

# **Toll Road Investors Partnership II, L.P.**

(A Virginia limited partnership)

**Financial Statements**

**For the Years Ended December 31, 2016 and 2015**



## Report of Independent Auditors

To Management and the Board of Directors of  
Toll Road Investors Partnership II, L.P.

We have audited the accompanying financial statements of Toll Road Investors Partnership II, L.P., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, of changes in partners' deficit, and of cash flows for the years then ended.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Partnership'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 Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Toll Road Investors Partnership II, L.P. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 13, 2017

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# Toll Road Investors Partnership II, L.P.

(A Virginia limited partnership)

## Balance Sheets

December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash	\$ 1,680,771	\$ 1,108,906
Prepaid expenses and other assets	877,511	547,678
Funds held in escrow	169,280,089	161,766,058
Prepaid bond insurance (net of accumulated amortization of \$23,529,788 and \$21,559,569, respectively)	62,514,097	64,484,316
Fixed assets (net of accumulated depreciation of \$1,338,569 and \$1,290,863, respectively)	604,749	549,938
Certificate of authority assets (net of accumulated realized deferred costs of \$134,011,484 and \$126,633,219, respectively)	288,594,717	296,262,334
Total assets	<u>\$ 523,551,934</u>	<u>\$ 524,719,230</u>
<b>Liabilities and Partners' Deficit</b>		
Accounts payable and accrued expenses	\$ 861,551	\$ 620,430
VIP program accrual	419,384	402,709
Easement payable	7,084,251	6,551,590
Accrued interest payable	935,156	935,156
Debt, net (including a current portion of \$61,435,156 and \$60,935,156, respectively)	1,014,349,590	1,012,605,106
Total liabilities	1,023,649,932	1,021,114,991
Partners' deficit	<u>(500,097,998)</u>	<u>(496,395,761)</u>
Total liabilities and partners' deficit	<u>\$ 523,551,934</u>	<u>\$ 524,719,230</u>

The accompanying notes are an integral part of these financial statements.

**Toll Road Investors Partnership II, L.P.**  
(A Virginia limited partnership)  
**Statements of Operations**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>Revenue</b>		
Toll revenue	\$ 91,319,174	\$ 84,745,794
Other revenue	420,557	390,506
Total revenue	<u>91,739,731</u>	<u>85,136,300</u>
<b>Operating expense</b>		
Operation and maintenance expense	4,104,262	4,603,707
General and administrative	2,190,610	2,151,408
Project improvement expense	3,995,110	1,982,430
Legal and consulting	286,557	290,484
Depreciation	180,938	154,122
Realized deferred costs	7,378,265	7,378,265
Real estate property taxes	4,234,316	3,705,969
State police agreement	869,040	919,626
Electronic toll / credit card processing fees	3,222,382	2,814,068
VIP miles program expense	788,580	749,582
Insurance expense	600,008	597,732
Easement fees	1,132,661	1,132,661
Engineering services	413,032	259,817
Licenses and fees	252,232	241,583
Total operating expense	<u>29,647,993</u>	<u>26,981,454</u>
Operating income	<u>62,091,738</u>	<u>58,154,846</u>
<b>Other income and expense</b>		
Interest income	384,728	74,127
Gain (loss) on fixed asset disposals	29,750	14,493
Interest expense (Note 6)	(66,208,453)	(66,075,496)
Total other income and expense	<u>(65,793,975)</u>	<u>(65,986,876)</u>
Net loss	<u>\$ (3,702,237)</u>	<u>\$ (7,832,030)</u>

The accompanying notes are an integral part of these financial statements.

