SOUNDTRANSIT

Central Puget Sound Regional Transit Authority

Financial Statements for the Years Ended December 31, 2004 and 2003, and Independent Auditors' Report

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2004 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.

Joni Earl	Hugh L. Simpson	Kelly Priestley
Chief Executive Officer	*Chief Financial Officer*	*Controller*

This page has intentionally been left blank.

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

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

We have audited the accompanying basic financial statements of Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Puget Sound Regional Transit Authority as of December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2005 on our consideration of Central Puget Sound Regional Transit Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We noted certain matters that we reported to management of Sound Transit in a separate letter dated June 9, 2005.

The management's discussion and analysis on pages 1 through 10 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

May 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2004 and 2003

Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2004 and 2003. The MD&A is designed to assist readers of financial statements 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 financial statements and footnotes as a whole.

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 13-year period, ending in 2009. The Agency is eight years into this initial phase and its activities to-date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of Sound Transit's capital projects.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses 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 early stages of construction on its light rail project, major sources of revenue exceed expenses resulting in a rising net assets position.

Financial Highlights

- Total operating revenues were $16.6 million for 2004, an increase of 10.7% from the prior year. Passenger fares increased by $1.6 million from the prior year, as a result of increased ridership on ST Express and Sounder as well as the full year impact of the addition of the Everett-to-Seattle Sounder service at the end of 2003. Other revenues were consistent with the prior year.
- Total operating expenses, excluding depreciation and loss on disposal of assets, increased by $11.2 million or 14.4% from the prior year:
  - Operations and maintenance expenses increased by $10.4 million. This increase is due to the higher service levels provided in 2004 and the commencement of the Everett-to-Seattle Sounder service in late December, 2003.
  - General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by $0.8 million. Overhead allocation increased by $3.9 million, reflecting the increased staffing and service levels as the Agency moves into full construction on the Central Link project.
- Non-operating revenues (expenses) were down $10.4 million from the prior year, reflecting higher fare integration subsidies to the other transit partners, supplemental mitigation payments in the Rainier Valley, Phase II planning costs, and a current loss on the change in the City of Seattle interlocal agreement that resulted in a decreased long-term funding commitment. Tax revenues increased by $15.9 million while investment income decreased by $9.4 million.

- Capital contributions decreased by $31.7 million or 108.9%. This decrease reflects $99.1 million in projects completed that were contributed to other governments, significantly offset by $62.9 million in higher Federal and other contributions to Sound Transit.
- Total net assets at December 31, 2004 were $2.1 billion, an increase of $180 million or 9.6% from 2003, down from an increase of $237 million or 14.5% in 2003. The lower increase in net assets in 2004 from 2003 reflects the higher loss from operations of $15.1 million, lower non-operating revenues (expenses) of $10.4 million and lower net contributions of $31.7 million.
- Total capital assets, net of depreciation, were $1.8 billion at December 31, 2004, an increase of $407 million or 29.7% from 2003. The increase in total capital assets reflects increased land acquisitions for Central Link and an increase in capital projects in progress as construction moves forward on that project. Approximately $467 million in projects were completed during the year and transferred to depreciable assets or expensed as capital contributions to other governments.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The 2004 financial statements are presented 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 shown.

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 financial statements provide both long-term and short-term information about Sound Transit's overall financial status as well as Sound Transit's net assets, segregated by invested in capital assets (net of related debt), restricted and unrestricted. Net assets are the difference between Sound Transit's assets and liabilities and over time may serve as a useful indicator of Sound Transit's financial position. The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

Financial Analysis

Net Assets

Sound Transit's total net assets at December 31, 2004 were $2.1 billion, an increase of $180 million or 9.6% from 2003 (see Table A-1). Total assets increased $216 million or 9.2%. This increase was funded through an excess of total revenues over expenditures, as well as an increase from 2003 in total liabilities of $36 million. This compares to total net assets of $1.9 billion at December 31, 2003, which was an increase of $237 million from 2002, which was funded entirely through excess revenues over expenditures.

Table A-1

Sound Transit Net Assets

(in millions)	As of December 31, 2004	2003	2002	% Change 2004-2003	2003-2002
Current assets, excluding restricted assets	$ 550.7	$ 691.8	$ 792.9	(20.4)	(12.8)
Restricted assets	170.1	217.9	265.8	(21.9)	(18.0)
Capital assets	1,773.6	1,367.0	983.4	29.7	39.0
Other non-current assets	67.4	69.2	66.4	(2.6)	4.2
Total Assets	**2,561.8**	**2,345.9**	**2,108.5**	**9.2**	**11.3**
Current liabilities, excluding interest payable from restricted assets	82.6	54.3	55.3	52.1	(1.8)
Interest payable from restricted assets	7.2	7.2	7.2	-	-
Long-term debt	347.3	347.4	347.5	-	-
Other long-term liabilties	65.7	58.2	57.1	12.9	1.9
Total Liabilities	**502.8**	**467.1**	**467.1**	**7.6**	**(0.0)**
Net Assets					
Invested in capital assets, net of related debt	1,422.4	1,022.5	639.0	39.1	60.0
Restricted net assets	162.9	210.7	258.7	(22.7)	(18.6)
Unrestricted net assets	473.7	645.6	743.7	(26.6)	(13.2)
Total Net Assets	**$ 2,059.0**	**$ 1,878.8**	**$ 1,641.4**	**9.6**	**14.5**

Current assets, excluding restricted assets, decreased in 2004 by 20.4% from 2003. This decrease is substantially due to a reduction in cash, cash equivalents and investments of $167.1 million reflecting spending for land acquisitions and construction on the Central Link project, as well as payment for the second of four easements from Burlington Northern and Santa Fe ("BNSF") and ST Express projects (see also Table A-4). This decrease was partially offset by increased federal grants and taxes receivable of $26.1 million. In 2003, current assets decreased by 12.8% from 2002 due to the acquisition of the first easement from BNSF and lower accruals for grant contributions and lease contract receivables.

Restricted assets decreased in 2004 by 21.9% from 2003, as payments to BNSF for construction costs were applied against the investment restricted under contractual agreement with BNSF. In 2003, restricted assets decreased by 18.0% from 2002 also for construction costs paid to BNSF, as well as the use of state funds, restricted for purposes of providing commuter rail in Snohomish County, which were applied toward the first BNSF easement acquisition.

Capital assets increased in 2004 by $406.6 million from 2003, reflecting Sound Transit's increased capital program activity as construction progressed on projects. This compares to an increase of $383.6 million in 2003 from 2002. During the year, Sound Transit capitalized $503.2 million ($371.1 million in 2003) in design, construction, acquisition, interest and overhead costs to capital projects in progress and $463.0 million ($243.7 million in 2003) in projects were completed and transferred to property, plant and equipment or expensed as follows:

(in millions)	**2004**	**2003**
Transferred to property, vehicles and equipment	$ 368.7	$ 239.9
Expensed to contributions to other governments	92.6	1.9
Transferred to recoverable costs or inventory	1.0	0.9
Write-off of overhead, discontinued project costs and loss on disposal of assets	0.7	1.0
	$ 463.0	**$ 243.7**

Direct additions to property, vehicles or equipment in 2004 were $28.3 million, which included $17.6 million in land contributions from Washington State under the Land Bank agreement, delivery to Sound Transit of $8.3 million in buses for ST Express, $1.6 million in computer equipment and software to upgrade the Agency's project management system and to replace copiers. The Land Bank agreement provides credits in recognition of projects constructed by Sound Transit that benefit the State, which may be used toward purchases or leases by Sound Transit of state-owned land or airspace. Direct additions in 2003 were $33.9 million, substantially comprised of the receipt of replacement vehicles for Sounder under the CalTrain lease agreement.

Offsetting the increase in capital spending, accumulated depreciation increased in 2004 by $22.5 million from 2003, and by $17.6 million in 2003 from 2002, reflecting the increased assets put into use. Additionally, $8.1 million in assets were disposed of with a net book value of $7.6 million. These disposals included $6.5 million in land related to the Lynnwood and Bellevue High Occupancy Vehicle ("HOV") projects, as well as the write-off of the temporary Sounder Tacoma platform.

