



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

*Single Audit Reports for the  
Year Ended December 31, 2014*



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## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

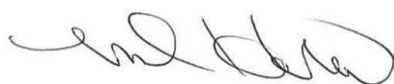
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from its accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates 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 2014 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.



Michael Harbour  
*Acting Chief Executive Officer*



Brian McCartan  
*Chief Financial Officer*



Kelly A. Priestley  
*Controller*

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## *Management's Discussion and Analysis, continued*

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the years ended December 31, 2014 and 2013**

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Sound Transit for the years ended December 31, 2014 and 2013. 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 notes to the financial statements as a whole.

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). Established by the legislature in 1993, in 1996, voters approved *Sound Move* – a ten year regional transit system plan, which authorized tax collections for funding of its operations and the first set of regional transit projects. In 2008, the region's voters approved *ST2*, a 15-year program authorizing substantial additions to bus and commuter rail service, as well as 36 miles of new Link light rail service. The final elements of Sound Move will be completed with the opening of University Link and South 200<sup>th</sup> Extension and plan elements for ST2 are well underway. Sound Transit has begun the planning process for the next phase (ST3) for building out the regional high-capacity transit system that voters could consider as early as November 2016.

Sound Transit's financial statements reflect a growth in net position of \$617.6 million in 2014, as the Agency continues to build out its capital program approved in the Sound Move and ST2 voter-approved plans. System expansion continues in all corridors (North, South and East) and across all modes, most significantly light rail. Net loss from operations, also referred to as an operating subsidy, was comparable to 2013, while ridership increased 8.7%. The capital program and operating subsidy are funded through sales and use, rental car and motor vehicle excise taxes.

### **Financial Highlights**

- Total operating revenues were \$66.1 million for 2014, an increase of 3.3% from the prior year. Ridership increased as the regional economy grew and congestion increased. Passenger fare revenue increased by \$3.2M or 5.7% as overall ridership grew 8.7%, with Link and Sounder ridership growing by 11.4% and 11.9% respectively.
- Loss from operations was \$275.5 million for 2014, which was slightly lower than in 2013.
  - Operations and maintenance expenses increased by 5.1% from 2013 reflecting increased costs for purchased transportation, fare collection, mid-life and vehicle maintenance and increased head count in support of operations, maintenance and administration.
  - Fare and regional planning costs increased by \$3.8 million as work began on ST3 planning for future expansion along high capacity transit corridors.
  - Depreciation expense decreased by \$18.0 million as the downtown tunnel access rights were determined to have continued value past 2014.
- Non-operating revenues, net of expenses, were \$699.0 million, a 22.8% increase from 2013 reflecting increased tax revenues, positively impacted by regional growth. Other significant changes

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## ***Management's Discussion and Analysis, continued***

in 2014 included increased investment income as the investment portfolio was positively impacted by market valuation, as well as lower interest expense and contributions to other governments.

- Capital contributions from federal, state and local funding arrangements were \$194.1 million, an increase of 21.4% from 2013 most significantly related to federal funding received for University Link, East Link Extension and for the completed D to M Street project.
- Total net position at December 31, 2014 was \$5.9 billion, an increase of \$617.6 million or 11.7% from 2013 primarily related to the Agency's increased investment in its capital assets, net of related debt.
- Total capital assets, net of accumulated depreciation and amortization, were \$6.5 billion at December 31, 2014, an increase of \$675.8 million or 11.6% from 2013, reflecting increased land acquisition and planning and construction activity on light rail expansion projects.

## **Overview of the Financial Statements**

Sound Transit's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). The 2014 and 2013 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, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of Sound Transit are included in the Statements of Net Position and depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

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 position, segregated by net investment in capital assets, restricted and unrestricted. Net position is the difference between Sound Transit's assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 Position**

Sound Transit's total net position at December 31, 2014 was \$5.9 billion, an increase of \$617.6 million or 11.7% from 2013. Total assets increased \$571.8 million or 8.2% while total liabilities decreased 2.8%. The increase in total assets reflects capital program spending, most significantly for Northgate Extension, University Link, East Link Extension and the South 200th Link Extension expansion projects. See the following table for a summary of Sound Transit's net position.