**Toll Road Investors Partnership II, L.P.**  
(A Virginia limited partnership)  
**Statements of Changes in Partners' Deficit**  
**For the Years Ended December 31, 2016 and 2015**

	General Partner	Limited Partners				
	Shenandoah Greenway Corporation	Shenandoah Limited Partnership	AIE LLC	Dulles Greenway Partnership	Shenandoah I LLC	Partners' Deficit
<b>Balances at December 31, 2014</b>	\$ (510,300)	\$ (248,025,553)	\$ (155,272,590)	\$ (74,078,533)	\$ (57,308,005)	\$ (535,194,981)
Impact of adopting ASU 2014-05: Service Concession Arrangements (Topic 853) effective January 1, 2015 (Note 3)	46,631	21,781,456	13,678,345	6,217,345	4,907,473	46,631,250
Allocation of net loss	<u>(7,832)</u>	<u>(3,658,341)</u>	<u>(2,297,369)</u>	<u>(1,044,245)</u>	<u>(824,243)</u>	<u>(7,832,030)</u>
<b>Balances at December 31, 2015</b>	(471,501)	(229,902,438)	(143,891,614)	(68,905,433)	(53,224,775)	(496,395,761)
Allocation of net loss	<u>(3,702)</u>	<u>(1,729,315)</u>	<u>(1,085,978)</u>	<u>(493,619)</u>	<u>(389,623)</u>	<u>(3,702,237)</u>
<b>Balances at December 31, 2016</b>	<u>\$ (475,203)</u>	<u>\$ (231,631,753)</u>	<u>\$ (144,977,592)</u>	<u>\$ (69,399,052)</u>	<u>\$ (53,614,398)</u>	<u>\$ (500,097,998)</u>

The accompanying notes are an integral part of these financial statements.

**Toll Road Investors Partnership II, L.P.**  
(A Virginia limited partnership)  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

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	2016	2015
<b>Cash flows from operating activities</b>		
Net loss	\$ (3,702,237)	\$ (7,832,030)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	180,938	154,122
Realized deferred costs	7,378,265	7,378,265
Gain on disposal of fixed assets	(29,750)	(14,493)
Accretion of bond discount	61,242,994	61,174,321
Amortization of prepaid bond insurance and deferred bond issue costs	2,471,709	2,407,425
Changes in operating assets and liabilities		
Accrued interest receivable	(26,525)	(13,644)
Prepaid expenses and other assets	(303,307)	20,666
Accounts payable and accrued expenses	790,458	321,398
Net cash provided by operating activities	<u>68,002,545</u>	<u>63,596,030</u>
<b>Cash flows from investing activities</b>		
Proceeds from the disposal of assets	295,901	7,800
Purchases of fixed assets	<u>(212,550)</u>	<u>(212,068)</u>
Net cash provided by (used in) investing activities	<u>83,351</u>	<u>(204,268)</u>
<b>Cash flows from financing activities</b>		
Scheduled bond redemptions	<u>(60,000,000)</u>	<u>(59,000,000)</u>
Net cash used in financing activities	<u>(60,000,000)</u>	<u>(59,000,000)</u>
Net increase in cash	8,085,896	4,391,762
<b>Cash and restricted cash</b>		
Beginning of year	<u>162,874,964</u>	<u>158,483,202</u>
End of year	<u>\$ 170,960,860</u>	<u>\$ 162,874,964</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 2,493,750	\$ 2,493,750

The accompanying notes are an integral part of these financial statements.

# Toll Road Investors Partnership II, L.P.

(A Virginia limited partnership)

## Notes to Financial Statements

December 31, 2016 and 2015

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### 1. Organization and Business

#### General

Toll Road Investors Partnership II, L.P. (the "Partnership") is a Virginia limited partnership that owns and operates a limited access toll road (the "Dulles Greenway" or the "Project"), under a Certificate of Authority issued by the Virginia State Corporation Commission (the "SCC") and a Comprehensive Agreement with the Virginia Department of Transportation, pursuant to the Virginia Highway Corporation Act of 1988 (as amended, the "Act"). The Project is located within a 250 foot wide right-of-way extending approximately 14 miles from the terminus of the existing Dulles Toll Road to Leesburg, Virginia. The road opened for operations on September 29, 1995. Upon termination of the Certificate of Authority in February 2056, the authority and duties of the Partnership will cease, and the highway assets and improvements will be dedicated to the Commonwealth of Virginia (the "Commonwealth").

#### Management Structure

Under the terms of the Amended and Restated Agreement of Limited Partnership (the "Amended Partnership Agreement") executed on April 29, 1999, Shenandoah Greenway Corporation ("Shenandoah" or the "General Partner") has the authority and discretion to manage the operations and affairs of the Partnership for the benefit of all partners.