Current liabilities in 2004, excluding interest payable from restricted assets, increased by 52.1%, reflecting increased spending activity on the Agency's capital program, particularly the Central Link project. By the end of 2004, all significant construction contracts had been let on Central Link projects. Current liabilities in 2003 were comparable to 2002, decreasing by 1.8%.

Long-term debt also remains substantially unchanged from 2003 and 2002. Principal payments on the outstanding bonds do not commence until 2006. The increase in other long-term liabilities includes a promissory note payable to BNSF on the closing of the acquisition of the North Line of the Sounder Tacoma-to-Lakewood segment, as well as an increase in the First Hawaiian lease/leaseback arrangement which is offset by an equal increase in the investment held to settle this obligation, included in other non-current assets.

Investment in capital assets, net of related debt, represents 69.1% of Sound Transit's total net assets in 2004, 54.4% in 2003 and 38.9% in 2002. The increase in capital asset investment reflects the reduction in current and restricted assets, primarily cash, cash equivalents and investments, as well as the continued construction of Sound Transit's infrastructure assets for its commuter rail, light rail and express bus system. Sound Transit uses these assets to provide service and consequently these assets are not available to liquidate liabilities or for other expenditures.

Management's Discussion and Analysis, continued

Restricted net assets represent 7.9% and unrestricted net assets 23.0% of total net assets, respectively in 2004, 11.2% and 34.4% in 2003; and 15.8% and 45.3% in 2002. The unrestricted and substantially all of the restricted net assets are available for future expenditures associated with construction projects planned in *Sound Move*. The decline in the relative proportion of restricted and unrestricted net assets as a percent of total net assets is anticipated as infrastructure assets are constructed.

Changes in Net Assets

The increase in net assets in 2004 was $180.2 million, as compared to an increase in net assets in 2003 of $237.4 million (see Table A-2). Sound Transit's loss from operations increased by 18.8% in 2004 and 9.7% in 2003, while capital contributions decreased by 108.9% in 2004 and 35.8% in 2003. Non-operating revenues and expenses decreased in 2004 by 3.6% and by 5.4% in 2003.

The increase in the loss from operations reflects an increase in operating revenues of 10.7% in 2004 and 31.6% in 2003; however, this was more than offset by total operating expenses which increased 17.5% in 2004 and 12.6% in 2003.

Table A-2

Changes in Sound Transit Net Assets

(in millions)	As of December 31, 2004	2003	2002	% Change 2004-2003	2003-2002
Operating Revenues					
Passenger fares	$ 13.2	$ 11.6	$ 9.2	13.8	26.1
Other	3.4	3.4	2.2	-	54.5
Total Operating Revenues	16.6	15.0	11.4	10.7	31.6
Operating Expenses					
Total operating expenses, before depreciation and loss on disposal of assets	89.1	77.9	70.4	14.4	10.7
Depreciation and loss on disposal of assets	23.1	17.6	14.4	31.3	22.2
Total operating expenses	112.2	95.5	84.8	17.5	12.6
Loss from operations	(95.6)	(80.5)	(73.4)	18.8	9.7
Non-operating revenues (expenses)	278.4	288.8	305.2	(3.6)	(5.4)
Income before capital contributions	182.8	208.3	231.8	(12.2)	(10.1)
Capital contributions	(2.6)	29.1	45.3	(108.9)	(35.8)
Change in Net Assets	180.2	237.4	277.1	(24.1)	(14.3)
Total net assets, beginning	1,878.8	1,641.4	1,364.3	14.5	20.3
Total Net Assets, ending	$ 2,059.0	$ 1,878.8	$ 1,641.4	9.6	14.5

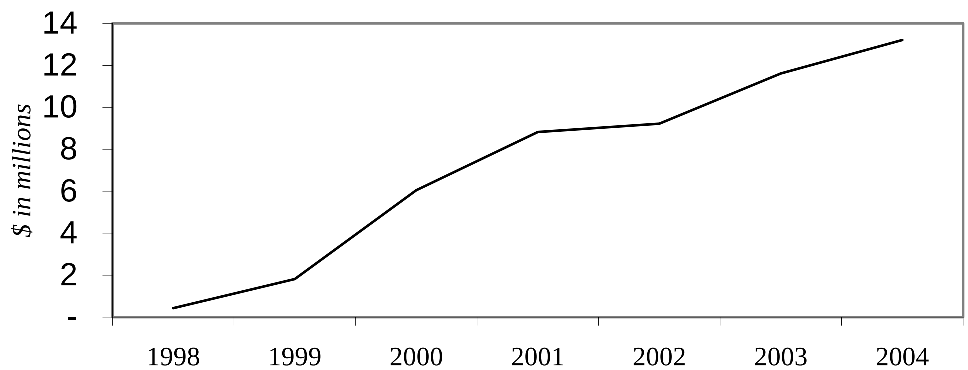
Operating Revenues

Operating revenues are composed of passenger fares and other revenues.

Passenger Fare Revenue

Passenger fare revenue consists of fares earned from the sale of Puget passes, Sounder tickets and bus farebox receipts and tickets used by riders during the year on Sounder and ST Express.

Passenger Revenue



Sounder rail passenger revenue increased $420 thousand or 22.8% over 2003 ($267 thousand or 17.0% in 2003 over 2002), with ridership increasing by 204 thousand boardings in 2004 over 2003 and 110 thousand boardings in 2003 over 2002. ST Express bus passenger revenue increased by $1.2 million or 10.6% over 2003 ($2.1 million or 27.9% in 2003 over 2002), with ridership increasing by 994 thousand boardings in 2004 over 2003, and 977 thousand boardings in 2003 over 2002. The average fare per boarding in 2004 was comparable to 2003, however increased by $0.13 in 2003 from 2002.

Contributing to the increased ridership was the addition of the Sounder Everett-to-Seattle service and on ST Express the full year impact of service implementation changes from September 2003, whereby ST Express discontinued a low ridership route serving Everett to Northgate, replacing it with full time service between Ash Way Park-and-Ride and Seattle. In addition, there were also major service improvements between East Redmond and Seattle and along the SR-167 corridor. Service on Tacoma Link, a free fare service, also showed strong increases in ridership. Sounder's service from Seattle-to-Everett was provided at no cost until February 1, 2004. Ridership numbers are presented in the following table:

Ridership

(in thousands)				% Increase	
	2004	**2003**	**2002**	**2004-2003**	**2003-2002**
Sounder	955.3	751.2	641.0	27.2	17.2
Link	794.6	266.8	-	197.8	N/A
ST Express	8,394.3	7,399.9	6,423.3	13.4	15.2
Total Ridership	**10,144.2**	**8,417.9**	**7,064.3**	**20.5**	**19.2**

Other Revenues

Other revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous revenue. Other revenues were comparable in 2004 to 2003, however had increased by $1.2 million in 2003 over 2002 with the leasing of additional Sounder vehicles in 2003 and additional income from short-term property rentals from land acquired for capital projects.

Operating Expenses

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

Operations and Maintenance

Operations and maintenance, which increased by $10.4 million or 17.3% from 2003 ($9.4 million or 18.5% in 2003 over 2002), includes costs associated with the operation of the Sounder commuter rail, Link light rail in Tacoma and ST Express bus services. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF, Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's commuter rail and express bus service. It is the most significant component of operations and maintenance, accounting for 70% of this category (72% in 2003 and 73% in 2002).

As a result of increased service levels in Sounder and ST Express in 2004, purchased transportation costs increased by $6.2 million, or 14.3% and $949 thousand in related services payments, as well as allocated Agency staff overhead which increased by $2.0 million. Increased service levels included the addition of the Sounder Everett-to-Seattle service, major service improvements on ST Express between East Redmond and Seattle and along the SR-167 corridor, as well as a full year of service on Tacoma Link light rail. The impact of the Sounder Seattle-to-Everett service and Tacoma Link light rail represent $3.0 million, or 48% of the increase over 2003. The increase in operations and maintenance costs in 2003 from 2002 also relates to service level increases, with $1.6 million of the increase attributable to Tacoma Link light rail which went into service at the end of August, 2003.

