



***Central Puget Sound
Regional Transit Authority***

*Report on Subarea Equity for the
Year Ended December 31, 2008*

TABLE OF CONTENTS

Subarea Equity Fact Sheet 1

Sound Transit District Map..... 2

Sound Transit District Subareas..... 3

Statement of Management’s Resonsibilities 5

Management’s Discussion on Subarea Equity..... 7

Independent Accountants’ Report on Applying Agreed Upon Procedures..... 21

Schedule of Subarea Equity 27

Notes to Schedule of Subarea Equity..... 33

Sound Transit Subarea Equity

One of the unique features of the Sound Transit plan is that it formally commits to creating a balanced regional transit system that provides benefits to the residents of each of Sound Transit's five geographic areas – Snohomish County, North King County, South King County, East King County and Pierce County.

The principle of subarea equity assures that Sound Transit taxes raised within an area are used for capital projects and operations that benefit the residents of that area.

For example, the Snohomish County Subarea is paying for Sounder commuter trains and track improvements in King County because Snohomish County residents directly benefit from the North Corridor service into Seattle and back.

Each subarea has its own budget based on its projected share of local taxes, borrowed funds, federal grants, farebox revenues and related expenditures. A system has been established to report on individual subarea performance.

Priority projects for each subarea were identified through a public process.

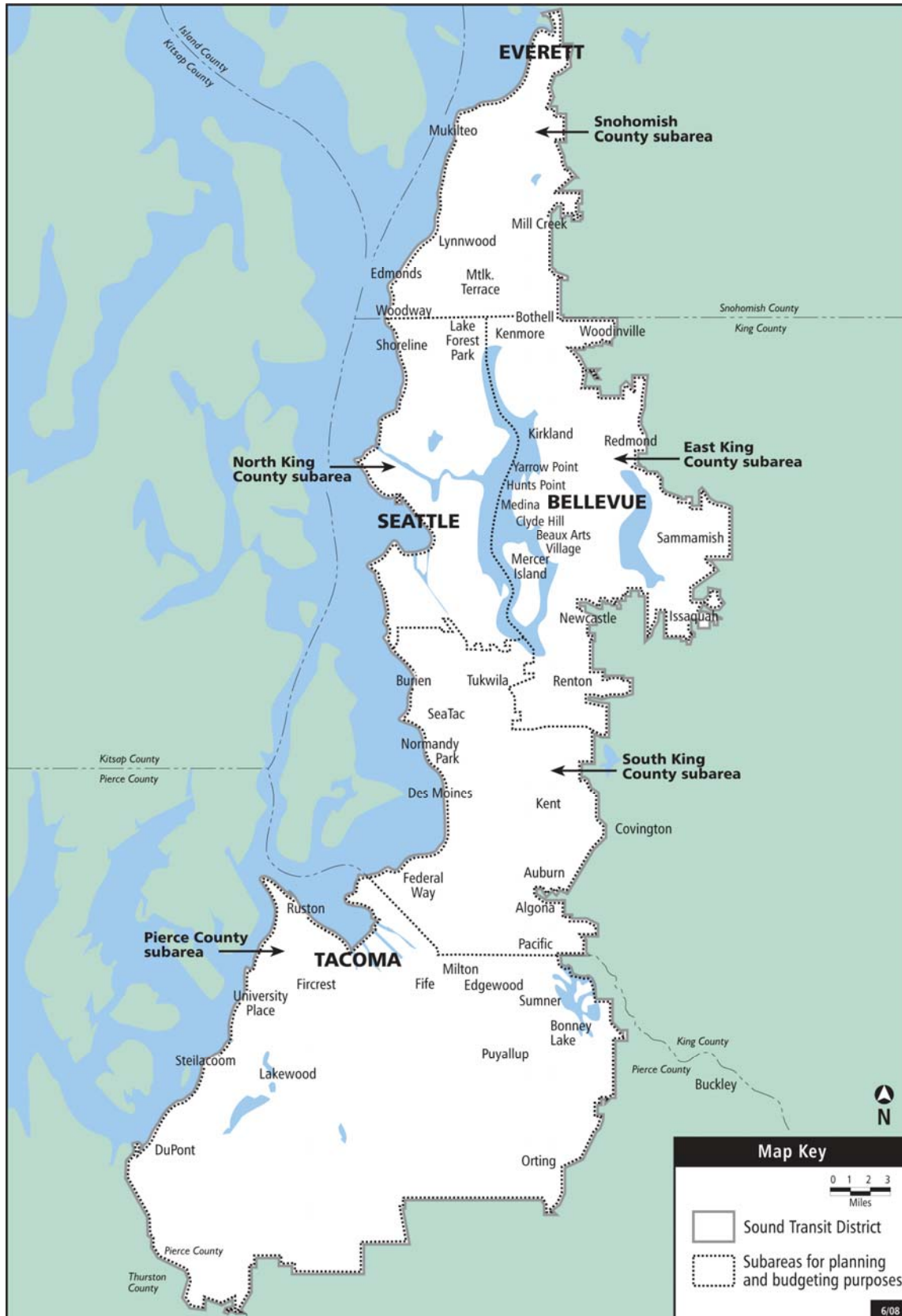
System wide elements that improve mobility throughout the region are funded through a percent of local tax revenues contributed by each of the five subareas and interest earnings. For example, elements include regional fare programs (*Puget Pass* and the *ORCA* smart card), research and development of new transit-related technology and planning, and environment analysis for future capital programs.

Strong safeguards are in place

Changing the subarea equity principle would take two-thirds, or 12 votes, of the 18-member Sound Transit Board. In addition, other strong accountability measures are in place, including an independent Citizen Oversight Panel and regular external audits.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Sound Transit District



Sound Transit District Subareas

The Sound Transit District is divided into five geographic subareas for planning and budgeting purposes. The system components in *Sound Move* address unique needs in each of these subareas. Local tax revenues and related debt for projects and services are utilized to benefit the subareas generally in proportion to the level of revenues each subarea generates.

Snohomish County:

The Snohomish County subarea includes the cities of Brier, Edmonds, Everett, Lynnwood, Mill Creek, Mountlake Terrace, Mukilteo and Woodway. In 2008, the Snohomish County subarea had an estimated population of 410,000 residents, accounting for 58 percent of the Snohomish County population.

North King County:

The North King County subarea includes the cities of Seattle, Shoreline and Lake Forest Park. In 2008, the North King subarea had an estimated population of 660,000, accounting for 34 percent of King County's population.

South King County:

The South King County subarea includes the cities of Algona, Auburn, Burien, Des Moines, Federal Way, Kent, Normandy Park, Pacific, SeaTac and Tukwila. Since 1990, this has been the fastest growing area of King County. In 2008, the South King subarea had an estimated population of 495,000 residents, accounting for 26 percent of King County's population.

East King County:

The East King County subarea includes the cities of Beaux Arts, Bellevue, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Renton, Sammamish, Woodinville, and Yarrow Point. In 2008, the East King subarea had an estimated population of 491,000 residents, accounting for 26 percent of King County's population.

The combined three King County subareas account for 86 percent of the total King County population.

Pierce County:

The Pierce County subarea includes the cities of Bonney Lake, DuPont, Edgewood, Fife, Fircrest, Lakewood, Milton, Orting, Puyallup, Ruston, Steilacoom, Sumner, Tacoma and University Place. In 2008, the Pierce County subarea had an estimated population of 672,000 residents, accounting for 83 percent of the Pierce County population.

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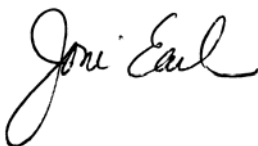
STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The Central Puget Sound Regional Transit Authority (Sound Transit) has implemented an accounting and budgetary system that details transactions and facilitates reporting of what has been earned and spent in each subarea and is the basis upon which the annual Report of Subarea Equity is prepared. This system is fully integrated into the internal control design in order that the information reported within the schedule of subarea equity and provides management and the Citizen Oversight Panel necessary information to monitor progress against Sound Transit’s subarea commitments to its voters.

The schedule of subarea equity is prepared from the accounting system in a manner consistent with the Agency’s financial statements which are prepared in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit’s schedule of subarea equity, including the establishment of equity rules consistent with the voter approved plan and direction from its Board of Directors, are the responsibility of management. The financial information contained in this report is subject to review by the Board of Directors.

Annually the financial statements are audited and the Agency’s financial statement auditors perform an agreed upon procedures report which, on a limited test basis, looks at the subarea attribution of the underlying transactions reported on within the schedule. These procedures were developed by management, the Audit and Reporting Subcommittee and the Citizen Oversight Panel. In addition, as part of its annual compliance audit, the State Auditor’s office also performs procedures over the agency’s accounting for subarea equity. All results from independent audits are presented to the Board of Directors.