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

### Statement of Net Position

(in millions)	2014	December 31 2013	2012	% Change	
				2014-2013	2013-2012
<b>Assets</b>					
Current assets, excluding restricted assets	\$ 872.3	\$ 979.2	\$ 1,008.6	(10.9)%	(2.9)%
Restricted assets	91.4	86.3	96.8	5.9	(10.8)
Capital assets	6,527.0	5,851.2	5,373.7	11.6	8.9
Other non-current assets	71.8	74.0	64.4	(3.0)	14.9
<b>Total assets</b>	<b>7,562.5</b>	<b>6,990.7</b>	<b>6,543.5</b>	<b>8.2</b>	<b>6.8</b>
<b>Deferred Outflows of Resources</b>	<b>26.8</b>	<b>30.3</b>	<b>35.6</b>	<b>(11.6)</b>	<b>(14.8)</b>
<b>Liabilities</b>					
Current liabilities, excluding interest payable from restricted assets	203.4	210.7	176.3	(3.4)	19.4
Interest payable from restricted assets	19.1	19.6	19.3	(2.5)	1.3
Long-term debt	1,419.5	1,461.8	1,503.2	(2.9)	(2.8)
Other long-term liabilities	65.0	64.3	64.4	1.1	0.2
<b>Total liabilities</b>	<b>1,707.0</b>	<b>1,756.4</b>	<b>1,763.2</b>	<b>(2.8)</b>	<b>(0.4)</b>
<b>Net Position</b>					
Net investment in capital assets	5,099.4	4,384.9	3,873.8	16.3	13.2
Restricted net position	70.6	68.2	76.6	3.6	(10.9)
Unrestricted net position	712.3	811.6	865.5	(12.2)	(6.2)
<b>Total net position</b>	<b>\$ 5,882.3</b>	<b>\$ 5,264.7</b>	<b>\$ 4,815.9</b>	<b>11.7%</b>	<b>9.3%</b>

Current assets, excluding restricted assets, decreased 10.9% from 2013 and by 2.9% between 2013 and 2012 as the Agency funded its design and construction activities. Restricted assets increased \$5.1 million or 5.9% from 2013 due to an increase in contractual obligations reflective of the increased activity of the Agency and includes the establishment of a benefit trust for its employees. Restricted assets remain lower than in 2012 as in 2013 with the disbursement in 2013 of the Amtrak lease/sublease escrow account, upon satisfactory completion of related contractual obligations (see note 6).

Capital assets increased 11.6% from 2013 and by 8.9% between 2013 and 2012 as planning and construction spending continued on ST2 light rail expansion projects as well as on the Sounder and ST Express capital programs, and rehabilitation and replacement fleet activities. Total capital project spending for 2014 was \$806.1 million (2013 was \$658.1 million) reflecting the increased activity of the Agency due to construction and tunneling ramping up on Northgate Link Extension, planning and land acquisitions on East Link Extension and continued activity on the University Link and South 200th Link extensions. Combined spending for Northgate Link Extension and University Link was \$448.8 million or 55.7%, while in 2013 their combined spending was \$274.0 or 41.6% of total capital project spending, with Northgate Link Extension representing only 11.9% of total capital project spending in 2013.

In all, total capital spending for light rail was \$702.4 million or 87.1% of total capital spending (\$535.2 million or 81.3% in 2013). Capital spending on Sounder and ST Express projects combined, as a percentage of total capital spending, was 7.7% and 4.4% respectively (14.2% and 3.3% in 2013). Spending in 2013 included the acquisition from BNSF of the final easement for service in the Seattle to Tacoma corridor.

Transfers out of capital projects in progress were \$81.6 million (\$210.3 million in 2013) as projects were completed and transferred to property, transit facilities, and vehicles or expensed as indicated in the following table. Significant transfers and contributions in 2014 included the land acquired for East Link

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

(\$29.5 million) and funding for City of Seattle's First Hill Street Car (\$26.1 million). In 2013, significant transfers and contributions included land acquired for East, North and South Link Extensions, acquisition of locomotives and buses and funding for First Hill Street Car.

### Transfers Out of Capital Projects in Progress

(in millions)	For the Year Ended December 31		
	2014	2013	2012
Transferred to property, vehicles and equipment	\$ 53.7	\$ 144.2	\$ 241.2
Contributions to other governments	27.9	66.1	70.4
<b>Total</b>	<b>\$ 81.6</b>	<b>\$ 210.3</b>	<b>\$ 311.6</b>

Other non-current assets decreased 3.0% from 2013 reflecting amortization of the prepaid owner controlled insurance program (OCIP). In 2013, other non-current assets increased 14.9% from 2012 due to payments made for the North Link OCIP. Deferred outflows of resources decreased 11.6% from 2013 and 14.8% from 2012 as the deferred amount on the advanced refunding of the 2005A bonds in 2012 is amortized over the bonds' remaining life.

Total liabilities remain comparable to prior years with the most significant fluctuation in current liabilities, excluding interest payable from restricted assets, which decreased 3.4% from the prior year. While lower than 2013, current liabilities, excluding interest payable from restricted assets, remain above 2012 levels. Given the nature of the large capital program, fluctuations are expected depending upon the timing of work. Long-term debt decreased in years 2014 and 2013 as principle payments were made on outstanding bond issues.