General and Administrative

General and administrative expenses, which increased in 2004 by $0.8 million, or 4.5%, from 2003 and decreased in 2003 by $2.0 million, or 10.3%, from 2002, are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses.

Before allocation to capital projects and operations, total Agency staff and administrative costs increased in 2004 by $5.0 million or 11.8% from 2003 and in 2003 by $4.7 million or 12.1% from 2002. The increase in 2004 general and administrative costs related to higher salary and benefit costs of $3.6 million, as staff was added to meet the increased capital program and operations activity. The increase in 2003 is related to higher salary and benefit costs of $4.1 million, as well as increased insurance and advertising costs, partially offset by a decrease in taxes.

General and administrative costs are allocated to capital projects and transit operations based on activity drivers and relative level of spending. Costs allocated to capital projects in 2004 were $24.6 million and to transit operations and maintenance were $5.4 million, both allocations up $2.0 million from 2003, reflecting the higher salary costs and activity levels within the Agency. In 2003 costs allocated to capital projects were up $3.9 million from 2002 and costs allocated to transit operations and maintenance were down $1.3 million from 2002. Also included in general and administrative costs are any write-off of overhead from projects. As projects approach completion, allocated overhead costs are reviewed and any excess costs are written off. In 2004, $0.3 million in excess costs were written off, $0.7 million in 2003 and $4.7 million in 2002.

Depreciation and Loss on Disposal of Assets

Depreciation expense increased in 2004 by $5.5 million or 31.3% from 2003 ($3.2 million or 22.2% in 2003 from 2002), reflecting the increase in depreciable assets put into use in 2004 and 2003. As projects are completed and put into use, the costs of these assets are amortized over their expected useful lives.

Non-Operating Revenues (Expenses)

Non-operating revenues decreased in 2004 by $10.4 million or 3.6% from 2003. Tax revenues increased by $15.9 million or 5.9%, offset by a $10.5 increase in other non-operating expenses and a $9.4 million decrease in investment income as invested cash balances decreased during the year and interest rates continued to decline throughout most of the year. Other non-operating expenses include supplemental mitigation in the Rainier Valley, Phase II planning, and fare integration subsidies to other transit agencies. In 2003, non-operating revenues decreased by $16.4 million, or 5.4%, from 2002 due to $22.9 million in lower investment earnings, partially offset by $5.0 million or 1.9% in higher tax revenues.

Capital Contributions

Capital contributions decreased in 2004 by $31.7 million or 108.9% from 2003 and by $16.2 million or 35.8% in 2003 from 2002. 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 improvement or funding agreements. The decrease in 2004 relates to the completion of $99.1 million in related projects, which included the Bellevue and Lynnwood HOV projects, as compared to only $4.4 million in 2003.

Offsetting the higher contributions to other governments in 2004 were higher contributions to Sound Transit at both the federal and state level. Federal contributions increased by $42.0 million or 156.1% from 2003, primarily related to the grant drawdowns on the Central Link light rail project as there was no appropriation for the full funding grant agreement in 2003. Other capital contributions increased by $20.9 million, reflecting land donations from the state pursuant to the Land Bank Agreement and in recognition of the completion by Sound Transit projects beneficial to the State such as the Bellevue and Lynnwood HOV projects.

The decrease in capital contributions between 2003 and 2002 relates to significantly lower federal capital contributions which were down $51.2 million from 2002, offset by lower capital contributions to other governments of $38.1 million. Federal capital contributions in 2002 included the accrual of $39.5 million of the $50.0 million Link New Starts funding, which was awarded in 2002, whereas there were no further appropriations under the Link full-funding grant agreement in 2003. Contributions to other governments in 2002 included several large projects that were completed, including the Lynnwood SR-99 Transit Lanes, the Pacific Avenue Overpass, I-90 at Sunset Interchange, and the Tacoma Dome Park-and-Ride expansion, whereas in 2003 no significant non-Sound Transit-owned projects were completed.

Capital Assets

At December 31, 2004, Sound Transit had invested $1.8 billion in capital assets, net of accumulated depreciation, of which $672 million of depreciable assets were in service ($437 million in 2003 and $293 million in 2002). This represents a net increase of $235 million or 53.8% over 2003 ($144 million or 49.1% in 2003 over 2002).

Table A-3

Sound Transit Capital Assets *(net of depreciation)*

(in millions)	As of December 31, 2004	2003	2002	% Change 2004-2003	2003-2002
Land	$ 247.1	$ 171.9	$ 121.5	43.7	41.5
Permanent easements	158.1	79.0	-	100.1	n/a
Capital projects in progress					
Sound Transit	690.3	625.0	554.8	10.4	12.7
Other governments	79.7	104.9	47.7	(24.0)	119.9
Total Non-Depreciable Assets	1,175.2	980.8	724.0	19.8	35.5
Buildings, transit facilities & rail	209.3	211.7	116.1	(1.1)	82.3
Rail access rights	198.5	-	-	n/a	n/a
Revenue vehicles	186.5	171.0	138.8	9.1	23.2
Equipment, vehicles & other	4.1	3.5	4.5	17.1	(22.2)
Total Depreciable Assets	598.4	386.2	259.4	54.9	48.9
Total Net Capital Assets	$ 1,773.6	$ 1,367.0	$ 983.4	29.7	39.0

Land increased by $75.2 million in 2004 from 2003, which included $50.9 million in acquisitions for the Central Link segment, $16.9 million for North Link and $10.3 million for Sounder commuter rail in the Nisqually-to-Tacoma corridor. In 2003, land increased by $50.4 million from 2002, substantially related to the acquisition for the Central Link segment for $33.2 million, Sounder Everett Station for $6.7 million and ST Express Federal Way Transit Center for $5.6 million.

The permanent easements relate to the Seattle-to-Everett segment. In 2003 Sound Transit entered into an agreement with BNSF to acquire four easements, each providing one round trip of commuter rail service. The second and first easements were acquired in 2004 and 2003 respectively.

Table A-4

Major capital project activities from 2004 and 2003:

	Sounder	Link	ST Express
2004	▪ Track and signal projects on all segments ▪ Second easement Seattle-to-Everett	▪ Central Line (CPS to 154th; Downtown & Beacon Hill tunnels; Martin Luther King Way; South Morgan to Norfolk; 126th St. to 150th St.) ▪ Beacon Hill Station ▪ Line E-3 Busway ▪ Operations and Maintenance Base ▪ Light Rail Vehicles	▪ Federal Way Transit Center ▪ HOV Access (Bellevue, Lynnwood, Ash Way and Federal Way)
2003	▪ Track and signal projects on all segments ▪ First easement Seattle-to-Everett	▪ Central Line (CPS to 154th; Beacon Hill tunnel; South Walden St. to South Morgan St., 126th St. to 150th St.) ▪ Tacoma Link	▪ Lynnwood Transit Center ▪ Federal Way Transit Center ▪ Lynnwood HOV Access ▪ Bellevue HOV Access

Buildings, transit facilities, and rail decreased by $2.4 million, reflecting depreciation charges in excess of additions. Additions in 2004 included rail on the Lakewood-to-Tacoma north segment, $4.7 million related to ticket vending machines at Sounder Stations as well as additional costs related to the Lynnwood Transit Center and Park-and-Ride, which went into use in the prior year. In 2003, buildings and transit facilities increased by $95.6 million in 2003 from 2002 due to the completion of Tacoma Dome Station, Tacoma Light Rail Operations and Maintenance Center, Lynnwood Transit Center and DuPont Station.