#### Regulatory Environment

Construction and operation of the Project requires compliance with the Act, and various federal, state and local government statutes, regulations and other requirements. Management believes that the Partnership is in compliance with the Act and all applicable federal, state and local government statutes, regulations and requirements.

The Act grants the SCC various powers and duties with respect to the Project including the approval of the toll rates which may be charged and collected for use of the roadway. The Act provides that such toll rates are to be set at a level which is reasonable to the user in relation to the benefit obtained, which will not materially discourage use of the roadway by the public and which will provide the Project's investors no more than a reasonable return as determined by the SCC.

On January 30, 2013, an investigation was initiated by the SCC in response to a complaint filed by a member of the Virginia House of Delegates (the "Delegate") requesting a full investigation of the Partnership's current toll structure and requesting that the current tolls be decreased. On January 20, 2014 the SCC Hearing Examiner issued her report in which she concluded that the record of the case supported no change in the toll rates previously approved by the SCC. In September 2015, the SCC Commissioners concurred with the Hearing Examiner and issued their Order concluding the investigation and ruled in the Partnership's favor with no toll rate changes. The Delegate filed a Petition for Appeal with the Virginia Supreme Court on December 30, 2015. In September 2016, the Virginia Supreme Court upheld the SCC's Commissioners' ruling in TRIP II's favor and no changes were made to the toll rates. Accordingly, the SCC issued a final order closing the investigation.



# **Toll Road Investors Partnership II, L.P.**

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## **Notes to Financial Statements**

**December 31, 2016 and 2015**

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Currently the Act provides for annual toll increases between 2013 and 2020 at the greater of growth in CPI plus one percent, GDP growth, or 2.8%, with additional increases if necessary to offset more rapid growth in property taxes or to ensure that the Partnership has sufficient revenues to achieve debt service coverage ratios. Pursuant to this on December 30, 2014 the Partnership filed with the SCC a request for a toll increase of 2.8% which resulted in a \$0.10 increase in tolls. There was no excess growth in 2014 property taxes so no additional amount was added to the toll increase for recovery. The SCC issued their Final Order on February 25, 2015 approving the toll increase. The new posted tolls of \$4.30 during non-peak periods and \$5.20 during peak periods were implemented on March 4, 2015.

On December 30, 2015, the Partnership filed with the SCC a request for a toll increase of 2.8% plus \$0.0182 to recover excess growth in the Partnership's 2015 property taxes. The new posted tolls were implemented on February 23, 2016 as \$4.40 during non-peak and \$5.35 during peak times.

The Act prohibits the Commonwealth of Virginia from obligating its full faith and credit on any financing of the Project. In addition, the Act establishes that the assumption of operation of the Project would not obligate the Commonwealth of Virginia to pay any obligation of the Project, whether secured or otherwise, from sources other than toll revenue.

## **2. Summary of Significant Accounting Policies**

### **Basis of Accounting**

The Partnership prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### **Revenue Recognition**

The Partnership recognizes revenue daily as it is earned. Revenues are presented gross with Virginia Department of Transportation ("VDOT") fees, credit card fees and the VIP Miles Program cash back bonuses presented separately under expenses in the statements of operations.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, together with amounts disclosed in the related notes to the financial statements. Management believes that its estimates and assumptions are appropriate; however, future actual results could differ from those estimates.

### **Certificate of Authority Assets**

The Partnership capitalizes direct and indirect costs of purchasing and constructing the assets to be dedicated to the Commonwealth pursuant to the Act in 2056. These costs are recorded as Certificate of Authority Assets on the balance sheet. Realized deferred costs related to the Certificate of Authority Assets are recognized on a straight-line basis over the remaining term of the Certificate of Authority Assets. Other costs associated with maintaining the certificate of authority assets to the level required by the Commonwealth are expensed as incurred in the project improvement expenses line within the operating expenses of the Partnership. These expenses are independent of the annually recurring operation and maintenance expenses of the Partnership.