Based on the agency’s system of internal controls and the results of its audits management believes the Report on Subarea Equity is fairly presented. The auditor’s agreed upon procedure report may be obtained upon request to the Agency.



Joni Earl
Chief Executive Officer



Brian McCartan
Chief Financial Officer



Kelly A. Priestley
Controller

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MANAGEMENT'S DISCUSSION ON SUBAREA EQUITY For the year ending December 31, 2008

Management's Discussion on Subarea Equity presents a narrative overview and analysis of the Agency's financial activities by subarea for the year ended December 31, 2008. This discussion is intended to assist readers of the schedule in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the Schedule of Subarea Equity and footnotes, as well as Sound Transit's audited financial statements.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish Counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The implementation of the initial phase of the voter-approved regional transportation system ("*Sound Move*") is scheduled for a 20-year period, ending in 2016. In November, 2008 the voters approved a second phase of expansion of the mass transit system, a 15-year program called ST2. ST2 includes initial investments commencing in 2009 with regional express buses and more commuter trains, as well as mid to longer-term expansion of regional light rail and parking facilities through 2023.

The concept of subarea equity is an integral part of the *Sound Move* plan approved by the voters in 1996 and requires that subarea equity be achieved by the completion of Phase 1. The *Sound Move* plan included *Appendix A: Detailed Description of Facilities and Costs* that defined subarea equity through programming projects and services. *Sound Move Appendix B: Financial Policies* defines the requirements of subarea equity through implementation, monitoring and adjustment policies. As required in *Appendix B*, the Agency has implemented an accounting system that details transactions and facilitates reporting of what has been earned and spent in each subarea and is the basis upon which the annual Report on Subarea Equity is prepared.

Since 1998, Sound Transit has produced the Schedule of Subarea Equity and related notes. As part of the annual engagement with the agency's auditors, an examination based on agreed-upon procedures is performed with results reported to the board's Audit and Reporting Subcommittee. These procedures test a specified number of transactions and verify that the attribution of cost or revenue to a subarea is correct, based on agency established rules approved by the Board. To date, there have been no significant reported issues.

Sound Transit's financial statements have reflected a growth in operating revenues and expense each year, as well as growth in capital projects in progress, and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the construction stage on its light rail project, major sources of revenue exceed expenses and capital outlays, resulting in a rising net asset position.

Preparation of the Schedule of Subarea Equity

The Schedule of Subarea Equity is prepared from the Agency's accounting system from which the financial statements are prepared. For each financial statement caption, the total by subarea, including the Regional Fund, are agreed to the financial statements reported on separately by Sound Transit's auditors. The financial statements are prepared in conformity with United States generally accepted accounting principles as applied to government units and are prepared using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are prepared.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The Schedule of Subarea Equity presents the overall financial results by equity area, as well as their net assets, segregated by invested in capital assets, restricted and unrestricted. Net assets are the difference between assets and liabilities and over time may serve as a useful indicator of each subarea's financial position. The Schedule of Subarea Equity should be read together with Sound Transit's financial statements, which also include management's discussion and analysis of those statements, along with notes which provide additional information that is essential to a full understanding of the information provided.

Financial Highlights

- Total operating revenues were \$30.5 million for 2008, an increase of 16.3% from the prior year. Passenger fares increased by \$4.6 million from the prior year with continued large ridership gains on Sounder and ST Express. The increases were experienced in all subareas providing revenue service.
- Loss from operations was \$143.6 million for 2008, an increase of 14.5% from the prior year. Consistent with service level increases, costs increased in all subareas.
 - Operations and maintenance expenses increased by 17.8% reflecting the increased service levels, as well as unit cost increases in the price of fuel and labor and higher maintenance costs.
 - General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by 11.8 % reflecting increased costs in support of facilities, fleet, safety, technology and tax collection.
- Non-operating revenues, net of expenses were \$337.5 million, a 4.3% reduction from the prior year.
 - Tax revenues decreased by 5.3% as the regional economy slowed, impacting all subareas, but most notably Snohomish County.
 - Interest revenues and non-operating expenses remained comparable to prior year, while other revenues increased by \$7.7 million reflecting the recovery from the State of prior year-impaired costs on the Totem Lake Freeway Station project and recovery of costs through its insurance program for Mercer Island Parking Garage, benefiting the East King County subarea.
- Federal, state and local contributions to Sound Transit of \$175.6 million increased by 49.7% from the prior year, while completed projects transferred to other governments of \$67.8 million decreased by 41.3%.
 - Federal, state and local contributions reflect higher grant and local funds received in the current year, including the new full funding agreement for University Link, Airport Link and Tacoma-to-Lakewood commuter rail. All subareas, except East King County, experienced noticeably higher revenues.
 - Contributions to other governments for completed projects decreased substantially as 2007 included the completion of the Totem Lake Freeway Station/NE 128th project (\$67.8 million), a large East King County project.
- Total net assets at December 31, 2008, were \$3.2 billion, an increase of \$301.7 million or 10.5% from 2007. An increase in net assets reflects an excess of revenues over expenses and net assets increased in 2008 in all subareas. Net assets decreased in the regional fund. The regional fund is funded through up to a 10% distribution of subarea tax revenues and interest revenues. No distribution of tax revenues were made from the subareas as the regional fund continues to have a positive net asset position.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

- Revenues exceeded expenses in the following subareas: Snohomish County, \$5.8 million; North King County, \$161.3 million; South King County, \$81.2 million; East King County, \$17.8 million and, Pierce County, \$41.8 million. Expenses exceeded revenues in the Regional Fund by \$6.2 million.
- Total capital assets, net of depreciation, were \$3.9 billion at December 31, 2008, an increase of \$466.1 million or 13.5% from 2007.
 - Total net capital assets increased in North King County, South King County and Pierce County reflecting activity on the Link Light rail project, Phase 2 track and facilities improvements and commuter rail station projects. Decreases were experienced in Snohomish County and East King County, with the completion of the South Everett Freeway Station and Phase 2 of the I-90 2-Way Transit and HOV projects which are non-ST owned projects. Total net capital assets also increased in the Regional Fund reflecting progress on the ORCA fare collection system, which goes into operation in 2009.
- At December 31, 2008, the restricted and unrestricted net amount available for investment was East King County (\$277.2 million); Pierce County (\$189.3 million); and the Regional Fund (\$78.4 million). Snohomish County, North King County and South King County were in a negative position, requiring subarea borrowing as follows:

Snohomish County	\$ 1.3 million
North King County	4.1 million
South King County	62.9 million

These amounts represent what was available at December 31, 2008, based on the revenues, expenses, capital expenditures and bonds issued for *Sound Move* to date. These amounts do not take into account revenues, expenses, capital expenditures and bonds to be issued for the remainder of Phase I of *Sound Move*.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Financial Analysis

Excess of Revenues over Expenses and Change in Net Assets

In 2008, revenues exceeded expenses by \$301.7 million, while in 2007 it was \$229.0 million. The lower net revenues in 2007 from the prior year reflect the completion of several significant projects, which were transferred to other local governments or the State, and substantially offset capital contributions received from Federal grants and other funding from state and local agencies.

Table S-1

Excess of Revenues Over Expenses by Subarea

(in millions)

	As of December 31, 2008						Regional Fund	Total
	Snohomish	North King	South King	East King	Pierce			
Operating Revenues								
Passenger fares	\$ 4.2	\$ -	\$ 4.7	\$ 10.0	\$ 7.7	\$ -	\$ 26.6	
Other	0.4	0.8	0.7	0.5	1.4	0.1	3.9	
Total Operating Revenues	4.6	0.8	5.4	10.5	9.1	0.1	30.5	
Operating Expenses								
Total operating expenses, before depreciation and loss on disposal of assets	17.8	0.1	26.2	41.3	32.3	18.1	135.8	
Depreciation and loss on disposal of assets	4.6	0.6	11.5	6.6	13.0	2.0	38.3	
Total Operating Expenses	22.4	0.7	37.7	47.9	45.3	20.1	174.1	
Loss from operations	(17.8)	0.1	(32.3)	(37.4)	(36.2)	(20.0)	(143.6)	
Non-operating revenues, net of expenses	39.4	84.0	52.3	91.1	57.4	13.3	337.5	
Income Before Capital Contributions	21.6	84.1	20.0	53.7	21.2	(6.7)	193.9	
Capital contributions	(15.8)	77.2	61.2	(35.9)	20.6	0.5	107.8	
Change in Net Assets	5.8	161.3	81.2	17.8	41.8	(6.2)	301.7	
Total net assets, beginning	283.1	1,063.4	632.1	373.1	415.9	108.7	2,876.3	
Total Net Assets, ending	\$ 288.9	\$1,224.7	\$ 713.3	\$ 390.9	\$ 457.7	\$ 102.5	\$ 3,178.0	