Sound Transit's net position represents the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions. Net investment in capital assets reflects investment in construction in progress, non-depreciable assets and depreciable assets, net of related debt used in its operations. Restricted net position comprises assets net of liabilities restricted for a specific purpose by a third party. Unrestricted net position is the remainder of assets net of liabilities not invested in capital nor restricted for a specific purpose.

### Net Position

(in millions)	December 31			% Total Net Position		
	2014	2013	2012	2014	2013	2012
Net investment in capital assets	\$ 5,099.4	\$ 4,384.9	\$ 3,873.8	86.7%	83.3%	80.4%
Restricted net position	70.6	68.2	76.6	1.2	1.3	1.6
Unrestricted net position	712.3	811.6	865.5	12.1	15.4	18.0
<b>Total</b>	<b>\$ 5,882.3</b>	<b>\$ 5,264.7</b>	<b>\$ 4,815.9</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Net investment in capital assets increased 16.3% from 2013 and 13.2% between 2013 and 2012 reflecting spending on the capital program in both years. Restricted net position in 2014 is comparable to the prior year, however, decreased between 2013 and 2012 as the Amtrak lease/sublease escrow requirements were satisfied. Unrestricted net position commensurately decreased in 2014 and 2013 as Sound Transit's investment in capital assets increased.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

### Changes in Net Position

Changes in net position reflect the excess of revenue over expenses for a year. In 2014, revenues exceeded expenses by \$617.6 million, or 11.7% (\$448.8 million or 9.3% in 2013), most significantly impacted by higher non-operating revenues (taxes and investment income), lower non-operating expenses (interest expense and contributions to other governments), and capital contributions (federal funding). Sound Transit's Statement of Revenue, Expenses and Changes in Net Position is summarized in the table below.

<b>Changes in Net Position</b>					
<i>(in millions)</i>					
	<b>For the Year Ended December 31</b>			<b>% Change</b>	
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2014-2013</b>	<b>2013-2012</b>
<b>Operating revenues</b>					
Passenger fares	\$ 60.1	\$ 56.9	\$ 54.1	5.7%	5.3%
Other	6.0	7.1	3.9	(15.6)	81.4
<b>Total operating revenues</b>	<b>66.1</b>	<b>64.0</b>	<b>58.0</b>	<b>3.3</b>	<b>10.4</b>
<b>Operating expenses</b>					
Total operating expenses, before depreciation and loss on disposal of assets	240.8	225.6	216.4	6.8	4.3
Depreciation and loss on disposal of assets	100.8	118.8	117.5	(15.2)	1.1
<b>Total operating expenses</b>	<b>341.6</b>	<b>344.4</b>	<b>333.9</b>	<b>(0.8)</b>	<b>3.2</b>
<b>Loss from operations</b>	<b>(275.5)</b>	<b>(280.4)</b>	<b>(275.9)</b>	<b>(1.8)</b>	<b>1.6</b>
Non-operating revenues, net of expenses	699.0	569.4	534.9	22.8	6.4
<b>Income before capital contributions</b>	<b>423.5</b>	<b>289.0</b>	<b>259.0</b>	<b>46.6</b>	<b>11.6</b>
Capital contributions	194.1	159.8	131.3	21.4	21.7
<b>Change in net position</b>	<b>617.6</b>	<b>448.8</b>	<b>390.3</b>	<b>37.6</b>	<b>15.0</b>
Total net position, beginning	5,264.7	4,815.9	4,425.6	9.3	8.8
<b>Total net position, ending</b>	<b>\$ 5,882.3</b>	<b>\$ 5,264.7</b>	<b>\$ 4,815.9</b>	<b>11.7%</b>	<b>9.3%</b>

### Operating Revenues

Operating revenues are composed of passenger fares and other revenue related to operations, such as advertising, rental of transit facilities to other transit agencies, and operating contributions from local, state and federal sources.

### Passenger Fare Revenue

Passenger fares are derived from the sale of Sounder commuter rail and Central Link tickets at ticket vending machines (TVMs), fare box receipts on ST Express, and use of One Regional Card for All (ORCA) products on all modes. Fares are charged on each service, except Tacoma Link. Sound Transit experienced growth in passenger fare revenue of 5.7% and 5.3% in 2014 and 2013, respectively, due to ridership growth in both years. ST Express is the largest revenue-generating mode providing 56.2% of total passenger fare revenue compared to Link and Sounder commuter rail providing 26.4% and 17.4% of

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

total passenger fare revenue, respectively. The effect of each component on passenger fare revenue is discussed in the sections below.

The following table displays passenger fare revenue by mode.