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## Notes to Financial Statements

December 31, 2016 and 2015

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Consideration must be given to ASC 605, specifically as it relates to multiple element arrangements when recognizing revenue and realizing deferred costs associated with certificate of authority assets. The Partnership believes all required deliverables have been delivered and as such recognizes 100% of revenue and realizes deferred costs on a straight-line basis over the remaining term of the Certificate of Authority from the point in time the asset is placed in service.

### Cash

The Partnership maintains its bank accounts with institutions that are federally insured. At times, the account balances may exceed insured limits.

### Funds Held in Escrow

Certain funds are required to be held in escrow pursuant to the bond indenture discussed in Note 6. These funds are invested in short-term interest bearing deposits, commercial paper and money market funds. These funds represent restricted cash and are presented separately from cash and cash equivalents on the balance sheet.

Effective January 1, 2016, the Partnership early adopted the provisions of Accounting Standards Update ("ASU") 2016-18 *Statement of Cash Flows (Topic 230)*. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. As a result of the adoption of this ASU, amount of funds held in escrow are included in the cash and restricted cash balance in the cash flow statement.

### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The following three-tier fair value hierarchy that prioritizes the inputs used in the valuation techniques to measure fair value:

- Level 1      Observable inputs that reflect quoted market prices, (unadjusted) for identical assets and liabilities in active markets:
  
- Level 2      Observable inputs, other than quoted market prices, that are either directly or indirectly observable in the marketplace for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities; and
  
- Level 3      Unobservable inputs that are supported by little or no market activity that is significant to the fair value of assets or liabilities.

# Toll Road Investors Partnership II, L.P.

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## Notes to Financial Statements

December 31, 2016 and 2015

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Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The Partnership uses prices and inputs that are current as of the measurement date, including during periods of market volatility. Therefore, classification of inputs within the hierarchy may change from period to period depending upon the ability to observe those prices and inputs. The Partnership's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value for certain assets and liabilities and their placement within the fair value hierarchy. The Partnership measures the fair value of its Funds Held in Escrow, which approximates the related carrying value; using quoted market prices for identical assets (level one).

### Fixed Assets

Furniture and fixtures, office equipment and vehicles are carried at historical cost and depreciated over estimated useful lives of three to five years. Depreciation expense on fixed assets totaled \$180,938 and \$154,122 in 2016 and 2015, respectively.

### Prepaid Bond Insurance

Costs incurred for prepaid bond insurance are amortized to interest expense over the terms of the respective financing agreements using the effective-yield method. Net carrying amount of prepaid bond insurance is presented on the balance sheet. Unamortized prepaid bond insurance is charged to interest expense if the related debt is retired before the maturity date.

### Deferred Bond Issuance Costs

Deferred bond issuance costs represent costs incurred to refinance the Partnership's long-term debt. These costs are amortized to interest expense over the term of the respective agreements using the effective-yield method. Effective January 1, 2016, the Partnership adopted the provisions of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt. Prior to 2016, debt issuance costs were presented as a deferred bond issuance costs asset.

### Income Taxes

The Partnership is not directly subject to federal and state income taxes as its taxable income or loss is recognized in the income tax returns of the Partners. Therefore, no provision for income taxes has been made in the accompanying financial statements.

### Reclassifications

Certain amounts in the prior year Balances Sheet have been reclassified to conform with the current year presentation, with no effect on previously reported total assets, liabilities or partners' deficit, or the previously reported net loss.

### Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue when a customer obtains control rather than when an entity has transferred substantially all risks and rewards of a good or service. In May 2015 the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. As a result of issuing ASU 2015-14, the revenue recognition update is effective for annual reporting periods beginning on or after December 15, 2018 and interim periods therein and requires expanded disclosures. Management is currently assessing the impact of adopting ASU 2014-09 and ASU 2015-14 on the Partnership's operating results, financial position and cash flows.

# Toll Road Investors Partnership II, L.P.

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## Notes to Financial Statements

December 31, 2016 and 2015

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In February 2016, the FASB issued ASU 2016-02, *Leases* that increases transparency and comparability among organizations by requiring the recognition of assets and liabilities for leases on the balance sheet by lessees and the disclosure of key information about leasing arrangements. The amendment is effective for annual reporting periods beginning on or after December 15, 2019, with early adoption permitted. The Company is in the process of assessing the impact of the potential adoption of ASU 2016-02 on its financial position, results of operations, cash flows and financial statement disclosures.