A summary of significant changes by equity area is as follows:

Snohomish County

Revenues exceeded expenses by \$5.8 million, down \$24.8 million from 2007. This decrease primarily relates to a \$25.1 million increase in contributions to other governments with the completion of the South Everett Freeway Station, partially offset by increased grant revenues for Everett-to-Seattle commuter rail projects. Loss from operations increased by \$3.2 million reflecting increased round-trip service on Sounder's North line, service level increases on ST Express and an increase in purchased transportation costs from Community Transit. Net non-operating revenues decreased by \$5.6 million as tax revenues declined with the weakening regional economy.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

North King County

Revenues exceeded expenses by \$161.3 million, up \$19.4 million from 2007. This increase relates to higher capital contributions received of \$16.3 million with the execution of the full funding grant agreement for University Link and increased grant funds received on the initial segment. Net non-operating revenues increased by \$3.2 million as no subarea borrowing costs were incurred in 2008, while \$3.0 million was incurred in 2007. Despite the weakening regional economy, tax revenues were only marginally down from 2007.

South King County

Revenues exceeded expenses by \$81.2 million, up \$19.6 million from 2007. Net capital contributions increased by \$34.3 million, of which \$24.1 million relates to greater federal grant funds received in 2008 for Airport and Central Link and \$10.2 million in lower contributions to other governments as no significant projects were completed and transferred to other governments in 2008. Loss from operations increased in 2008 by \$6.2 million, reflecting the full year impact of increases in round-trip Sounder service in 2008 and 2007, increased ST Express service and an increase in purchase transportation costs from King County Metro and Pierce Transit. Net non-operating revenues decreased by \$8.5 million, reflecting a \$2.9 million decrease in tax revenues and a \$4.7 million write-off of costs incurred for the discontinued Star Lake Freeway Ride Project.

East King County

Expenses exceeded revenues by \$17.8 million, up \$51.9 million from 2007. This increase includes the completion of the Totem Lake Freeway Station/NE128th in 2007, the costs of which are expensed as a contribution to other governments upon completion. Loss from operations increased by \$4.4 million due to higher operating costs related to the full-year impact of the re-opening of the Downtown Seattle Transit Tunnel in September 2007, higher building maintenance costs and higher fleet maintenance costs. Strong ridership growth continued to be experienced, reflecting service route enhancements implemented on the Redmond – Seattle route in 2008 and full year impact of prior year route enhancements. Net non-operating revenues increased by \$3.9 million, most notable of which is \$7.7 million in recoveries, including prior year-impaired costs on the Totem Lake Freeway Station project and on insurance recovery on Mercer Island Parking Garage. Non-operating expenses decreased by \$3.3 million mostly related to east corridor planning. Offsetting the recoveries and lower non-operating expenses, tax revenues decreased by \$5.6 million and interest received on borrowings by other subareas decreased.

Pierce County

Revenues exceeded expenses by \$41.8 million, up \$9.9 million from 2007. Net capital contributions increased by \$19.2 million, of which \$11.6 million relates to greater federal grant funds received in 2008 for Sounder commuter rail Lakewood-to-Tacoma corridor projects and \$7.6 million in lower contributions to other governments as the prior year included the completion of the Reservation – Freighthouse Square mitigation project which was completed and transferred to the City of Tacoma. Loss from operations increased by \$3.2 million, impacted by round-trip service increases on Sounder, the full year impact of prior year route enhancements, addition of shuttle service between Lakewood and Tacoma Dome stations, increased purchased transportation costs by Pierce Transit and King County Metro and higher fuel costs than anticipated. Net non-operating revenues also decreased, by \$6.1 million primarily due to lower tax revenues.

Regional Fund

Expenses exceeded revenues by \$6.2 million, up \$3.3 million from 2007. The increase is primarily attributable to a \$1.6 million increase in costs in support of facilities, fleet, safety, technology and tax collection, as well as a \$1.5 million increase in non-operating costs for election costs incurred on the ST2 ballot measure.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Operating Revenues

Operating revenues are comprised of passenger fares and other revenue related to operations. Operating revenues increased in 2008 by \$4.3 million, of which \$4.6 million related to higher passenger fare income and \$0.3 million in lower other operating income. The growth in passenger fare revenue reflects ridership gains from increased service as well as increased use of Sound Transit service by new and existing riders.

Passenger Fares

Sounder Commuter Rail:

Sounder commuter rail passenger revenue increased by \$1.6 million or 23.8% from 2007. This increase reflects both higher per train ridership and additional round-trip service in 2008 and the full year impact of service introduced in 2007, the effect of which was an increase in passenger boardings of 23.7% in 2008. On the South line, round trip service was added between Auburn-to-Seattle for the month of August 2007 and between Tacoma-to-Seattle in September 2008 and 2007, as well as a reverse commute trips from Seattle-to-Tacoma in September 2008 and 2007. On the North line, round trip service was added between Everett-to-Seattle in 2008 and 2007. The additional service resulted in strong ridership gains in all three subareas serviced by Sounder.

The average fare per boarding did not change from 2007, however did increase in by \$0.05 from 2006 when the agency restructured its fare system to distance based fares, together with a fare increase.

Table S-2

	As of December 31, 2008			% Change	
	2008	2007	2006	2008-2007	2007-2006
<i>(in thousands)</i>					
Snohomish County	\$ 1,069.5	\$ 791.3	\$ 586.1	35.2%	35.0%
North King County	-	-	-	-	-
South King County	2,691.8	2,079.5	1,551.4	29.4%	34.0%
East King County	-	-	-	-	-
Pierce County	4,434.9	3,751.9	2,970.7	18.2%	26.3%
Total Passenger Fares	\$ 8,196.2	\$ 6,622.7	\$ 5,108.2	23.8%	29.6%

ST Express Bus Service:

ST Express bus passenger revenue increased overall by \$3.0 million or 19.5% from 2007. Actual ridership increased by 1.8 million boardings, or 17.2%, together with an increase in the average fare per boarding of \$0.03. The rising cost of fuel and traffic congestion continues to make public transportation a more attractive alternative. In addition, service route enhancements implemented on the Redmond – Seattle route in 2008 and the full year impact of 2007 service route enhancements on the Issaquah – Seattle and Lakewood – Seattle routes contributed positively, with system-wide service hours increasing by 2.3%. All four subareas serviced by ST Express experienced strong growth.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Table S-3

<i>(in thousands)</i>	As of December 31, 2008			% Change	
	2008	2007	2006	2008 - 2007	2007 - 2006
Snohomish County	\$ 3,083.4	\$ 2,541.3	\$ 2,086.6	21.3%	21.8%
North King County	-	-	-	-	-
South King County	2,053.3	1,593.1	1,265.1	28.9%	25.9%
East King County	10,041.4	8,541.7	7,218.8	17.6%	18.3%
Pierce County	3,236.4	2,729.9	2,370.9	18.6%	15.1%
Total Passenger Fares	\$ 18,414.5	\$ 15,406.0	\$ 12,941.4	19.5%	19.0%

Other Operating Revenue

Other operating revenue consists of vehicle advertising, rental of equipment, property and facilities and other miscellaneous items and was comparable to prior years.

Operating Expenses

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses and depreciation.

Operations and Maintenance

Operations and maintenance include costs associated with the operation of the Sounder commuter rail, ST Express bus and Tacoma Link light rail. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions, operating leases and rentals.

Operations and maintenance increased by \$17.6 million or 17.8% from 2007. Purchased transportation, which accounts for 67% of this category, increased by \$8.8 million or 12.6%. The increase in cost reflects the service increases and corridor improvements previously described which on Sounder equated to a 43.0% increase in trips in 2007 and on ST Express a 2.3% increase in hours. Rising fuel costs also contributed to increased costs, as well as higher maintenance costs on ST Express as the fleet ages, resulting in an increase in rates charged by purchased transportation providers.

