(a) states that "Retention periods are determined by the content, nature, and purpose of records, and are set based on their legal, fiscal, administrative, and historical values, regardless of the format in which they reside or the method by which they are transmitted." This means that certain emails or text messages may need to be retained longer than others based on their content.

Records Destruction

Recommendation

Review existing policies and procedures surrounding the disposition or destruction of documents to ensure they provide sufficient detail around record retention and destruction.

Develop an approach to destroy records from the systems they are stored within (such as Smarsh, Exchange, SharePoint, Shared Drives, etc.) once their retention schedule has been met. To facilitate this, consider developing a method within each digital technology instance to classify records and document their associated destruction date according to the retention schedule and Authority policy.

The timely destruction of public records once retention is met would help reduce electronic and manual resource requirements and associated costs to store records. In addition, public records held beyond the retention period would need to be produced in the event of a public record request. Timely destruction of records could reduce labor requirements for the discovery of items that should have been destroyed in the event of a sizeable public record request.

Continued on the following page...

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 7 – Electronic Public Records Destruction

Specific to Microsoft Exchange, CFX should consider the following actions to assist in managing email correspondence so emails can be categorized and destroyed when necessary:

- Set mailbox limits that automatically delete messages after a pre-determined period of time
- Restrict the creation of .PST files so that all messages reside within user's inbox (and not on their local machine)
- Create a "vault" to store important emails that must be kept for a certain number of days on each user's inbox, and outline the type of content within emails that would warrant the message to be placed within the "vault". This "vault" would not be subject to the automatic delete processes outlined above so that all messages that must be kept are secured and can be retrieved when necessary.

CFX may consider implementing an email management tool that does the above and allows for categorization of emails by retention schedule.

Management Response

Concur.

Management Action Plan

CFX will establish a systematic destruction process for each type of electronic technology. The process will be documented in the policies and desktop procedures. CFX will explore email management tools available to assist with the destruction process.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff / June 30, 2018

Detailed Observations

Policies and
Procedures

Training &
Awareness

Technology

Records Collection
and Retention

Records
Destruction

Observation 8 – Offsite Public Records Destruction

Florida Regulation 1B-24.003(10) requires all destruction of public records be conducted in a manner that safeguards the interests of the state and safety, security and privacy of individuals. The current CFX process is to have a witness present during onsite or offsite destruction of public records, which helps ensure compliance with the statute. Per CFX's contract with its offsite storage vendor, the vendor must complete a Certificate of Destruction each time records are destroyed, which is to include the name of the person performing destruction and the name of the witness. However, during the audit, upon inspection of these Certificates of Destruction, the names of the people performing the destruction and the name of the witness were not consistently documented on the Certificates of Destruction submitted to CFX.

Recommendation

CFX should contact its offsite storage vendor and request compliance with the contract terms through timely submission of complete Certificates of Destruction. In addition, CFX should implement a consistent management review control to check the completeness of Certificates of Destruction as received to verify the information provided is in accordance with the contractual requirements.

Management Response

Concur.

Management Action Plan

CFX will review the contractual requirements with the offsite storage vendor and will review future certificates to ensure the person performing destruction and the name of the witness are included.

Action Plan Owner / Due Date

Michelle Maikisch, Chief of Staff / March 31, 2017

DHSMV Data Security Assessment

Central Florida Expressway Authority

September 2016

| | |
|-----------------------------------|---|
| Executive Summary | 1 |
| ▪ Overview | 1 |
| ▪ Scope and Approach | 2 |
| ▪ Summary of Results | 3 |
| Appendix A – Controls Tested..... | 4 |

Executive Summary

Overview

During the period of August 8, 2016 to September 12, 2016, Internal Audit performed a Data Security Assessment of the Department of Highway Safety and Motor Vehicles (DHSMV) data within the Central Florida Expressway Authority (CFX) environment. The objectives of the assessment were to review internal controls for gaps in design related to the requirements set forth in *Section V – Safeguarding Information*, of the DHSMV Drivers License or Motor Vehicle Record Data Exchange Memorandum of Understanding (MOU).