Revenue vehicles increased by $15.5 million in 2004 from 2003 with the purchase of additional fleet vehicles for ST Express. The increase of $32.2 million in 2003 from 2002 reflects the delivery of the replacement cab and coach cars under the CalTrain lease agreement and the delivery of the light rail vehicles for the Tacoma light-rail service.

Equipment, vehicles and other increased by $0.6 million in 2004 from 2003 with the addition of replacement copier equipment and decreased by $1.0 million in 2003 from 2002 related to depreciation in excess of additions. Replaced copier equipment was fully depreciated. This category includes office furniture and equipment, as well as Agency administrative vehicles.

More detailed information about Sound Transit's capital assets is presented in Note 6 to the Financial Statements.

Long-Term Debt

Long-term debt includes sales and motor vehicle excise tax bonds issued in 1999. At December 31, 2004 and 2003, Sound Transit had $350 million par value bonds issued and outstanding. These bonds have been rated as A1 by Moody's Investor Services, Inc. and AA by Standard & Poor's.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1-1/2 percent of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60 percent of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5 percent of the value of taxable property within the service area. Based on the 2003 assessed valuations for collection of 2004 taxes, Sound Transit's non-voted remaining debt capacity is $3.8 billion and its voted remaining debt capacity is $13.6 billion.

.

BALANCE SHEETS

(in thousands)	December 31	
	2004	**2003**
ASSETS		
Current Assets		
Cash and cash equivalents *(Note 3)*	$ 204,470	$ 358,144
Restricted assets *(Note 3)*	7,871	9,674
Investments *(Note 3)*	250,462	263,926
Taxes and other receivables *(Note 4)*	87,801	62,231
Parts, materials and supplies	3,118	2,632
Prepaid expenses	4,863	4,858
Total Current Assets	**558,585**	**701,465**
Non-Current Assets		
Capital assets, net of accumulated depreciation *(Note 5)*	1,773,591	1,367,005
Restricted assets *(Note 3)*	162,188	208,189
Investment held to pay capital lease obligation *(Note 6)*	57,856	56,657
Long-term receivables	458	95
Unamortized bond issuance costs	2,706	2,893
Prepaid expense and deposits	6,402	9,585
Total Non-Current Assets	**2,003,201**	**1,644,424**
Total Assets	**$ 2,561,786**	**$ 2,345,889**
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities *(Note 7)*	$ 74,094	$ 50,148
Deferred receipts	2,635	1,865
Interest payable from restricted assets	7,152	7,152
Current portion, capital lease obligation *(Note 6)*	266	109
Other	5,571	2,172
Total Current Liabilities	**89,718**	**61,446**
Non-Current Liabilities		
Long-term debt *(Note 8)*	347,331	347,391
Compensated absences *(Note 9)*	1,605	1,463
Capital lease obligations *(Note 6)*	58,346	56,748
Promissory note payable *(Note 13)*	5,740	-
Total Non-Current Liabilities	**413,022**	**405,602**
Total Liabilities	**502,740**	**467,048**
Commitments and Contingencies *(Notes 6, 13 and 14)*		
Net Assets		
Invested in capital assets, net of related debt	1,422,469	1,022,507
Restricted for contractual arrangements and other *(Note 10)*	162,908	210,712
Unrestricted	473,669	645,622
Total Net Assets	**2,059,046**	**1,878,841**
Total Liabilities and Net Assets	**$ 2,561,786**	**$ 2,345,889**

See Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	December 31 2004	December 31 2003
Operating Revenues		
Passenger fares	$ 13,205	$ 11,625
Other operating revenues	3,403	3,403
Total Operating Revenues	**16,608**	**15,028**
Operating Expenses		
Operations and maintenance	70,870	60,423
General and administrative	18,257	17,467
Loss on disposal of assets	108	-
Depreciation	22,956	17,570
Total Operating Expenses	**112,191**	**95,460**
Loss from Operations	**(95,583)**	**(80,432)**
Non-Operating Revenues (Expenses)		
Sales tax	219,020	206,665
Motor vehicle excise tax	64,714	61,189
Rental car tax	2,166	2,182
Investment income	10,626	20,020
Capital lease and other revenues	15	1,173
Non-operating expenses	(12,322)	(1,807)
Interest expense	(74)	(203)
Discontinued projects	(194)	(106)
Loss on change in interlocal agreement	(4,584)	-
Loss on disposal of assets	(920)	(369)
Total Non-Operating Revenues, Net	**278,447**	**288,744**
Income Before Capital Contributions	**182,864**	**208,312**
Capital contributions to other governments	(99,118)	(4,443)
Federal capital contributions	68,842	26,879
Other capital contributions	27,617	6,689
Total Capital Contributions	**(2,659)**	**29,125**
Change in Net Assets	**180,205**	**237,437**
Total Net Assets, Beginning of Year	**1,878,841**	**1,641,404**
Total Net Assets, End of Year	**$ 2,059,046**	**$ 1,878,841**

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

(in thousands)	December 31	
	2004	**2003**
Cash Flows from Operating Activities		
Cash receipts from fares	$ 15,277	$ 12,310
Cash receipts from other operating revenues	3,532	2,685
Payments to suppliers	(15,164)	(18,021)
Payments to transportation service providers	(51,681)	(42,213)
Payments to employees for wages and benefits	(21,335)	(17,680)
Net Cash Used by Operating Activities	**(69,371)**	**(62,919)**
Cash Flows from Non-Capital Financing Activities		
Taxes received	281,492	269,833
Net Cash Provided by Non-Capital Financing Activities	**281,492**	**269,833**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	48,556	70,345
Cash contributions to other governments	-	(2,567)
Purchase of properties, vehicles and equipment	(9,003)	(1,346)
Payments in respect of capital projects in progress	(434,325)	(341,152)
Payments to employees capitalized to capital projects in progress	(11,542)	(10,573)
Cash paid for interest	(17,095)	(17,180)
Deposit on acquisition of land	-	(4,400)
Payments to suppliers for non-operating expenses	(12,322)	(1,807)
Payments for betterments & recoverable cost, net of repayments	(3,729)	(1,855)
Other	377	(223)
Net Cash Used by Capital and Related Financing Activities	**(439,083)**	**(310,758)**
Cash Flows from Investing Activities		
Purchases of investments	(236,456)	(379,994)
Proceeds from sales or maturities of investments	297,315	497,845
Investment income	18,560	29,105
Net Cash Provided by Investing Activities	**79,419**	**146,956**
Net (Decrease) Increase in Cash and Cash Equivalents	**(147,543)**	**43,112**
Cash and Cash Equivalents		
Beginning of year	396,016	352,904
End of Year	**$ 248,473**	**$ 396,016**
Cash and Cash Equivalents *(Note 3)*		
Unrestricted	$ 204,470	$ 358,144
Current restricted	1,072	2,882
Non-current restricted	42,931	34,990
	$ 248,473	**$ 396,016**

See Notes to Financial Statements.

Statements of Cash Flows, *continued*

(in thousands)	December 31	
	2004	**2003**
Loss from Operations	**$ (95,583)**	**$ (80,432)**
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation	22,956	17,570
Loss on disposal of capital assets	108	-
Changes in Operating Assets and Liabilities		
(Increase) decrease in accounts receivable	(114)	121
Increase in due from other governments	(339)	(1,499)
(Increase) decrease in materials, parts and supplies	(484)	543
Decrease (increase) in prepaid expenses	362	(173)
Increase (decrease) in accounts payable, accrued and other liabilities	3,171	(2,123)
(Decrease) increase in salaries, wages and benefits	(437)	540
Increase in deferred fare pass revenue	204	1,327
Increase in due to other governments	792	1,319
Decrease in loss fund	(7)	(112)
Net Cash Used by Operating Activities	**$ (69,371)**	**$ (62,919)**

(in thousands)	December 31	
	2004	**2003**
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Capital contributions to other governments	$ (99,118)	$ (1,876)
Other capital contributions	26,743	-
Capital asset acquisitions in accounts payable	19,158	15
Promissory note taken back on acquisition of land	5,740	-
Loss on change in interlocal agreement	(4,584)	-
Transfer of assets under lease contract receivable	-	32,386
Interest income from investments held to pay capital leases	1,199	1,115
Deferred lease revenue earned during the year	-	1,125
Interest expense on capital leases	(1,199)	(1,115)
Decrease in fair value of investments	(4,152)	(6,656)

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington (“RCW”) Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, was established in 1993. Sound Transit was formed to implement a high-capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the State of Washington through the design, construction, and implementation of a commuter rail (“Sounder”), light rail (“Link”) and regional express bus system (“ST Express”).