Key impacts by subarea include:

- Snohomish County: increased costs related to Sounder round-trip service addition in 2008 and full year impact of 2007 addition, as well as increase in base rate for maintenance as service added. ST Express costs reflect rate increased rates from purchased transportation providers, higher fuel costs and an increase in service levels of 7%;
- South King County: increased costs related to Sounder round-trip and reverse commute service additions in 2008 and full year impact of 2007 additions. ST Express costs reflect rate increases from purchased transportation providers, higher fuel costs and the full year impact of 2007 service route enhancements on Route 577 Federal Way – Seattle and Lakewood – Seattle. Additionally security service levels were increased at facilities;

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

- East King County: increased costs related to facility maintenance and the full year impact of costs related to Sound Transit's share of the cost for debt service and operations and maintenance of the King County's Downtown Seattle Transit Tunnel, which re-opened in September 2007 (Route 550 Bellevue – Seattle operates through the tunnel). ST Express costs reflect rate increases from purchased transportation providers, higher fuel costs and service route enhancements implemented on the Redmond – Seattle route in 2008 together with the full year impact of 2007 enhancements to Route 594 Issaquah – Seattle; and,
- Pierce County: increased costs related to Sounder round-trip and reverse commute service additions in 2008 and full year impact of 2007 additions. ST Express costs reflect rate increases from purchased transportation providers, higher fuel costs and the full year impact of 2007 service route enhancements on Route 594 Lakewood – Seattle. Also beginning in September, 2008, Sound Transit provided connector service between Tacoma and the new Lakewood Station.

A summary of operating costs by subarea is as follows:

Table S-4

Operations and Maintenance by Equity Area						
<i>(in thousands)</i>						
	As of December 31, 2008			% Change		
	2008	2007	2006	2008 - 2007	2007 - 2006	
Snohomish County	\$ 17,662.5	\$ 14,447.5	\$ 13,457.2	22.3%	7.4%	
North King County	-	-	-	-	-	
South King County	26,194.9	19,704.4	17,506.4	32.9%	12.6%	
East King County	40,615.1	36,038.0	32,751.2	12.7%	10.0%	
Pierce County	32,275.4	28,923.4	25,419.1	11.6%	13.8%	
Regional Fund	-	-	-	-	-	
Total Operations and Maintenance	\$ 116,747.9	\$ 99,113.3	\$ 89,133.9	17.8%	11.2%	

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated or directly related to operations and maintenance or to capital projects. Accordingly the majority of those costs are considered regional fund costs, although certain costs that are specifically identifiable to a subarea, such as the write-off of overhead related to projects or costs in support of claims are directly coded to the respective subarea. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses.

In 2008, net general and administrative expenses increased by \$2.0 million or 11.8%. Regional fund costs increased by \$1.6 million, of which 79% relates to higher staffing levels in safety, diversity and finance and information technology as the agency ramps up to support operations, administration of the regional fare collection system and Link systems. General and administration cost increased in Snohomish County and East King County related to overhead that not capitalized to projects for the following: Mukilteo Station, North Everett Transit Center, Issaquah Transit Center, Totem Lake/Evergreen Transit Center and SR-522 HOV Enhancements.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

A summary of general and administrative costs by subarea is as follows:

Table S-5

	As of December 31, 2007			% Change	
	2008	2007	2006	2008 - 2007	2007 - 2006
<i>(in thousands)</i>					
Snohomish County	\$ 140.2	\$ 10.8	\$ 275.0	1,191.1%	(96.1%)
North King County	124.5	137.0	166.4	(9.1%)	(17.7%)
South King County	15.4	12.8	1,517.0	20.1%	(99.2%)
East King County	657.6	384.9	515.6	70.8%	(25.3%)
Pierce County	5.6	19.5	54.0	(71.0%)	(64.0%)
Regional Fund	18,129.7	16,494.8	15,942.6	9.9%	3.5%
Total General and Administrative	\$ 19,073.0	\$ 17,059.8	\$ 18,470.6	11.8%	(7.6%)

Depreciation and Loss on Disposal of Assets

Depreciation expense and loss on disposal of assets increased in 2008 by \$2.8 million or 7.9% from the prior year, increasing most substantially in East King County (\$1.1 million) and Pierce County (\$1.1 million) reflecting the completion and in-service use of Issaquah Transit Center, Mercer Island Park & Ride and Lakewood Station.

Non-Operating Revenues (Expenses)

Net non-operating revenues in 2008 decreased from 2007 by \$15.1 million or 4.3%, with non-operating revenues decreasing by \$12.3 million and non-operating expenses increasing by \$2.8 million.

Non-operating revenues (expenses) are substantially comprised of tax revenues, investment income and certain expenses not related to operation of the agency's three modes of operations. The most significant impact on non-operating revenues was weaker tax revenues, which decreased by \$18.7 million. This performance reflects the continued weakening of the regional economy from prior years, as well as \$4.5 million in motor vehicle excise tax refunds back to July 2005. Investment earnings also decreased by \$1.4 million, reflecting lower cash and investment balances on hand in 2008 however the agency received a \$5.5 million from the state for additional work required to remediate the concrete cracking on the Totem Lake Freeway Station project and \$2.2 million in recoveries through its insurance program for design costs on Mercer Island Park-And-Ride.

Non-operating expenses include light rail operation start-up costs, east corridor planning, supplemental mitigation in the Rainer Valley, ST2 elections costs, costs not eligible to be capitalized, interest expense and discontinued and impaired project costs. In 2008, non-operating costs increased by \$2.8 million reflecting ST2 ballot measure costs, which were significantly higher than the prior year, an increase in preparations for the start-up of the light rail and the Star Lake Freeway project was discontinued and the cost written-off. Offsetting this higher spending, decreases were experienced in the following areas: east corridor planning, supplemental mitigation and costs related to construction claim support. Additionally, South King County has been in a subarea borrowing position since March of 2008, resulting in subarea borrowing expense.

Significant changes in non-operating expenses by subarea are as follows: North King County declined by \$3.0 million, as 2007 included significant subarea borrowing costs; South King County expenses increased by \$5.0 million reflecting the write-off of Star Lake Freeway project costs and subarea

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

borrowing costs; East King County cost declined reflecting lower east corridor planning costs in 2008 and the regional fund costs increased by \$1.5 million reflecting the higher election costs.

Tax Revenues

Tax revenues consist of sales tax, motor vehicle excise tax and rental car tax. Overall tax revenues were down \$18.7 million or 5.3%, reflecting the weakening in the regional economy with the recession. This decrease was experienced in all subareas; however North King County revenues were comparable to 2007.

A summary of tax revenues by subarea is as follows:

Table S-6

Tax Revenues by Equity Area <i>(in millions)</i>	As of December 31, 2008			% Change	
	2008	2007	2006	2008 - 2007	2007 - 2006
Snohomish County	\$ 39.4	\$ 44.8	\$ 42.6	(11.9%)	5.1%
North King County	92.4	92.5	83.3	(0.2%)	11.0%
South King County	60.6	63.4	60.5	(4.5%)	4.9%
East King County	87.5	93.2	85.0	(6.0%)	9.6%
Pierce County	56.6	61.3	60.4	(7.7%)	1.6%
Total Tax Revenues	\$ 336.5	\$ 355.2	\$ 331.8	(5.3%)	7.1%

Tax revenue increases by subarea were as follows:

- In Snohomish County tax revenues decreased by \$5.4 million or 11.9%, with sales tax down \$4.4 million or 13.1% and motor vehicle excise taxes down \$0.9 million or 8.4%. Rental car tax was substantially unchanged from the prior year.
- In North King County, tax revenues decreased by \$0.1 million or 0.2%, with sales tax up \$0.6 million or 0.7%, motor vehicle excise tax down \$0.7 million or 4.7%. Rental car tax was substantially unchanged from the prior year.
- In South King County, tax revenues were down \$2.8 million or 4.5%, with sales tax down \$2.4 million or 4.8% and motor vehicle excise tax down \$0.4 million or 3.5%. Rental car tax was substantially unchanged from the prior year.
- In East King County, tax revenues were down \$5.7 million or 6.0%, with sales tax down \$5.3 million or 7.0%, and motor vehicle excise tax down \$0.4 or 2.1%. Rental car tax was substantially unchanged from the prior year.
- In Pierce County, tax revenues were down by \$4.7 million or 7.7%, with sales tax down \$3.4 million or 7.5% and motor vehicle excise tax down \$1.3 million or 8.3%. Rental car tax was substantially unchanged from the prior year.

Interest Expense

As in 2007, capital activity in 2008 supported full capitalization of the interest expense on outstanding bonds payable. Interest expense is charged to each subarea in proportion to their share of the debt and capitalized to projects in relation to construction spending during the year.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

Capital Contributions

Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvements or funding agreements.