### 3. Certificate of Authority Assets

The Partnership adopted the guidance of ASU 2014-05: *Service Concession Arrangements* (Topic 853) effective January 1, 2015 under a modified retrospective method. The adoption of this guidance impacted the manner by which the Partnership accounted for the direct and indirect costs of purchasing, constructing and maintaining the Project. Prior to the January 1, 2015 adoption of the new guidance, these costs were accounted for as project investments. Project investments were carried at historical costs. Depreciation was calculated using the straight-line method over the estimated useful lives of the components comprising the project investment

As a result of the adoption of this new guidance, project investments totaling \$422,895,552 were reclassified to certificate of authority assets and project investments totaling \$15,047,239 were reclassified on a modified retrospective basis as an increase to project improvement expenses through an adjustment to opening partners' deficit. Accumulated depreciation associated with the project investments was eliminated and replaced with the accumulated realized deferred costs. The difference in accounting for depreciation expense under the former method of project investments and realized deferred costs under certificate of authority assets was a reduction in realized expense of \$61,678,489 at January 1, 2015. This was reflected through an adjustment to opening partners' deficit. The net impact of these two adoption adjustments is a reduction in opening partners' deficit of \$46,631,250.

Certificate of authority assets gross carrying value and accumulated realized deferred costs as of December 31, 2016 and 2015 are presented below:

	2016	2015
Gross amount	422,606,201	422,895,553
Accumulated realized deferred costs	<u>(134,011,484)</u>	<u>(126,633,219)</u>
Certificate of authority assets, net	<u>288,594,717</u>	<u>296,262,334</u>

Realized deferred costs related to certificate of authority assets totaled \$7,378,265 in both 2016 and 2015.

# Toll Road Investors Partnership II, L.P.

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## Notes to Financial Statements

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Estimated future realized deferred costs related to the certificate of authority assets are as follows:

<b>Fiscal Year</b>	
2017	\$ 7,378,265
2018	7,378,265
2019	7,378,265
2020	7,378,265
2021	7,378,265
Thereafter	<u>251,703,392</u>
	<u>\$ 288,594,717</u>

#### 4. Electronic Toll Processing Fees

The Partnership incurs processing fees for Automatic Vehicle Identification (“AVI”) electronic toll collection transactions. These fees are assessed by the Virginia Department of Transportation (“VDOT”) as follows:

<b>Effective Date</b>	<b>Percentage of Revenue Processed</b>	<b>Fee per Transaction</b>
July 1, 2014	1.611 %	\$ 0.0613
July 1, 2015	1.756 %	\$ 0.0613
July 1, 2016	1.983 %	\$ 0.0630

#### 5. VIP Miles Program

The Partnership maintains a VIP Miles Program (the “Program”), which enables members of the Program to receive a cash back bonus on the amount of tolls paid for using the Dulles Greenway during a twelve-month period. The amount of the cash back bonus received by a participant of the Program is based upon the number of trips taken on the Greenway. Cash back bonuses range from 5% to 15% of tolls paid provided that the minimum number of trips has been met.

# Toll Road Investors Partnership II, L.P.

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## Notes to Financial Statements

December 31, 2016 and 2015

### 6. Long-Term Debt and Financing Arrangements

Long-term debt at December 31, 2016 and 2015 consisted of the following:

	2016	2015
7.125% Series 1999A Senior Current Interest Bonds, original \$35,000,000 face amount, due 2035	\$ 34,958,480	\$ 34,956,194
Series 1999B Senior Zero Coupon Bonds, \$972,000,000 face amount, due 2035	480,523,761	483,356,216
Series 2005A Senior Callable Zero Coupon Bonds, \$443,333,763 face amount, due 2045	73,651,035	93,256,106
Series 2005B Senior Callable Zero Coupon Bonds, original \$453,800,000 face amount, due 2043	104,525,445	98,812,840
Series 2005C Senior Sera Coupon Bonds, original \$1,614,300,000 face amount, due 2036-2056	<u>334,860,419</u>	<u>316,894,790</u>
Total debt	1,028,519,140	1,027,276,146
Less: Unamortized Bond Issue Costs	<u>(14,169,550)</u>	<u>(14,671,040)</u>
Total debt, net	1,014,349,590	1,012,605,106
Less: Current portion	<u>(60,500,000)</u>	<u>(60,000,000)</u>
Long-term debt	<u>\$ 953,849,590</u>	<u>\$ 952,605,106</u>

The Partnership funded the construction and development of the Dulles Greenway through equity contributions and from amounts loaned to the Partnership pursuant to certain financing agreements.