Reporting Entity—Sound Transit is a special purpose government supported primarily through sales taxes, state motor vehicle excise taxes and rental car taxes in Sound Transit’s operating jurisdiction. In addition Sound Transit receives capital funding from federal and state agencies.

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit’s service area. Representation on the board shall include an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely, Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting—The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and methods prescribed by the State Auditor under the authority of RCW Chapter 43.09 for proprietary funds. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board (“FASB”) statements and interpretations have been applied, except for those FASB statements and interpretations that contradict GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenues and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.4% for sales and use, 0.8% on rental car revenues and 0.3% for motor vehicle excise. These taxes are collected on Sound Transit’s behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed. Operating revenues consist primarily of passenger fares and are recognized in the period in which services are provided and 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. Depreciation of capital assets and amortization of deferred revenue is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets—Capital assets are stated at cost, except for donated capital assets which are stated at the fair value on the date of donation. Expenditures for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operations as incurred. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation and the resulting gains or losses are reflected in the Statements of Revenues, Expenses and Changes in Net Assets. Depreciation of capital assets is recorded using the straight-line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

	Estimated Useful Life
Rail access rights	37 years
Buildings	30 years
Transit facilities, rail, and equipment	10–30 years
Park-and-ride lots and shelters	10 years
Revenue vehicles—Cab cars and coach cars	40 years
Revenue vehicles—Locomotives	29 years
Revenue vehicles—Light rail	25 years
Revenue vehicles—Buses	12 years
Furniture and equipment	3–7 years
Administrative vehicles and leasehold improvements	5 years

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other than temporary in nature and result in an impairment of those assets. An impairment is considered to have occurred if there is a decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

All costs directly attributable to capital projects, as well as certain indirect costs that are allocated to the projects based on various applicable factors supporting the overhead rates used, are capitalized. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Rail access rights on the Seattle-to-Tacoma segment were acquired from BNSF in an amount equal to the funding of necessary track and signal improvements on the line. Upon completion of Phase I of the improvements as defined in the construction agreement with BNSF Sound Transit earned the entitlement for three round-trip commuter services between Tacoma and Seattle. Additional round-trips will be earned as other phases under the agreement are completed. All costs incurred were capitalized to capital projects in progress until completion of Phase I, which occurred in December, 2004, upon which they were transferred to depreciable assets. Additional costs will be capitalized to depreciable assets on a quarterly basis.

Interest costs on funds borrowed through tax-exempt debt to finance the construction or acquisition of certain capital assets are capitalized during the period of construction or acquisition and are depreciated over the life of the related assets once placed into service.

Capital Contributions to Other Governments—Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and put into use, at which time it is charged to contributions to other governments.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased, money market funds**,** investments in the Local Government Investment Pool and the King County Investment Pool, which are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively.

Compensated Absences—Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% upon resignation, retirement or death for employees hired before January 1, 2004, and 25% thereafter and is limited to 120 days for termination other than retirement or death.

Environmental Reserves—Environmental liabilities are evaluated at the time of purchase of land and are factored into the purchase price. The estimated cost of remediation is accrued at the time of purchase and relieved as remediation costs are incurred.

Investment Valuation—Investments are stated at fair value based on quoted market prices, as available.

Operating and Contingency Fund—In accordance with Board policy, Sound Transit maintains a cash reserve based on two months of average annual operating expenses, to be used in the event of budget shortfalls. As this is an internally-restricted cash balance, this balance is included in cash and cash equivalents.

Parts, Materials and Supplies—Parts, materials and supplies are recorded as inventory at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow-moving and obsolete items and any impairment in value is reflected as a charge to operations.

Restricted Assets—Restricted assets are assets restricted by the covenants of long-term financial arrangements. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

Revenue and Expense Classification—Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger and fare integration services in connection with Sound Transit's principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit's operating expenses include labor, materials, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications—Certain reclassifications have been made to the 2003 Financial Statements to conform to the current year's presentation.

***Risk Management*—**Risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters are accrued at estimated award or settlement when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Subarea Accounting—Sound Transit allocates equity to each of the included jurisdictions in accordance with *Sound Move* and established policies. Presentation of such allocation is not a required disclosure under accounting principles generally accepted in the United States of America. Accordingly, a separate unaudited report and Schedule of Subarea Equity is issued.

Use of Estimates—The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC"). Cash held in the Local Government Investment Pool and the King County Investment Pool are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools, together with the qualified money market mutual fund, represent an interest in a group of securities and have no specific security subject to custodial risk.

Through its asset liability management policy, Sound Transit manages its exposure to fair value losses arising from increasing interest rates by matching its portfolio to cash flow requirements and by limiting the modified duration of fixed income securities in its investment portfolios to establish benchmarks (+/- 0.25%). Modified duration estimates the sensitivity of a bond's price to interest rate changes. At December 31, 2004, benchmark duration for Sound Transit's unrestricted portfolio was 1.09 and its restricted portfolio was 0.55. Actual modified duration by investment type is presented in the table on the following page.

All short-term cash surplus is invested in accordance with an investment policy approved by Sound Transit's Board, which has been certified by the Municipal Treasurer's Association and is in compliance with state law. Qualifying investments include obligations of the United States government, treasury and Agency securities, banker acceptances, certificates of deposit, commercial paper and repurchase agreements. Additionally, the investment policy sets forth maximum concentration guidelines whereby no single agency exceeds 50.0%, or 10.0% for certificates of deposit, banker acceptances, repurchase agreements, general obligation bonds and A1/P1 commercial paper. Treasury securities may comprise up to 100% of the portfolio, as well as participation in the Washington State Treasurer's Local Government Investment Pool. Participation in the King County Investment Pool is limited to 50.0%.

All Agency securities are rated AAA, the Certificate of Deposit is covered by the PDPC and the taxable municipal bonds are rated AAA. The King County Investment Pool is unrated and all deposits not covered by the FDIC are covered by the PDPC. Investments are held by Sound Transit's custodial bank as agent for the Agency.

Cash, cash equivalents, investments and restricted assets are as follows (modified duration in years):

(in thousands)	2004				2003	
	Cost	**Fair Value**	**Modified Duration**	**% of Portfolio**	**Cost**	**Fair Value**
Deposits and Investments						
US agency securities						
Federal Farm Credit Bank	$ 46,803	$ 46,450	1.095	11.37%	$ 9,715	$ 9,731
Federal Home Loan Bank	103,242	102,740	0.949	25.16%	124,223	125,094
Federal Home Loan Mortgage Corporation	27,199	27,093	0.566	6.63%	40,814	40,972
Federal National Mortgage Association	138,813	137,765	0.973	33.74%	200,111	200,573
Student Loan Marketing Association	-	-	0.000	0.00%	15,032	15,205
US treasury securities	44,920	44,625	0.994	10.93%	29,973	30,114
Certificates of deposits	8,000	8,000	1.140	1.96%	13,000	13,000
Taxable municipal bonds	1,250	1,250	0.000	0.31%	1,250	1,278
Repurchase agreement	630	630	0.000	0.15%	-	-
FDIC or PDPC insured bank deposits	39,815	39,815	0.000	9.75%	30,299	30,299
	410,672	408,368	0.861	100.00%	464,417	466,266
Cash and Cash Equivalents						
King County Investment Pool	181,813	181,158	0.680		314,900	316,033
Washington State Local Government Investment Pool	27,414	27,414			44,621	44,621
Qualified money market fund	-	-			5,014	5,014
Cash on hand	86	86			49	49
	209,313	208,658			364,584	365,717
Other Restricted Assets						
Deductible liability protection policy	6,799	6,799			6,792	6,792
Interest receivable on restricted investments	1,166	1,166			1,158	1,158
	7,965	7,965			7,950	7,950
Total Cash, Cash Equivalents, Investments and other Restricted Assets	$ 627,950	$ 624,991			$ 836,951	$ 839,933
Balance Sheet Classifications						
Cash and cash equivalents		$ 204,470				$ 358,144
Current restricted assets:						
Cash equivalents		1,072				2,882
Deductible liability protection policy		6,799				6,792
		7,871				9,674
Investments		250,462				263,926
Non-current restricted assets:						
Cash Equivalents		42,931				34,990
Investments		118,091				172,041
Other assets		1,166				1,158
		162,188				208,189
		$ 624,991				**$ 839,933**