Net capital contributions increased in 2008 by \$106.0 million from 2007, reflecting a significant increase in federal grant funds received and state contributions, together with a decrease in the number of projects completed in 2008 that were contributed to other governments. Federal contributions increased in 2008 by \$49.1 million reflecting the execution of the University Link full funding agreement and receipt of \$13.0 million in funds, increase in grant funds received in respect of Airport Link with the increased construction on that project in 2008, as well as increases in grant funds received for Sounder Commuter rail projects for the Tacoma-to-Lakewood segments, Everett-to-Seattle and Nisqually right of way expenditures.

Some of the significant changes by subarea are highlighted as follows:

Snohomish County — Net capital contributions were down \$15.9 million in 2008, reflecting the completion of the South Everett Freeway project (\$29.0) million. Federal, state and local contributions were \$13.7 million of which \$11.2 million was from federal funds received for the Everett-to-Seattle Commuter rail and the Mountlake Terrace Freeway Station projects. Sound Transit also received \$2.4 million in funding from the state, also for the Mountlake Terrace Freeway Station project.

North King County — Net capital contributions were up \$16.3 million in 2008. Federal, state and local contributions were \$77.2 million of which \$72.8 million was from federal funds related to light rail projects. The increase is primarily attributable to the execution of the University Link full funding agreement and the receipt of the first \$13.0 million in grant funding related to that project, together with a small increase in federal funds received for Central Link.

South King County — Net capital contributions were up \$34.3 million in 2008. Federal, state and local contributions were \$61.4 million, up \$24.1 million, reflecting increased activity in 2008 on the Airport Link project, as well as the utilization of credits through the Land Bank agreement with the State for land acquired for rail improvements south of King Street Station. Additionally contributions to other governments decreased by \$10.2 million as no projects were completed and transferred to other governments in 2008, while 2007 included South King County's allocated share of the Freighthouse Square Remediation project completed in that year.

East King County — Net capital contributions were up \$52.4 million in 2008. In 2007 contributions to other governments included the completed costs of the Totem Lake Freeway Station (\$67.9 million), while in 2008 contributions to other governments was \$38.2 million and reflected the completion of I-90 2-Way Transit and HOV project, Bothell Branch Campus Access, Rainier Avenue Arterial Improvements and the final costs related to improvements at NE 128th. Federal, state and local capital contributions decreased by \$2.6 million as current federally funded projects have been substantially completed.

Pierce County — Net capital contributions were up \$19.2 million in 2007. Federal, state and local contributions were up \$11.6 million reflecting federal funds received on the Tacoma-to-Lakewood Sounder corridor project and Nisqually commuter rail right-of-way acquisitions as well as the utilization of credits through the Land Bank agreement with the State for land acquired for rail improvements south of King Street Station. Contributions to other governments decreased by \$7.6 million, as no projects were completed and transferred to other governments in 2008, while 2007

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

included Pierce County's allocated share of the Freighthouse Square Remediation project, completed in that year.

Regional Fund — Net capital contributions were down \$0.3 million from 2007 and include transit signaling, transit security, and remote audible signage.

Contributions to Regional Fund

No contributions to the Regional Fund were made in 2008 as the regional fund was in a positive net asset position. As described in Note 6 to the Schedule of Subarea Equity, up to 10% of a subarea's total tax revenues may be utilized to fund Regional Fund activities.

Capital Assets

Capital assets are comprised of capital projects in progress and property, vehicles and equipment, net of depreciation. At December 31, 2008, capital assets were \$3.9 billion, an increase of \$466.1 million or 13.5% over 2007.

Table S-7

Sound Transit Capital Assets							
<i>(in millions)</i>							
	As of December 31, 2008						
	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Land	\$ 20.2	\$ 206.8	\$ 65.9	\$ 12.3	\$ 55.0	\$ -	\$ 360.2
Permanent easements	260.3	15.8	6.0	-	0.1	-	282.2
Capital projects in progress							
Sound Transit	27.4	1,606.7	718.8	8.3	47.2	6.1	2,414.5
Other governments	7.1	-	-	9.7	-	-	16.8
Total Non-Depreciable Assets	315.0	1,829.3	790.7	30.3	102.3	6.1	3,073.7
Buildings, transit facilities & rail	33.3	51.9	119.1	76.1	138.2	22.9	441.5
Rail access rights	16.6	-	184.3	-	149.2	-	350.1
Revenue vehicles	43.8	-	59.6	43.9	96.6	-	243.9
Equipment, vehicles & other	-	0.3	0.1	0.1	-	15.9	16.4
Total Depreciable Assets	93.7	52.2	363.1	120.1	384.0	38.8	1,051.9
Less accumulated depreciation	(27.4)	(1.0)	(56.6)	(36.7)	(66.0)	(20.5)	(208.2)
Net Depreciable Assets	66.3	51.2	306.5	83.4	318.0	18.3	843.7
Total Net Capital Assets	\$ 381.3	\$1,880.5	\$1,097.2	\$ 113.7	\$ 420.3	\$ 24.4	\$3,917.4

A summary of major changes at December 31, 2008, by equity area is as follows:

Snohomish County

Capital assets decreased by \$2.2 million from the prior year. Capital projects in progress decreased by \$14.0 million, reflecting the completion of the South Everett Freeway Station project. Major capital project

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Management's Discussion of Subarea Equity, continued

activity included the Everett Station and the South Everett and Mountlake Terrace Freeway Station projects. Capitalized during the year was \$16.2 million in land, permanent easements and depreciable assets, mostly related to completion of the first phase of the Mukilteo Sounder Station, as well as the acquisition of 10 buses for ST Express.

North King County

Capital assets increased by \$302.5 million from the prior year, of which \$255.3 million is in the Link light rail projects. Capitalized during the year was \$46.6 million in land, transit facilities and art, most significantly for land acquisitions and permanent easements for the University Link extension and strategic property acquisitions for the North Link (\$44.8 million). Capital project activity included progress on Central Link; North Link; Beacon Hill Station; traction power systems; and light rail vehicles.

South King County

Capital assets increased by \$143.2 million from the prior year, of which \$141.5 million was in capital projects in progress. Major capital project spending included: Seattle to Tacoma track and signal; Central Link; Airport Link; and, light rail vehicles. Capitalized during the year was \$12.2 million in land, permanent easements and depreciable assets, mostly related to rail access rights for the Seattle-to-Tacoma segment. Phase 2 improvements, as set forward in the construction agreement with BNSF, are now substantially completed.

East King County

Capital assets decreased by \$10.5 million from the prior year. Capital projects in progress decreased by \$49.5 million, reflecting the completion of the Issaquah Transit Center and Phase 2 of the I-90 2-Way Transit and HOV project. Those completed projects also represented the major capital spending during the year as well as expenditures for NE 128th and Mercer Island Park-And-Ride. Capitalized during the year was \$39.0 million in land and depreciable assets, reflecting the completion of the Issaquah Transit Center and Garage.

Pierce County

Capital assets increased by \$32.3 million from the prior year. Capital projects in progress are comparable to the prior year, with the increase occurring in land and depreciable assets. Major capital spending occurred in the Auburn-to-Tacoma corridor, and for South Tacoma Station and Lakewood Station. The Lakewood Station was completed during the year and capitalized as well as rail access rights in the Seattle-to-Tacoma corridor and the acquisition of 20 buses for ST Express.

Regional Fund

Regional Fund capital assets mostly related to Union Station and related furniture, fixtures and equipment and increased from the prior year by \$0.8 million, with depreciation in excess of the current year additions.

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KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Audit and Reporting Subcommittee of the Board of Directors
Central Puget Sound Regional Transit Authority:

We have performed the procedures enumerated below, which were agreed to by the Audit and Reporting Subcommittee, the Citizens Oversight Panel, and management of Central Puget Sound Regional Transit Authority (Sound Transit), solely to assist the Audit and Reporting Subcommittee of the Board of Directors in evaluating the accompanying Schedule of Subarea Equity (the Schedule) (prepared in accordance with the criteria specified therein) for the year ended December 31, 2008. Sound Transit's management is responsible for the Schedule. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Throughout these procedures there is reference to subarea allocation rules, which are described in note 1 of the unaudited schedule – Significant Subarea Accounting Policies.

The procedures that we performed on the accompanying schedule and our findings are as follows:

Schedule of Subarea Equity

- 1 We agreed each amount in the total column of the Schedule of Subarea Equity to the audited financial statements of Sound Transit, without exception.
- 2 We verified the mathematical accuracy of the totals and subtotals shown on the Schedule, without exception.