The 1999 and 2005 Senior Bonds were issued pursuant to a Master Indenture of Trust dated April 1, 1999, as supplemented by the First Supplemental Indenture of Trust, ("First Supplemental"), the Second Supplemental Indenture of Trust, the Third Supplemental Indenture of Trust, the Fourth Supplemental Indenture of Trust, ("Fourth Supplemental"), the Fifth Supplemental Indenture of Trust, the Sixth Supplemental Indenture of Trust, the Seventh Supplemental Indenture of Trust ("Seventh Supplemental"), the Eight Supplemental Indenture of Trust, and the Ninth Supplemental Indenture of Trust collectively the "Indenture". The Indenture requires the Partnership to maintain and operate the Dulles Greenway in compliance with the Partnership's comprehensive agreement with VDOT and the Act, as amended. The Indenture also requires the Partnership to use its best efforts to charge toll rates, subject to SCC approval, sufficient to meet certain minimum coverage ratios, as defined in the Indenture. If the Partnership does not meet the coverage ratios in any fiscal year, the Partnership will not be permitted to make distributions to the partners. As of December 31, 2015 the Partnership had not met its coverage ratios, and as a result, the Partnership was unable to make a distribution to its partners in 2015. As of December 31, 2016 the Partnership was not in compliance with the Minimum coverage Ratio, however, the Partnership was in compliance with the Additional Coverage Ratio, therefore, as required by the Master Indenture, distributions are prohibited until December 31, 2018 at the earliest.

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On April 29, 1999, the Partnership refinanced its original debt and issued an aggregate of \$35.0 million of 7.125% Senior Current Interest Bonds, Series 1999A, due 2035 (the "1999A Bonds") and an aggregate original principal amount of \$297,782,516 of Senior Zero Coupon Bonds, Series 1999B, due each February 15 from 2003 through 2035 (the "1999B Bonds") and together with the 1999A Bonds, the ("1999 Senior Bonds").

Interest accrues on the 1999A Bonds at a rate of 7.125% per annum. Interest is payable semi-annually on each February 15 and August 15. The 1999A Bonds are subject to early redemption at the option of the Partnership, in whole or in part at any time, at a redemption price equal to the sum of (i) the principal amount of the 1999A Bonds to be redeemed, (ii) interest accrued thereon to the redemption date, and (iii) the make-whole premium, if any, determined in accordance with the First Supplemental.

Interest accrues on the 1999B Bonds and compounds semi-annually on each February 15 and August 15, at rates ranging from 6.1% to 7.3%, such interest to be paid only at maturity or redemption. Scheduled maturities of the 1999B Bonds are \$38.1 million in 2017, \$29.8 million in 2018, \$34.0 million in 2019, \$13.4 million in 2020, \$29.4 million in 2021 and \$791.5 million maturing in years 2022 through 2036. The 1999B Bonds are subject to early redemption at the option of the Partnership, in whole or in part at any time, at a redemption price equal to the sum of (i) an amount equal to the accreted value of the 1999B Bonds to be redeemed (calculated through the redemption date in accordance with the First Supplemental) plus (ii) the make-whole premium with respect to such accreted value, if any, determined in accordance with the First Supplemental.

Original issue discounts on the 1999A and 1999B Bonds are being amortized over the life of the bonds to maintain an effective rate of 7.125% and 7.142%, respectively. Adjustments to the face value of the bonds and the related original issue discount are made if and when scheduled mandatory payments are made. Accretion of these discounts totaling \$33,569,830 and \$33,751,708 was added to the amount of 1999 Senior Bonds principal balance outstanding and included in interest expense at December 31, 2016 and 2015, respectively. The remaining unamortized discount on the 1999A and 1999B bonds was \$41,520 and \$455,676,239, respectively, as of December 31, 2016.