The summarized objectives of Section V are:

- Information exchanged will not be used for any purposes not specifically authorized by the MOU. Unauthorized use includes, but is not limited to, queries not related to a legitimate business purposes, personal use, and the dissemination, sharing, copying or passing of this information to unauthorized persons.
- Information exchanged by electronic means will be stored in a place physically secure from access by unauthorized persons.
- Access to the information will be protected in such a way that unauthorized persons cannot review or retrieve the information.
- All personnel with access to the information exchanged under the terms of the MOU will be instructed of, and acknowledge their understanding of, the confidential nature of the information. These acknowledgements must be maintained in a current status by the Requesting Party (CFX).
- All personnel with access to the information will be instructed of, and acknowledge their understanding of, the criminal sanctions specified in state law for unauthorized use of the data. These acknowledgements must be maintained in a current status by the Requesting Party (CFX).
- All access to the information must be monitored on an on-going basis by the Requesting Party (CFX). In addition, the Requesting Party (CFX) must complete an annual audit to ensure proper and authorized use and dissemination.

Executive Summary

Scope & Approach

Internal Audit conducted an assessment of the process used for safeguarding DHSMV data in the CFX environment. In order to complete this review, the following procedures were performed:

- Reviewed policies and procedures related to the safeguarding of electronic and physical data transfers, data storage, and data access.
- Conducted interviews with key personnel to understand the *Drivers License or Motor Vehicle Record Data Exchange* process.
- CFX Management approved the scope of work and believed it to be sufficient to meet the requirements of the MOU. Conducted testing of controls related to the following areas:
 - Policies and Procedures
 - Application Access
 - Segregation of Duties
 - Change Control
 - Data Storage
 - Data Transfer
 - Network Firewall
 - Network Architecture
 - Active Directory
 - Physical Security
- After testing was completed, analysis was performed to compare the results of testing to the control objectives outlined in the MOU.

Executive Summary

Summary of Results

As a result of this review, Internal Audit identified zero (0) observations that should be addressed in order to enhance CFX's Drivers License or Motor Vehicle Data Exchange process.

Appendix A – Controls Tested

| | Control Objective | Control Description | Testing Results |
|---|---|---|--------------------------|
| 1 | Information exchanged will not be used for any purposes not specifically authorized by this agreement. Unauthorized use includes, but is not limited to, queries not related to a legitimate business purpose, personal use, and the dissemination, sharing, copying or passing of this information to unauthorized persons. | Policies and Procedures: CFX implements company-wide policies and procedures that enforce the safeguarding of company data and other sensitive customer data whether or not it is currently being used or accessed. | Control Effective |
| 2 | All personnel with access to the information exchanged under the terms of the Drivers License or Motor Vehicle Record Data Exchange MOU will be instructed of, and acknowledge their understanding of, the confidential nature of the information. These acknowledgements must be maintained in a current status by the requesting party. | Training: CFX requires in the hiring process that all users sign an acknowledgement after reviewing either the employee or contractor security guidelines handbook which covers the safeguarding of data. These acknowledgments must be maintained for all current/active users. | Control Effective |
| 3 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | TRIMS Access: System access to the TRIMS applications for new users is appropriately administered through the submission of a New User Authorization Form. This form is completed by the new user's Manager and the proper approvals/signatures are obtained. Access to the applications is then administered by IT support. | Control Effective |
| 4 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | TRIMS Access - Terminated Users: System access to the TRIMS application and company network is appropriately revoked in a timely fashion for terminated users. Upon receipt of a termination notification (email, authorization form, phone call, etc.) from HR or a Manager responsible for the terminated user, the user's system account is disabled immediately. | Control Effective |
| 5 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Database-level Access: Database-level access is restricted to the appropriate individuals through the use of unique accounts. | Control Effective |