Operating Revenues

Passenger Fares

- 3 **Regional Express Passenger Fare Revenues:** We recalculated the amount of Regional Express passenger fare revenues allocated to each subarea by multiplying the allocation percentages (computed from platform hours, subarea boardings, and average fare per boarding provided by Sound Transit), by the total Regional Express passenger fare revenues recorded in the general ledger. In addition, we recalculated the allocation percentages described above, without exception.
- 4 **Souder Passenger Fare Revenues:** We recalculated the amount of Souder passenger fare revenues allocated to each subarea by multiplying allocation percentages (computed from the 2008 survey of ridership boardings provided by Sound Transit), by the total Souder passenger fare revenues. In addition, we recalculated the allocation percentages based on the survey results, without exception.



Other Operating Revenues

- 5 **Advertising Revenues:** We selected a total of 5 receipts recorded in advertising revenues. We verified that the amounts sampled agreed to underlying support provided by the advertising company and verified that the revenues have been allocated in accordance with the allocation percentages derived from the location of buses per the advertising company's report. In addition, we recalculated the allocation percentages described above, without exception.
- 6 **Building Rental Revenues:** We selected a sample of 5 building rental lease agreements. We verified that the applicable revenue under the agreement has been recorded and the amounts were recorded in the appropriate subarea or Regional Fund, based upon the location of the leased premises, without exception.
7. **Revenue Vehicle Rental Revenues:** We selected a sample of 5 receipts recorded in revenue vehicle rental revenues. We verified that the revenues had been allocated to each subarea on a consistent basis with the underlying vehicle, as recorded in the fixed asset subledger. During the year, Sound Transit changed its policy to use allocation percentages rounded to the nearest whole percent. The change in policy resulted in variances of \$1,045 between subareas.

Operating Expenses

8. **Transit Operation and Maintenance Expenses:** We selected a sample of 25 charges to operations and maintenance expense. The sample selection included charges to Regional Express, Sounder, and Link operations. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea based on the supporting documentation. Where a charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules. We noted that one of our selections was not allocated to the proper subareas. The exception was the result of using an incorrect allocation percentage resulting in a variance of \$151. We reviewed the subsequent correction of the difference noted above without exception.
- 9 **General and Administrative Expenses:** We selected a total of 25 charges to general and administrative expense. The sample selection included charges to Regional Express, Sounder, Link, and the Regional Fund. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit checks issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund based on the supporting documentation. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rules. We noted one of our selections was not properly allocated to the proper subareas. The exception was a result of applying prior year allocation rules resulting in variances of \$2,265 between subareas. We reviewed the subsequent correction of the difference noted above without exception.
- 10 **Depreciation Expense:** We agreed the depreciation expense total for each subarea and for the Regional Fund to the year-end reconciliation report from the fixed asset subledger, without exception.

Non-operating Revenues

- 11 **Sales and Rental Car Tax Revenues:** We selected three months throughout the year and agreed the amount of sales and rental car tax recorded in the general ledger to supporting RTA Distribution Schedules received from the Department of Revenue. In addition, we agreed total revenues on the



supporting schedules to the Washington State Department of Revenue monthly distribution reports and verified that the revenue was properly classified to the appropriate subarea, without exception.

- 12 **Motor Vehicle Excise Tax:** We selected three months and agreed the amounts of the motor vehicle excise tax to schedules prepared by Sound Transit Personnel. We agreed total revenues on the supporting schedules to the Washington State Department of Licensing (DOL) excise tax collection reports and verified that the revenue was properly allocated to the appropriate subarea as reported by DOL. At December 31, 2008, we requested a confirmation of zip code assignment by subarea from DOL. We judgmentally selected 25 zip codes, of which 5 selections included split zips, and ensured they are assigned to the correct geographical subarea by tracing the zip code to the zip code map maintained by Sound Transit's office of Policy and Planning, or by utilizing the Postal Service web site. In addition, for the 5 split zip codes, we ensured that the revenues were allocated in accordance with note 5 to the Schedule of Subarea Equity, without exception.
- 13 **Grant Revenues:** We selected a sample of grant draw-down requests from monthly U.S. Department of Transportation Federal Transit Administration Echo-Web Payment Reports, representing 6 different grants. For each selection, we traced a judgmentally selected sample of disbursements, or charges, from the draw-down request Detail Grant Outlay Report to the underlying invoices detail and its supporting documentation, arriving at a total sample size of 30 disbursements. In addition, we verified that the grant revenues had been coded to the correct subarea by agreeing the total from the Detail Grant Outlay Report to the Actual Grant Reimbursements Revenues (Draw-down Revenues) report and traced the distribution to the journal entry posted to the general ledger, without exception.
- 14 **Interest and Bond Issuance Revenues:** We verified the mathematical accuracy of the Annual Reconciliation of Interest Earnings schedule and agreed the total revenues to the general ledger. We verified that interest is appropriately classified to the Regional Fund as outlined in Sound Move Appendix B: Financial Policies and that interest related to the restrictive investments has been allocated to the proper subarea on a basis consistent with the area of subarea classification of restricted assets, without exception.

Non-operating Expenses

- 15 **Interest and Bond Issuance Expenses:** We recalculated interest expense related to long-term debt and amortization of bond issuance costs based on allocation methodology outlined in Sound Transit's financial policy – Subarea Financial Guidance and as described in the notes to the Schedule, without exception.

Other

- 16 **Contribution to Regional Fund:** We verified the mathematical accuracy of contributions to the Regional Fund by adding total tax revenues for each subarea and multiplying the sum of the percentage prescribed in the current financial plan and as described in the notes to the Schedule, without exception.
- 17 **Inter-Subarea Borrowing Revenue (Expense):** We verified the mathematical accuracy of recorded inter-subarea borrowings at year end. We verified the monthly revenue (expense) attributed by subarea based on the outstanding borrowings at the beginning of the year, repayment of borrowings, and recalculated the interest earnings (expense) at the actual rate of inflation according to the U.S. Department of Labor website (not seasonally adjusted) Seattle-Tacoma-Bremerton, WA area CPI-U and as described in the Subarea Financial Guidance, without exception.
- 18 **Total Net Assets Beginning and Ending of Year:** We agreed the total net assets, beginning of year for each subarea to the published schedule of subarea equity as of December 31, 2007. In addition,



we verified the mathematical accuracy of the ending equity balance as of December 31, 2008 for each subarea by adding beginning equity and the excess of revenues over expenses for the year then ended, without exception.

Capital Assets

- 19 **Charges to Capital Projects:** We selected a sample of 25 charges to capital projects in progress from a listing of entries to construction in progress general ledger accounts, including charges to projects that may have been completed during the year. We agreed the amounts to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined where each charge was properly classified into the appropriate subareas. Where a direct vendor charge benefited more than one subarea, we verified that each charge was properly classified into the appropriate subarea or Regional Fund utilizing the authorized allocation rule, without exception.
- 20 **Charges to Property and Equipment:** We selected a sample of 25 charges posted to the properties and equipment accounts, exclusive of the capital projects in progress accounts described above in Item 19. We agreed the amount to the underlying vendor invoice or purchase agreement and Sound Transit payment and determined that each charge was properly classified into the appropriate subarea. Where a charge benefits more than one subarea, we verified that each charge was properly classified into the appropriate subareas or Regional Fund utilizing the authorized allocation rules without exception.
- 21 **Accumulated Depreciation:** We agreed accumulated depreciation as reported on the Schedule to the underlying depreciation records, and determined that the amounts allocated to each subarea agreed to the year-end reconciliation report from the fixed asset sub ledger, without exception.

Bonds Payable

- 22 **Bonds Payable:** We recalculated amounts allocated to each subarea based on the current financial pool and as described in the notes to the Schedule, without exceptions.

Net Assets

- 23 **Invested in Capital Assets, Net of Related Debt:** We recalculated invested in capital assets, net of related debt, by subarea, by subtracting the invested in long-term debt from capital assets presented within the schedule, without exception.
- 24 **Restricted:** We recalculated amounts represented in the schedule by subarea by sampling the underlying nature of the restricted asset. For those restricted assets for which the final subarea determination was not yet known, we confirmed the amount had been assigned to the Regional Fund until actual spending had occurred, without exception.
- 25 **Unrestricted:** We verified the calculation of unrestricted net assets by subtracting invested in capital assets, net of related debt and restricted net assets from total net assets for each subarea, without exception.

Allocated Charges

- 26 **Allocated Charges:** We selected from the general ledger a sample of 25 charges from capital, operations and maintenance and general administrative expenses categories. We verified that the selections agreed to underlying vendor invoices or purchase agreements and agreed to the Sound Transit check issued as payment. In addition, we verified that each charge was properly classified into the appropriate subarea or Regional Fund, utilizing the allocation rules reviewed and approved by the Board. We noted that one of our selections was not allocated to the proper subareas. The



exception noted was a result of a data entry error resulting in variances of \$12,454 between subareas. We reviewed the subsequent correction of differences noted above without exception.