The 1999 Senior Bonds are insured by two financial guaranty insurance policies (collectively, the "MBIA Policy") issued by MBIA Insurance Corporation ("MBIA"). The MBIA Policy covers the payment of scheduled principal and interest payments on the 1999 Senior Bonds. The MBIA Policy does not cover any make-whole premium as defined by the Indenture or optional redemption payments. The 1999 Senior Bonds are further collateralized by all of the assets of the Partnership.

On March 2, 2005, the Partnership issued an aggregate original principal amount of \$162,438,434 of Senior Callable Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005A, due 2045 (the "2005A Bonds"), \$53,761,686 of Senior Callable Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005B, due 2043 (the "2005B Bonds") and \$174,402,930 of Senior Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005C, due each February 15 from 2036 through 2056 (the "2005C Bonds") collectively the "2005 Senior Bonds".

Interest accrues on the 2005A Bonds and compounds semi-annually on each February 15 and August 15 at rates that will produce yields to maturity of approximately 5.425%, such interest to be paid only at maturity or prior redemption. For any year from 2006 through 2021 in which the Partnership has sufficient cash available in the early redemption fund, the 2005A Bonds are subject

# **Toll Road Investors Partnership II, L.P.**

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to mandatory early redemption, in part, by the Partnership on February 15 in each year, beginning February 15, 2006 and ending February 15, 2021, in accordance with and as described in the Fourth Supplemental.

Interest accrues on the 2005B Bonds and compounds semi-annually on each February 15 and August 15 at a rate to produce a 5.7% yield to maturity, such interest to be paid only at maturity or prior redemption. For any year from 2022 through 2035 in which the Partnership has sufficient cash available in the early redemption fund, the 2005B Bonds are subject to mandatory early redemption, in part, by the Partnership on February 15 in each year, beginning February 15, 2022 and ending February 15, 2035, as described in the Fourth Supplemental.

Interest accrues on the 2005C Bonds and compounds semi-annually on each February 15 and August 15 at rates ranging from 5.55% to 5.65%, such interest to be paid only at maturity or prior redemption.

Original issue discounts on the 2005A, 2005B and 2005C Bonds are being amortized over the life of the issues at 5.425%, 5.7% and 5.568%, respectively. Adjustments to the face value of the bonds and the related original issue discount are made if and when scheduled mandatory payments are made. Accretion of these discounts totaling \$27,673,164 and \$27,422,613 was added to the face amount the 2005 Senior Bonds outstanding and included in interest expense at December 31, 2016 and 2015, respectively. The remaining unamortized discount on the 2005A, 2005B, and 2005C bonds was \$258,252,750, \$349,274,555, and \$1,279,439,581, respectively, as of December 31, 2016.

The regularly scheduled payment of principal (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest when due on the 2005 Senior Bonds are insured by separate financial guaranty insurance policies issued by MBIA (collectively, the "2005 MBIA Policy"). The 2005 MBIA Policy does not cover redemption payments under the Fourth Supplemental other than mandatory sinking fund payments. The 2005 MBIA policy does not cover any make-whole premium as defined by the Fourth Supplemental or optional redemption payments. Further, each series of the 2005 Senior Bonds is collateralized ratably with the other 2005 Senior Bonds and other senior secured indebtedness of the Partnership by substantially all of the Partnership's property and by a pledge of all Partnership interests.

Bond issue costs of \$8,812,323 and \$11,750,386 related to the 1999 Senior Bonds and 2005 Senior Bonds were incurred and capitalized as deferred bond issue costs, respectively. Prepaid bond insurance costs of \$28,953,000 and \$57,090,885 related to the 1999 Senior Bonds and 2005 Senior Bonds were incurred and capitalized as prepaid bond insurance costs, respectively.

Amortization of deferred bond issue costs on the 1999 Senior Bonds and 2005 Senior Bonds totaled \$501,490 and \$490,948 for the years ended December 31, 2016 and 2015, respectively. Amortization of prepaid bond insurance on the 1999 Senior Bonds and 2005 Senior Bonds totaled \$1,970,219 and \$1,916,477 for the years ended December 31, 2016 and 2015, respectively.