4. RECEIVABLES

Receivables consist of the following:

(in thousands)	December 31 2004	December 31 2003
Taxes receivable	$ 46,801	$ 42,393
Grants receivable	25,982	4,282
Accounts receivable*	7,249	5,545
Due from Other Governments	5,504	6,382
Interest receivable	2,242	3,629
Lease contract receivable	23	-
	$ 87,801	**$ 62,231**

*Net of allowance for doubtful accounts of $22 thousand ($21 thousand in 2003).

Amounts due from other governments include amounts due under the Puget Pass regional fare program, amounts reimbursable under interlocal agreements for operating expenses or capital contributions for transit facilities and betterments. Payment terms are generally defined in the various agreements with other governments and range from 21 days to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31 2002	Additions	Transfers and Retirements	December 31 2003	Additions	Transfers and Retirements	December 31 2004
Non-Depreciable Assets							
Land	$ 121,515	$ 50,344	$ -	$ 171,859	$ 82,014	$ (6,771)	$ 247,102
Permanent easements	-	79,057	-	79,057	79,041	-	$ 158,098
Capital Projects in Progress							
Sound Transit	554,821	313,565	(243,390)	624,996	436,768	(371,424)	690,340
Other Governments	47,649	57,574	(297)	104,926	66,417	(91,629)	79,714
Total Non-Depreciable Assets	**723,985**	**500,540**	**(243,687)**	**980,838**	**664,240**	**(469,824)**	**1,175,254**
Depreciable Assets							
Transit facilities, rail and heavy equipment	101,907	103,217	-	205,124	9,282	(978)	213,428
Rail access rights	-	-	-	-	198,958		198,958
Buildings and leasehold improvements	22,760	-	-	22,760	139	-	22,899
Revenue vehicles	157,530	40,350	-	197,880	25,106	-	222,986
Furniture, equipment and vehicles	10,381	623	(17)	10,987	1,828	(25)	12,790
Equipment under capital lease	470	165	(28)	607	658	(308)	957
Total Depreciable Assets	**293,048**	**144,355**	**(45)**	**437,358**	**235,971**	**(1,311)**	**672,018**
Accumulated Depreciation							
Transit facilities and heavy equipment	(5,895)	(6,593)	-	(12,488)	(9,853)	141	(22,200)
Rail access rights	-	-	-	-	(456)	-	(456)
Buildings and leasehold improvements	(2,911)	(974)	-	(3,885)	(991)	-	(4,876)
Revenue vehicles	(18,755)	(8,147)	-	(26,902)	(9,619)	-	(36,521)
Furniture, equipment and vehicles	(5,773)	(1,729)	5	(7,497)	(1,892)	15	(9,374)
Equipment under capital lease	(319)	(127)	27	(419)	(144)	309	(254)
Total Accumulated Depreciation	**(33,653)**	**(17,570)**	**32**	**(51,191)**	**(22,955)**	**465**	**(73,681)**
Depreciable Assets, Net	**259,395**	**126,785**	**(13)**	**386,167**	**213,016**	**(846)**	**598,337**
Total Capital Assets, Net	**$ 983,380**	**$ 627,325**	**$ (243,700)**	**$ 1,367,005**	**$ 877,256**	**$ (470,670)**	**$ 1,773,591**

During 2004, Sound Transit substantially completed $99.1 million in projects which were ultimately owned by other governmental entities pursuant to capital improvement agreements. Completed projects included Bellevue and Lynnwood HOV Accesses. The costs of these completed projects are included in contributions to other governments in the statements of Revenues, Expenses and Changes in Net Assets.

During 2003, Sound Transit relieved capital projects in progress of $1.9 million with respect to easements to the Kent Station, granted to the City of Kent, and the Link E-3 Busway project, granted to Seattle City Light and City of Seattle, as well as a payment to the City of Lakewood for street improvements around the future Lakewood Station. These amounts have been recorded as contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2004 and 2003, Sound Transit capitalized $17.1 million of interest costs, representing all of the interest incurred on its Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 (see Note 8).

6. CAPITAL AND OPERATING LEASES

Capital leases are comprised of the following:

(in thousands)	**2004**	**2003**
Lease/leaseback	$ 57,856	$ 56,657
Copier leases	756	200
	58,612	56,857
Less current portion	(266)	(109)
	$ 58,346	**$ 56,748**

Lease/Leaseback—On May 31, 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the “headlease”) to an investor and simultaneously subleased the vehicles back (the “sublease”). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The headlease and sublease have been recorded as capital leases for accounting purposes.

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit’s obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining $5.3 million was retained by Sound Transit and recorded as non-operating revenues in the year ended December 31, 2001. Subsequent to the receipt of these funds, certain associated closing costs of $363 thousand were disbursed, leaving a net benefit to Sound Transit of $4.9 million, which was included in capital lease revenues in 2001.

The amounts invested are considered uncategorized investments. The net present value of the future sublease payments has been recorded as a long-term capital lease obligation. The underlying investments have been structured to meet all future obligations under the sublease when due, and as such, have been recorded to equal the sublease obligations on the accompanying balance sheet.

Net changes in the sublease are shown in the following table:

(in thousands)	2004	2003
Net sublease, January 1	$ 56,657	$ 55,542
Accrued interest	4,241	4,157
Less payment	(3,042)	(3,042)
Net Sublease, December 31	**$ 57,856**	**$ 56,657**

Copier Leases—Sound Transit entered into a master lease agreement in 1998 for the acquisition of copiers. The lease is classified as a capital lease for accounting purposes and the copiers were recorded as assets with a corresponding long-term liability, which is equal to the present value of future lease payments. Sound Transit records lease payments as reductions of the long-term liability and as interest expense over the life of the lease.

Future payments under the copier lease obligations are shown in the following table:

(in thousands)	December 31 2004
2005	$ 288
2006	151
2007	149
2008	149
2009	103
Total minimum lease payments	840
Amounts representing interest	84
Present value of lease obligations	756
Less current portion	(266)
Long-term portion	**$ 490**

Amtrak Lease/Sublease—In September 2000, Sound Transit entered into a 40-year agreement to lease its locomotives, passenger coaches and cab cars (“rolling stock”) to the National Railroad Passenger Corporation (“Amtrak”) for $1. Under the agreement Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak’s maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement which it had entered into with the Burlington Northern & Santa Fe Railroad (“BNSF”) in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak’s behalf for Sound Transit, Amtrak entered into a 40-year sublease of the rolling stock to BNSF for a nominal rental payment of $1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes, and Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

Operating Rentals—Sound Transit leases office space adjacent to Union Station, in Seattle's Rainier Valley district and in Tacoma under noncancelable operating leases with lease terms expiring in 2005 through 2010. Minimum lease payments through 2009 are as follows:

Operating Rentals, commitments next 5 years:

(in thousands)	
2005	$ 1,227
2006	881
2007	930
2008	1,042
2009	1,067
	$ 5,147

Total rental payments for 2004, which include non-cancelable operating leases as well as other month-to-month rentals, was $1.4 million, of which $73 thousand was capitalized to capital projects in progress. Total payments for 2003 were $2.1 million, of which $138 thousand was capitalized.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	**2004**	**2003**
Accounts payable	$ 31,648	$ 14,937
Accrued liabilities	11,754	7,355
Due to other governments	28,816	25,116
Accrued salaried, wages and benefits	1,613	2,441
Retainage payable	263	299
	$ 74,094	**$ 50,148**

8. LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2003 Beginning Balance	Additions	Reductions	2004 Ending Balance	Amounts Due within One Year
Bonds payable:					
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999	$ 350,000	$ -	$ -	$ 350,000	$ -
Plus unamortized premium	5,202	-	(438)	4,764	-
Less unamortized discount	(7,811)	-	378	(7,433)	-
Total bonds payable	**$ 347,391**	**$ -**	**$ (60)**	**$ 347,331**	**$ -**

(in thousands)	2002 Beginning Balance	Additions	Reductions	2003 Ending Balance	Amounts Due within One Year
Bonds payable:					
Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999	$ 350,000	$ -	$ -	$ 350,000	$ -
Plus unamortized premium	5,640	-	(438)	5,202	-
Less unamortized discount	(8,188)	-	377	(7,811)	-
Total bonds payable	**$ 347,452**	**$ -**	**$ (61)**	**$ 347,391**	**$ -**

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999—On January 6, 1999, Sound Transit issued Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 in the amount of $350 million. These bonds are dated December 1, 1998, and are tax exempt. The average life of these bonds is 22.5 years with an average coupon rate of 4.88% and an effective rate of 4.87%. Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements. At December 31, 2004 and 2003, cash restricted for debt service totaled $7.2 million. Principal payments are due February 1 of each year starting February 1, 2006. Proceeds from this bond issue have been used for capital projects in Link, Sounder and ST Express.

The fair value of long-term debt was $367.4 million and $363.5 million as of December 31, 2004 and 2003, respectively. This fair value was estimated using quoted market prices.

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999. Debt service requirements to maturity.

Year Ending December 31	Principal	*(in thousands)* Interest	Total
2005	$ -	$ 17,164	$ 17,164
2006	4,270	17,078	21,348
2007	4,445	16,904	21,349
2008	4,620	16,720	21,340
2009	4,810	16,499	21,309
2010-2014	28,065	78,390	106,455
2015-2019	50,105	69,674	119,779
2020-2024	127,630	45,943	173,573
2025-2028	126,055	12,333	138,388
	$ 350,000	**$ 290,705**	**$ 640,705**

9. COMPENSATED ABSENCES

Compensated absences are as follows:

(in thousands)		2004		2003
Balance, beginning of year	$	2,412	$	1,754
Additions		2,603		2,141
Reductions		(2,416)		(1,483)
Balance, end of year	$	2,599	$	2,412
Less amounts due within one year		(994)		(949)
Long-term portion	**$**	**1,605**	**$**	**1,463**

Amounts due within one year are included in accrued salaries, wages, and benefits (see Note 7).

10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)		2004		2003
Contractual arrangements	$	156,109	$	203,920
Deductible liability protection policy		6,799		6,792
	$	**162,908**	**$**	**210,712**

11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System ("PERS"). In 1999, the Washington State Legislature amended the laws governing PERS, requiring employers either to terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date are eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2004, there was one employee participating in PERS (three employees at December 31, 2003 and four employees at December 31, 2002).

A summary of the 401(a) Plan is as follows:

401(a) Plan—A defined contribution money purchase plan and trust was established for the Agency in 1994 with the adoption of Board Resolution No. 32. This was amended by Resolution No. 100 in 1997 to recognize the contribution made to Sound Transit by its employees. The ICMA Retirement Corporation administers the Central Puget Sound Regional Transit Authority Pension Plan and serves as the plan's trustee. This plan is a fixed employer system, and membership in the system includes all full-time Sound Transit employees and elected officials. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Any eligible employee who was employed on the effective date of this plan was eligible to participate in the plan. Any other eligible employee shall be eligible to participate on the first day of employment.

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payroll. The amount of covered payroll during 2004 and 2003 was $24.9 million and $21.3 million, respectively, and total payroll was $25.5 million and $21.8 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2004, 2003 and 2002 are as follows:

	Contribution Rate			Contributions *(in thousands)*		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Employer	12%	12%	12%	$2,985	$2,562	$2,148
Employee	10%	10%	10%	2,488	2,135	1,790
Total	**22%**	**22%**	**22%**	**$5,473**	**$4,697**	**$3,938**

12. RISK MANAGEMENT

In the ordinary course of its normal operations, Sound Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management program, utilizing the purchase of commercial insurance that has in force first-level coverage for property, liability, employment practices and crime and fidelity to provide protections from these exposures. Such coverage includes self-insured, per claim retention insignificant to Sound Transit's risk of loss. There have been no changes to the policy since inception and no settlements have exceeded coverage under the plan.

Sound Transit has also established an Owner-Controlled Insurance Program ("OCIP") for all general liability claims by third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. This commercially-procured insurance program includes a self-insured retention level of $500 thousand per claim. This program covers construction projects from January 1, 2001, through December 31, 2006, and all premium payments under the policy have been prepaid.

In addition, Sound Transit has also entered into a deductible liability protection policy to supplement the self-insured retention portion of the OCIP. Under this policy the probable maximum claims exposure, estimated at $6.5 million, has been deposited with the insurer in an interest-bearing loss fund account.

13. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements—In 2004, Sound Transit entered into five year agreements which expire September 2009 with Community Transit, King County Department of Transportation and Pierce Transit ("purchased transportation providers") to operate its ST Express public transportation service within Sound Transit's service area. For the remainder of 2004, the service was compensated based on hourly rates established within the agreements, generally utilizing equipment provided by Sound Transit. Effective January 1, 2005, through the end of the agreement, service will be compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

Notes to Financial Statements, continued

Sound Transit also entered into 40-year agreements in May of 2000 with BNSF and Amtrak for the operations and maintenance of its Sounder commuter rail service. Under the BNSF agreement, Sound Transit pays in accordance with an hourly rate schedule per train mile that is based on the number of trains per day. Under the Amtrak agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips. See related agreements described in Note 7: *Amtrak Lease/Sublease*.

Agreements with BNSF for Sounder Commuter Rail Service in the Seattle-to-Everett and Lakewood-to-Tacoma Corridors—On December 18, 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements for commuter rail service between Seattle and Everett, the purchase of railroad right-of-way between Tacoma and Nisqually for service and station improvements, terms for joint use of the railroad right of way, and the purchase of operation services in each corridor.

The acquisition of the easements and property occur over a four-year payment period. The first easement in the Seattle-to-Everett corridor closed in December 2003, and the second easement closed in December 2004, each in exchange for a payment of $79.0 million, and allowing the operation of one round trip commuter train service between Seattle and Everett. Also in December of 2003, Sound Transit paid BNSF $3.6 million for the purchase of certain parcels of property that will become part of the Lakeview Station and South Tacoma Station and $4.4 million as a non-refundable deposit for the purchase of railroad right of way on the BNSF's Lakeview Subdivision. In September 2004, Sound Transit closed on the purchase of the section of the Lakeview Subdivision between Tacoma and Lakewood (the "North Line"). Sound Transit paid BNSF $6 million and made a promissory note in the amount of $6 million payable to BNSF in September 2006. This note has been discounted based on the Agency's cost of two-year borrowing.

The acquisition of the remaining easements in the Seattle-to-Everett corridor will close as follows:

	Closing Date	Due on Closing
3rd Easement	December, 2006	$50 million
4th Easement	December, 2007	$50 million

Each easement allows the addition by Sound Transit of one round trip commuter train service. Closing by Sound Transit on the third and fourth easements are conditioned upon the lack of a determination that certain permits for improvements that BNSF is designing to construct are highly unlikely to be issued. If this condition is not met, Sound Transit has the option to not close with no additional payment due and no additional train service beyond that provided by prior accepted easements.