Inter-Subarea Borrowings

- 27 We verified through review of the financial model provided by management that all inter-subarea borrowings within the financial model are refinanced annually and include annual interest earnings and charges at the forecasted rate of inflation (Seattle CPI-U) through 2009. We noted that the interest revenue and expense were improperly calculated for one of the months resulting in variances of \$525 between subareas. We reviewed the subsequent correction of the differences noted above without exception.
- 28 We verified through review of the financial model provided that there were no inter-subarea lending activities included in the financial model for the years after 2009.

Debt Service Coverage Calculation

- 29 We recalculated the net debt service coverage ratio by year in the financial model for each subarea and the agency as a whole for the period 1997 – 2025, without exception. The net debt service coverage ratio is defined as tax revenues, fares, formula grants, and inter-subarea transfers less operations and maintenance costs divided by debt service less initial debt service payments.

* * * * *

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Audit and Reporting Subcommittee of the Board of Directors, the Citizens Oversight Panel, and management of Sound Transit, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 19, 2009

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***Central Puget Sound
Regional Transit Authority***

*Schedule of Subarea Equity
For the Year Ending December 31, 2008*

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CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity

For the Year Ending December 31, 2008

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Operating Revenues							
Passenger fares	\$ 4,153	\$ -	\$ 4,745	\$ 10,042	\$ 7,671	\$ -	\$ 26,611
Other operating revenue	457	877	656	445	1,434	73	3,942
Total Operating Revenues	4,610	877	5,401	10,487	9,105	73	30,553
Operating Expenses							
Operations and maintenance	17,663	-	26,195	40,615	32,275	-	116,748
General and administrative	140	124	15	658	6	18,130	19,073
Loss (gain) on disposal of assets	-	-	-	-	(15)	29	14
Depreciation, amortization and accretion	4,565	621	11,525	6,628	13,064	1,879	38,282
Total Operating Expenses	22,368	745	37,735	47,901	45,330	20,038	174,117
Income (Loss) from Operations	(17,758)	132	(32,334)	(37,414)	(36,225)	(19,965)	(143,564)
Non-Operating Revenues (Expenses)							
Sales tax and rental car tax	29,219	77,726	48,782	70,356	41,773	-	267,856
Motor vehicle excise tax	10,201	14,644	11,765	17,176	14,835	-	68,621
Investment income	241	1,372	1,137	-	585	20,295	23,630
Other non-operating revenues	-	-	159	7,722	-	65	7,946
Non-operating expenses	(84)	(9,980)	(3,623)	(4,800)	(191)	(7,054)	(25,732)
(Interest expense), net of earnings from subarea borrowing	(182)	214	(1,156)	751	373	(16)	(16)
Discontinued projects	-	-	(4,717)	(101)	-	-	(4,818)
Total Non-Operating Revenues	39,395	83,976	52,347	91,104	57,375	13,290	337,487
Income (Loss) Before Capital Contributions	21,637	84,108	20,013	53,690	21,150	(6,675)	193,923
Capital Contributions							
Capital contributions to other governments	(29,537)	-	(138)	(38,126)	(47)	-	(67,848)
Federal capital contributions	11,213	72,818	58,078	2,067	17,117	478	161,771
Other capital contributions	2,439	4,421	3,308	124	3,557	18	13,867
Net Contributions	(15,885)	77,239	61,248	(35,935)	20,627	496	107,790
Change in Net Assets	5,752	161,347	81,261	17,755	41,777	(6,179)	301,713
Total Net Assets, Beginning of Year	283,141	1,063,385	632,047	373,121	415,916	108,658	2,876,268
Total Net Assets, End of Year	\$ 288,893	\$ 1,224,732	\$ 713,308	\$ 390,876	\$ 457,693	\$ 102,479	\$ 3,177,981

See Notes to Schedule of Subarea Equity

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2008

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Capital Assets							
Non-Depreciable Assets							
Land	\$ 20,155	\$ 206,855	\$ 65,913	\$ 12,286	\$ 54,973	\$ -	\$ 360,182
Permanent easements	260,328	15,762	5,992	-	89	-	282,171
Capital projects in progress							
Sound Transit	27,393	1,606,747	718,769	8,334	47,211	6,078	2,414,532
Other governments	7,129	-	-	9,709	-	-	16,838
Total Non-Depreciable Assets	315,005	1,829,364	790,674	30,329	102,273	6,078	3,073,723
Depreciable Assets							
Transit facilities and heavy equipment	33,317	51,440	119,141	76,044	138,178	-	418,120
Rail access rights	16,631	-	184,286	-	149,219	-	350,136
Buildings and leasehold improvements	-	418	20	-	10	22,896	23,344
Revenue vehicles	43,802	-	59,526	43,894	96,639	-	243,861
Furniture, equipment and vehicles	33	336	114	65	1	14,912	15,461
Equipment under capital lease	-	-	-	-	-	940	940
Total Depreciable Assets	93,783	52,194	363,087	120,003	384,047	38,748	1,051,862
Less accumulated depreciation	(27,457)	(1,041)	(56,528)	(36,676)	(65,989)	(20,514)	(208,205)
Net Depreciable Assets	66,326	51,153	306,559	83,327	318,058	18,234	843,657
Total Capital Assets	381,331	1,880,517	1,097,233	113,656	420,331	24,312	3,917,380
Long-Term Debt							
Bonds payable	91,789	655,990	323,100	-	152,983	-	1,223,862
Other long-term debt	-	-	-	-	-	198	198
Less: unamortized bond issuance costs	(602)	(4,301)	(2,119)	-	(1,003)	-	(8,025)
Total Long-Term Debt, net of issuance costs	91,187	651,689	320,981	-	151,980	198	1,216,035
Invested in Capital Assets	\$ 290,144	\$ 1,228,828	\$ 776,252	\$ 113,656	\$ 268,351	\$ 24,114	\$ 2,701,345

See Notes to Schedule of Subarea Equity

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Schedule of Subarea Equity, *continued*

For the Year Ending December 31, 2008

<i>(in thousands)</i>	Snohomish	North King	South King	East King	Pierce	Regional Fund	Total
Inter-subarea (Borrowing) Lending	\$ (1,251)	\$ (4,096)	\$ (62,944)	\$ 40,578	\$ 27,712	\$ -	\$ -
Net Assets							
Invested in capital assets, net of related debt	290,144	1,228,828	776,252	113,656	268,351	24,114	2,701,345
Restricted							
Contractual arrangements	-		15,046	-	12,330	17,228	44,604
Debt service, net of related obligations	4,512	32,243	15,881	-	7,520	-	60,156
Deductible liability protection policy	-	-	-	-	-	3,086	3,086
State appropriation	703	-	672	-	777	-	2,152
	<u>5,215</u>	<u>32,243</u>	<u>31,599</u>	<u>-</u>	<u>20,627</u>	<u>20,314</u>	<u>109,998</u>
Unrestricted	<u>(6,466)</u>	<u>(36,339)</u>	<u>(94,543)</u>	<u>277,220</u>	<u>168,715</u>	<u>58,051</u>	<u>366,638</u>
Total Net Assets	<u>\$ 288,893</u>	<u>\$ 1,224,732</u>	<u>\$ 713,308</u>	<u>\$ 390,876</u>	<u>\$ 457,693</u>	<u>\$ 102,479</u>	<u>\$ 3,177,981</u>

See Notes to Schedule of Subarea Equity.

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NOTES TO SCHEDULE OF SUBAREA EQUITY

For the Year Ending December 31, 2008

NOTE 1: SIGNIFICANT SUBAREA ACCOUNTING POLICIES

Revenues and expenditures directly associated with a particular subarea or project are directly credited or charged to that subarea. Revenues and expenditures benefiting more than one subarea or project are classified according to pre-established allocation rules that are expressed as percentages reflecting the Agency's assumptions regarding multiple subarea and project benefit. For capital projects these rules are developed based on the specific nature of the task rendered. For revenue and operations, maintenance, and general and administrative expenditures, rules are developed based on relevant activity drivers.

Substantially all of the Agency's expenditures are processed through the purchase order system, and coding is assigned at the time the purchase order is issued. Generally projects are subarea specific; however, some projects benefit multiple subareas and accordingly allocation rules are applied. If a rule is updated based on service implementation changes or improved activity drivers, purchase order coding is not updated for contracts that generally extend beyond one year, unless the cost of the contract and the change to the equity area percentage would have a significant impact. For all remaining purchase orders, coding is updated to the current rule in use at the time the contract is renewed.