Interest expense incurred for all debt, including accretion of bond discount, was \$66,208,453 and \$66,075,496 for the years ending 2016 and 2015. No interest expense was capitalized in 2016 or 2015.



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The funds held in escrow with the Trustee pursuant to the requirements of the Indenture, as detailed below, totaled \$169,280,089 and \$161,766,058 at December 31, 2016 and 2015, respectively.

	2016	2015
Revenue Fund	\$ 797,394	\$ 685,253
Operating Reserve Fund	7,069,645	6,791,412
Improvement Fund	3,500,000	7,200,000
Senior Debt Service Fund	39,346,875	37,646,875
Senior Debt Service Reserve Fund	39,700,000	39,700,000
Early Redemption Fund	22,400,000	23,600,000
Early Redemption Reserve Fund	56,466,175	46,142,518
	<u>\$ 169,280,089</u>	<u>\$ 161,766,058</u>

Concurrently with the closing of the 2005 Senior Bonds, the Partnership exercised an existing right under the Indenture to release \$45.0 million in cash that was previously held in escrow by substituting a surety bond (the "Surety Bond") in an equal amount insuring that the released cash will be available as and when needed. The Surety Bond was issued by MBIA.

### 7. Partners' Deficit

Under the Amended Partnership Agreement, income and losses are allocated among the partners according to their percentage interest in the Partnership. Distributions will be made in accordance with each Partner's interest. The General Partner may declare distributions when permitted by the Indenture (Note 6).

As a result of implementing the new accounting standard on a modified retrospective basis (Note 3), an adjustment was made to reduce beginning Partners' Deficit on January 1, 2015 by \$46,631,250.

### 8. Commitments and Contingent Liabilities

The Partnership is party to an agreement with the Metropolitan Washington Airports Authority (MWAA) for easements over Washington Dulles International Airport property necessary for the Partnership to construct, operate and maintain the Project. The Partnership incurred expenses of \$1,132,661 in both 2016 and 2015 related to the easements. Future minimum annual cash payments due under the agreement are \$600,000 for 2017-2036, and \$2,000,000 thereafter through 2056. Additional payments may be due under the agreement should the Project exceed certain specified traffic volumes. The minimum annual payments are recorded to expense using the straight-line method based upon the total minimum payments to be made over the term of the agreement.

The Partnership remains obligated under the Comprehensive Agreement to widen the Route 659 overpass at Exit 4 and make certain ancillary ramp improvements when it is economically feasible to do so and traffic levels support the expansion. Based on projected levels of traffic the project is not currently scheduled for construction and the amount and timing of the Partnership's obligation is uncertain.

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The Partnership has an agreement with an adjacent landowner to construct a 4 lane bridge over the Dulles Greenway when development of a secondary road on either side of the Greenway is completed and construction of the bridge is necessary to connect the road. Because there has been no development activity to date by the property owner the project is not currently scheduled for construction and the amount and timing of the Partnership's obligation is uncertain.

The Partnership leases office space in Sterling, Virginia. Future minimum payments under this lease are \$52,921 in 2017. The lease ends in April 2017. Total rental expense, including operating expenses, was \$190,980 and \$202,950 for the years ended December 31, 2016 and 2015, respectively.

### **9. Employee Benefit Plan**

The Partnership has a fully funded, defined contribution Simplified Employee Pension Plan (the "Plan") for its employees. Under the Plan, the Partnership contributes 8% of employees' salaries and the contribution vests immediately. The Partnership incurred \$111,789 and \$117,337 in expenses related to the Plan for the years ended December 31, 2016 and 2015, respectively.

### **10. Subsequent Events**

On February 15, 2017, the Partnership redeemed \$22,400,000 of the 2005A Bonds in accordance with the mandatory early redemption clause contained in the Fourth Supplemental. This amount is included in the current portion of long-term debt on the balance sheet as of December 31, 2016.

The Partnership evaluated for disclosure any subsequent events through March 13, 2017, the date the financial statements were issued, and determined there were no material subsequent events in addition to the ones disclosed in the financial statements.