The easement acquisition agreements also contain post-closing options for Sound Transit for the resale of the second, third and fourth easements to BNSF should it appear that permitting will not be allowed. These options may be exercised as follows:

	Earliest Exercise Date	Latest Exercise Date	Exercise Price
2nd Easement	November, 2006	November, 2010	$27.5 million
3rd Easement	December, 2008	December, 2012	$50 million
4th Easement	December, 2009	December, 2013	$50 million

The acquisition of the section of the Lakeview Subdivision between Lakewood and Nisqually (the "South Line") is conditioned upon the results of due diligence investigation of the related properties.

The acquisition of the North Line occurred in September 2004, in exchange for a payment of $6 million and a promissory note payable to BNSF in September 2006, in the amount of $6 million. This note has been discounted based on the Agency's cost of two-year borrowing.

Subject to acceptable due diligence results, the South Line's closing date is anticipated to occur in September, 2006. At that time, $6 million will be due upon closing along with another promissory note on the North Line in the amount of $6 million payable in September, 2007. Should Sound Transit proceed with the acquisition of the South line, total payments in respect of the Nisqually-to-Tacoma corridor under the agreement to BNSF are $32 million, including interest on the promissory notes.

The Joint-Use Agreement for the Seattle-to-Everett corridor provides the mechanisms for determining the cost to Sound Transit for the maintenance of way and rehabilitation activities on the corridor. The Joint Use Agreement also provides the conditions necessary to be satisfied by Sound Transit (such as the acquisition of certain environmental permits) before it may use its commuter rail easements. The Joint-Use Agreement for the Lakewood-to-Tacoma corridor sets forth the cost to BNSF for the maintenance of way and rehabilitation activities on the corridor, and Sound Transit's and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. Initially, BNSF will retain all maintenance activities associated with the line. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

The Everett-to-Seattle Commuter Rail Service Agreement set forth the terms for the actual operation of the commuter trains by BNSF and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service between Seattle and Everett. The compensation is structured to provide flat rates for maintenance and crews with inflation adjusters plus performance incentives after the initial pre-construction period. The term of the agreement is for 12 years with an option of five additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long-term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, provided Sound Transit eventually operates in the corridor.

***Purchases*—**At December 31, 2004 and 2003, Sound Transit had outstanding commitments of approximately $910.7 million and $298.5 million, respectively.

***Grants*—**Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2004, and 2003, may be impaired. In the opinion of management, there are no significant contingent liabilities relating to non-compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

***Reservation Junction to Freighthouse Square*—**Sound Transit completed construction of the Reservation Junction to Freighthouse Square project in September 2003; however, ongoing settlement of the embankment raised stability and safety concerns. Sound Transit retained independent engineers to evaluate the embankment and they recommended remedial measures to stabilize the embankment, which were completed in 2004.

Sound Transit has reserved its rights to claim for the costs of evaluating the embankment and the remediation work from the responsible parties and will defend any claims brought by the engineering firms. Mediation is scheduled for June, 2005 to address Sound Transit's claims of approximately $8.4 million against the design and construction firms arising from remediation of the embankment and counterclaims in the amount of $1 million from the design and construction teams and the general contractor. Costs in the amount of $1.0 million have been recorded in accounts receivable.

The City of Tacoma has also submitted a contract claim against Sound Transit for liquidated damages of $1.8 million for “interruption of service” under the Construction Agreement between the City and Sound Transit. In spite of its claim, the City of Tacoma continues to operate over the segment in question. Sound Transit disputes and will vigorously defend against the City’s claim.

The claim includes additional work that may still be required on the embankment that may cost $0.5 to $1.0 million and would be part of Sound Transit’s claim against the contractor, design and engineering firms. The claims are expected to be covered under Sound Transit’s OCIP insurance policy, the deductible of which has been accrued in the accounts of the Agency.

Claims—In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Although the ultimate effect, if any, of these matters is not presently determinable, management believes that collectively they will not have a material effect on the results from operations or the Balance Sheets. In addition, Sound Transit has been named in the following legal actions:

Pierce County, City of Tacoma, King County, Sound Transit, et al v. State of Washington, King County Superior Court

The defendant/interveners contend that Sound Transit is not a validly-formed government and is not entitled to impose the 0.3% motor vehicle excise tax authorized and imposed pursuant to RCW 81.104.160 and that Initiative 776 (I-776) repealed Sound Transit’s ability to collect the tax. These claims were dismissed last year and are now pending appeal. In the event the defendant/ interveners are unsuccessful and Sound Transit is legally entitled to continue to collect the tax through 2028 (because the Agency pledged to collect the tax to repay outstanding 30-year bond debt sold before I-776 was enacted), then the defendant/interveners alternatively seek a court order defining what limits apply to Sound Transit’s ability to collect or use the tax.

The Washington State Attorney General by and large opposed the defendant/interveners’ arguments and filed a legal brief to the Court supporting Sound Transit’s ability to collect and use the tax. Sound Transit intends to vigorously defend against these claims that Sound Transit cannot collect the tax because it is not a validly-formed government and does not believe the claim is likely to prevail.

Sheehan, et .al., v. Sound Transit and Seattle Popular Monorail Authority, King County Superior Court

Plaintiffs filed suit on March 10, 2004, and contend that the 0.3% motor-vehicle excise tax imposed by Sound Transit and the Seattle Popular Monorail Authority are illegal *ad valorem* property taxes. Plaintiffs also alleged that the MVET exceeded the legislative authority granted and were otherwise preempted by state laws. Plaintiffs seek to enjoin Sound Transit from collecting the tax and seek a refund of prior taxes paid by the plaintiffs and other taxpayers. In August, 2004 the trial court ruled in Sound Transit’s favor, finding that the MVET is a legally authorized excise tax and dismissed the case. The plaintiffs appealed the ruling, and the appeal is ongoing.

Sound Transit plans to vigorously defend against the lawsuit. Based on the Washington Supreme Court precedent finding that the tax is a legally imposed tax, we do not believe that the plaintiffs are likely to prevail.

14. SUBSEQUENT EVENTS

Issuance of Sales Tax Bonds, Series 2005A—On March 31, 2005 Sound Transit issued $422.8 million in Sales Tax Bonds, Series 2005A. The bonds were issued to fund a portion of Sound Transit's Phase 1 capital program for Link light rail, Sounder commuter rail and ST Express capital programs. The bonds were issued on a subordinate basis to the Agency's $350,000,000 Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999, and Sound Transit has covenanted to impose the sales tax at a rate of not less than 0.4% and to impose the rental car tax at a rate of not less than 0.8% for so long as any bonds remain outstanding, except that Sound Transit may reduce the sales tax rate under certain circumstances as described in the Parity Bond Resolution.

The bonds received an underlying rate of Aa3 (Moody's Investor Services) and AA- (Standard and Poor's). The average stated interest costs of the bonds are 4.9%. The Agency established a $39.5 million reserve for the bonds, consistent with the Parity Bond Resolution. Interest payments for 2005 will be $12.1 million. In addition, the Agency's senior lien bonds, Series 1999, were upgraded from a rating of A1 to Aa3 (Moody's Investor Services).

Substitute Community Development Fund Agreement between Sound Transit and the City of Seattle -- On April 27, 2005, Sound Transit executed a substitute Community Development Fund Agreement which replaces the Community Development Fund agreement executed in 2002. Under the substitute agreement, the City of Seattle and King County funding commitments are maintained; however, certain aspects with respect to the timing and source of the funding were changed, including the elimination of the "Utility Plan, Schedule and Work" in the 2002 agreement. With the elimination of the Utility Plan, there is no longer an obligation by the City of Seattle to reimburse Sound Transit for utility work incurred and, accordingly, the amounts previously receivable under the agreement have been charged to other expenses in 2004 as a Change In Interlocal Agreement in the amount of $4.6 million. Future funding commitments are decreased as a result of entering into the substitute agreement.