NOTE 2: OPERATING REVENUES

Passenger fares for ST Express operations are attributed to: Snohomish County; South King County; East King County; and, Pierce County subareas. For Sounder commuter rail operations they are attributed to: Snohomish County; South King County; and, Pierce County subareas. ST Express passenger fare revenue is allocated to each subarea during the year based on average fare per boarding and forecasted platform hours adjusted to actual at the end of the year. In 2008 the allocation by subarea was as follows: 16.7% to Snohomish County; 11.2% to South King County; 54.5% to East King County; and 17.6% to Pierce County. Sounder passenger fare revenue for the Tacoma-to-Seattle service is allocated to each subarea based on a boarding survey as follows: 38.0% to South King County and 62.01% to Pierce County. All revenue earned on the Everett-to-Seattle service is attributed to Snohomish County.

Other operating revenue consists of advertising revenues, building and rental revenues, vehicle rental revenues and miscellaneous revenues. Advertising revenues are allocated to each subarea based on bus location. Building rental revenue is allocated to each subarea based on the location of the buildings. Revenue vehicle rental revenue is allocated to the subareas in the same proportion as the capitalized vehicles as follows: 21% to Snohomish County; 37% to South King County; and 42% to Pierce County. Regional Fund revenue is primarily attributed to rental of the Great Hall for events throughout the year.

NOTE 3: OPERATING EXPENSES

Operating expenses are costs associated with generating operating revenue and include costs for ST Express bus services, Sounder commuter rail services and Tacoma Link light rail. Operations and maintenance expenses and general and administrative expenses are charged to the subarea in which the expense occurs. Expenses that are not specific to a single subarea are allocated based on cost allocation rules, such as track or route miles, operating hours, and facility and equipment locations.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 4: SALES AND RENTAL CAR TAX

Pursuant to Washington State RCW 81.104.170, Sound Transit has imposed a 0.4% sales and use tax for the purpose of providing high-capacity transportation service. This tax is in addition to the State of Washington sales tax and is collected by the Washington State Department of Revenue (DOR) on behalf of Sound Transit on all taxable transactions within Sound Transit's boundary. Sound Transit has also imposed a 0.8% sales and use tax on rental cars in lieu of motor vehicle excise tax, as provided for in RCW 81.104.160.

Sales tax is attributed to subareas utilizing DOR reporting by city location codes. Cities are generally unique to subareas with the exception of Bothell, Pacific, Milton and Auburn. Cities that are not unique to subareas have multiple city location reporting codes assigned, and revenue is recorded as reported by these codes. In addition, for unincorporated areas within King County, sales tax is allocated to the subareas based on relative population in the unincorporated areas of south and east King County.

NOTE 5: MOTOR VEHICLE EXCISE TAX

Pursuant to Washington State RCW 81.104.160, Sound Transit has imposed a 0.3% motor vehicle excise tax for the purpose of providing high-capacity transportation service. The Washington State Department of Licensing (DOL) collects this tax on Sound Transit's behalf on applicable vehicles licensed within Sound Transit's boundary.

The motor vehicle excise tax is attributed to subareas based on the zip code in which the vehicle is licensed. DOL utilizes DOR's geographical information system to track, report and remit by zip code revenues within Sound Transit's boundary and provides reports detailing motor vehicle excise tax by subarea based on the zip code assignment. Where a zip code falls within two subareas, revenue is allocated between those two subareas based on their relative population.

NOTE 6: OTHER NON-OPERATING REVENUES (EXPENSES)

According to *Sound Move Appendix B: Financial Policies*, investment earnings (other than those specifically associated with a subarea project or unspent bond proceeds) are allocated to the Regional Fund. Any additional amounts, above investment earnings, required to fund the Regional Fund for Phase I are contributed by the subareas based on proportional share of tax revenues, as described in Note 7. Regional Fund investment income reflects interest earned on investments and changes in market value.

Investment income related to the Burlington Northern and Santa Fe Railway repurchase agreement is allocated to each subarea based on the relative percentage of track or route miles located in each subarea. Of the total track miles, 55.0% are in the South King County subarea and 45.0% are in the Pierce County subarea.

Capital contributions are attributable to subarea-specific projects identified in the grant award and are earned as qualifying expenditures are incurred.

NOTE 7: CONTRIBUTIONS TO THE REGIONAL FUND

Based on the 2008 Financial Plan for Phase I of *Sound Move* (1997 through 2009), there were no contributions to the Regional Fund required. Contributions are made to the Regional Fund on an annual basis to pay for programs throughout Phase I. According to *Sound Move Appendix B: Financial Policies*, subareas may contribute up to 10% of tax revenues for funding of the Regional Fund.

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

NOTE 8: CAPITAL ASSETS

Capital assets include non-depreciable and depreciable assets. Capital asset costs are allocated to the subarea in which the asset or project is located or was allocated under *Sound Move*. For asset or project costs that are not specific to a single subarea, capital costs are distributed based on cost allocation rules such as track miles.

Non-depreciable assets: Non-depreciable assets include land and capital projects in progress. Capital projects in progress include project costs that are being accumulated before an asset is put into service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that are built by Sound Transit pursuant to agreements with other governments and where Sound Transit does not maintain a continuing ownership interest. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Sound Move Appendix A: Detailed Description of Facilities and Costs* and *Sound Move Appendix B: Financial Policies*.

Depreciable assets: Depreciable assets include: transit facilities and heavy equipment; buildings and leasehold improvements; revenue vehicles; furniture, equipment, and vehicles; and assets under capital leases that have been placed into service. Costs are either specific to a subarea or are allocated to a subarea based on board approved rules reflective of *Appendix A* and *Appendix B*.

NOTE 9: LONG-TERM DEBT AND INTER-SUBAREA BORROWING

Consistent with *Sound Move*, the Agency issues debt and manages its cash on a consolidated basis. Bonds issued during Phase I, interest expense and bond issuance costs are allocated as spent to each subarea on a basis consistent with the forecasted total bond allocation included in the annual updated Financial Plan for Phase I. Any changes in annual allocation are done prospectively. At the end of Phase I, a reconciliation will be performed to substantiate debt issuance, related interest expense and related issuance costs by subarea.

Sound Transit's subarea financial and debt policies provide for inter-subarea borrowings based on a subarea's need prior to the completion of Phase I. This need occurs when a subarea's restricted and unrestricted net assets are in a combined deficit position. In 2008, South King County has been in a subarea deficit position, requiring subarea borrowing, since March 2008 and North King County and Snohomish County in December 2008.

Prior to December 31, 2003, the outstanding bonds were allocated based on *Sound Move Appendix A: Detailed Description of Facilities and Costs* which was the basis for the finance plan that was in effect when the bonds were issued. Effective December 31, 2003, this methodology was updated so that bonds are allocated based on the current financial plan in effect and updated annually. Interest expenses and related issuance costs incurred are allocated each year based on the current financial plan. At the end of Phase I, interest costs will be allocated based on borrowing requirements and will be part of the overall Phase I reconciliation. The table on the following page depicts the current and prior year allocation of the outstanding bond issues, in accordance with their respective finance plans:

CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

Notes to Schedule of Subarea Equity, continued

Subarea	Percentage of Total		2008 Debt Service Expenditures (in thousands)
	December 31 2008	December 31 2007	
Snohomish County	7.5%	9.8%	\$ 4,257
North King County	53.6%	55.5%	30,427
South King County	26.4%	26.8%	14,986
East King County	-	-	-
Pierce County	12.5%	7.9%	7,096
Total	100.0%	100.0%	\$ 56,766

NOTE 10: TOTAL NET ASSETS AND RESOURCES AVAILABLE FOR INVESTMENT

Total net assets are the aggregate amount of revenues less expenses and related debt service from 1997 through 2008. Revenues include taxes, grants, interest, fares and other revenues. Expenses include transit operations, general and administrative, depreciation and other expenses. Total net assets, less capital investments, represent the amount still available for investment by each subarea for Phase I to date. This available investment amount does not include future bond issues related to completing Phase I capital projects. The table below depicts total net assets, capital investments to date and resources available for investment as of December 31, 2008:

Subarea	Total Net Assets (in thousands)	Capital Investments through 2008	Available for Investment
Snohomish County	\$ 288,893	\$ 290,144	\$ (1,251)
North King County	1,224,732	1,228,828	(4,096)
South King County	713,308	776,252	(62,944)
East King County	390,876	113,656	277,220
Pierce County	457,693	268,351	189,342
Regional Fund	102,479	24,114	78,365
Total	\$ 3,177,981	\$ 2,701,345	\$ 476,636