Appendix A – Controls Tested

| | Control Objective | Control Description | Testing Results |
|----|--|---|--------------------------|
| 6 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Server-level Access: Server-level access is restricted to the appropriate individuals through the use of unique accounts. | Control Effective |
| 7 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | FTP Gateway Access: All individuals / user accounts with access to the FTP Gateway are authorized and appropriate. | Control Effective |
| 8 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Host (HT250) Access: All individuals / user accounts with access to the Host (HT250) are authorized and appropriate. | Control Effective |
| 9 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Oracle DB Access: All individuals / user accounts with access to the Oracle DB are authorized and appropriate. | Control Effective |
| 10 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | DOCPRD1 Access: All individuals / user accounts with access to the DOCPRD1 server are authorized and appropriate. | Control Effective |
| 11 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Infoview Crystal Reports (RPTPRD4) Server Access: All individuals / user accounts with access to the Infoview Crystal Reports (RPTPRD4) server are authorized and appropriate. | Control Effective |
| 12 | Information exchanged will not be used for any purposes not specifically authorized by this agreement. Unauthorized use includes, but is not limited to, queries not related to a legitimate business purpose, personal use, and the dissemination, sharing, copying or passing of this information to unauthorized persons. | DHSMV Data Access: Management performs a periodic review of user access across each of the in-scope entities to ensure that the assigned access level is commensurate with his/her job function. | Control Effective |

Appendix A – Controls Tested

| | Control Objective | Control Description | Testing Results |
|----|--|--|--------------------------|
| 13 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Change Control / Patch Management: Dedicated Test environments exist for the testing of changes and patches, where practical. CFX appropriately documents and tests each change. | Control Effective |
| 14 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Change Control / Patch Management: All changes and patches are authorized, executed, and documented according to stated procedures. | Control Effective |
| 15 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Data Encryption: Driver's license number as it is obtained from the DHSMV is encrypted when stored in the Oracle database. Also test encryption methods at all other transmission points, including at network, application, and database layers (if applicable). | Control Effective |
| 16 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Network - Firewall: CFX has an operational firewall in place to restrict access to the internal network. | Control Effective |
| 17 | Access to the information exchanged will be protected in such a way that unauthorized persons cannot review or retrieve the information. | Network - Active Directory: All individuals with Active Directory credentials are current, active users and all rights granted through Active Directory are commensurate with their current job responsibilities. | Control Effective |
| 18 | Information exchanged by electronic means will be stored in a place physically secure from access by unauthorized persons. | Physical Security - Data Center: Access to the data center(s) is restricted to appropriate personnel and is provided through the use of a physical key, key card, biometric, or other form of physical security. | Control Effective |


Appendix A – Controls Tested

| | Control Objective | Control Description | Testing Results |
|----|---|--|--------------------------|
| 19 | Information exchanged by electronic means will be stored in a place physically secure from access by unauthorized persons. | Physical Security - Work Areas: Access to the work areas is restricted to appropriate personnel and is provided through the use of a physical key, key card, biometric, or other form of physical security. | Control Effective |
| 20 | All access to the information must be monitored on an on-going basis by the Requesting Party. In addition the Requesting Party must complete an annual audit to ensure proper and authorized use and dissemination. | Logging & Monitoring: Logging and auditing functions are enabled on all in-scope entities. In addition, all system logs are monitored for unauthorized access and irregular activity. | Control Effective |
| 21 | All access to the information must be monitored on an on-going basis by the Requesting Party. In addition the Requesting Party must complete an annual audit to ensure proper and authorized use and dissemination. | Vulnerability Scanning / Penetration Testing: CFX performs periodic external vulnerability scans and penetration tests. | Control Effective |

CENTRAL FLORIDA EXPRESSWAY AUTHORITY

MEMORANDUM

TO: CFX Audit Committee Members

FROM: Lisa Lumbar, CFO 

DATE: December 9, 2016

SUBJECT: Recommendation of External Auditor

A Request for Proposals (RFP) from qualified audit firms to perform CFX's External Auditing Services was advertised on October 10, 2016. Responses were received from three (3) firms by November 17, 2016, the deadline for submittal of Technical Proposals. Those firms were: Cherry Bekaert, Mauldin & Jenkins and Moore Stephens Lovelace.

The Evaluation Committee met on December 6, 2016 and after reviewing the Technical Proposals decided to shortlist Cherry Bekaert and Moore Stephens Lovelace and schedule interviews.

Scoring of the submittals is as follows:

| | |
|---------------------------------------|-----------|
| Approach and Management of Engagement | 20 |
| Firm's Experience | 20 |
| Assigned Auditors' Experience | 30 |
| Interview | 10 |
| Fee Proposal | <u>20</u> |
| Total | 100 |

Interviews with the firms are scheduled to be held on December 14, 2016. At the conclusion of the interviews the Fee Proposals will be opened and scored. The minutes of the December 14, 2016 meeting along with staff's recommendation will be given to you at the Audit Committee Meeting.