<b>Passenger Fare Revenue</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
ST Express	\$ 33.8	\$ 32.6	\$ 30.6	3.8%	6.6%
Link	15.9	14.9	14.0	6.9	6.1
Sounder	10.4	9.4	9.5	10.4	(1.1)
<b>Total</b>	<b>\$ 60.1</b>	<b>\$ 56.9</b>	<b>\$ 54.1</b>	<b>5.5%</b>	<b>5.3%</b>

### **Ridership**

Sound Transit provided 33.0 million rides in 2014, an increase of 8.7% from 2013 as continued economic growth and increased congestion contributed to increased ridership on all modes. Additional changes in ridership by mode are discussed below.

ST Express ridership increased 6.4% in 2014 and 3.7% in 2013. ST Express service is at or near capacity on several routes during peak periods, however, service redeployments in 2014 and 2013 from off-peak to peak hours to address peak service crush load conditions increased capacity during high demand periods. Additionally, ST ridership continues to be favorably impacted by improved economic conditions, increased congestion and Express Bus service reductions of other local service providers in the Everett – Seattle, Seattle – Bellevue and Tacoma – Seattle corridors.

Link consists of Central Link, a 15.6-mile service that began in 2009 and Tacoma Link a 1.6-mile service connecting Tacoma Dome station to downtown Tacoma. Link ridership increased 11.4% from 2013 and 9.8% between 2013 and 2012 as Central Link continues to mature and attract riders, regional growth spurs demand and service promotion efforts led to changes in commute patterns converting riders from other service providers displaced by service reductions in the light rail corridor.

In 2014, Sounder commuter rail ridership increased 11.9% from 2013, reflecting job growth, increased congestion and increased capacity from the additional round trip added on the Seattle-Tacoma corridor in October 2013. Ridership in 2013 increased by 6.8% from 2012, due in large part to the full year impact of the service on the Tacoma – Lakewood segment, which opened in October 2012 and brought new riders to the service.

A summary of the ridership by year and mode of transportation are as follows:

<b>Ridership</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
ST Express	17.7	16.6	16.0	6.4%	3.7%
Link	11.9	10.7	9.7	11.4	9.8
Sounder	3.4	3.0	2.8	11.9	6.8
<b>Total</b>	<b>33.0</b>	<b>30.3</b>	<b>28.5</b>	<b>8.7%</b>	<b>6.1%</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Management's Discussion and Analysis, continued*

### **Average Fare per Boarding**

The combined average fare per boarding (AFB) decreased \$0.06 or 3.3% from 2013 and by \$0.08 or 3.7% from 2012. Decreases in AFB in 2014 are a result of increased usage of monthly and annual fixed rate passes for all modes, although less significantly on Sounder where ridership patterns are less variable, as well as increased day pass usage on Central Link. Decreases in the AFB from 2012 to 2013 resulted from the elimination of the downtown Seattle ride free area in September of 2012 as revenue sharing increased between services and other ORCA service providers. The AFB on ST Express, while favorably impacted by rail transfers, was negatively impacted by increased lower fare ridership within the downtown area, as well as from the conversion of passengers from other service providers using fixed price fare products (business passport and Puget Pass).

<b>Average Fare per Boarding</b>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
ST Express	\$ 1.92	\$ 1.96	\$ 2.00	(2.7)%	(1.7)%
Link	1.45	1.53	1.61	(5.5)	(4.8)
Sounder	3.11	3.12	3.38	(1.4)	(7.6)
<b>Combined average fare per boarding</b>	<b>\$ 1.88</b>	<b>\$ 1.94</b>	<b>\$ 2.02</b>	<b>(3.3)%</b>	<b>(3.7)%</b>

### **Other Operating Revenues**

Other operating revenues consist of vehicle advertising, insurance recoveries, rental of facilities, operating grants and other miscellaneous revenue. Other operating revenues decreased by \$1.1 million or 15.6% from 2013 due to lower insurance recoveries. In 2013, other operating revenues increased by \$3.2 million, primarily due to the receipt of a full year of WSDOT operating grant funding for transit, which commenced December 2012.

### **Operating Expenses**

Operating expenses are comprised of operations and maintenance costs, general and administrative, fare and regional planning, and depreciation and amortization. Major operations and maintenance expense categories consist of services, materials, utilities, insurance, taxes, and purchased transportation, allocated overhead from general and administrative divisions and operating leases and rentals. Purchased transportation includes amounts paid to Community Transit, King County Department of Transportation (DOT) and Pierce Transit who operate Sound Transit's express bus service and King County DOT Rail Division, which operates the Central Link light rail and associated paratransit services and to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 61.0% of this category in 2014 (62.0% in 2013). Services are the next largest expenditure category and include the Sounder vehicle maintenance contracted to Amtrak and various contracts for facilities maintenance and security at Sound Transit owned and shared facilities. Services were 19.4% in 2014 (18.2% in 2013) of total operating and maintenance expenses.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

The following two sections discuss changes in operating expenses, first by function, then by mode.

#### **Operations and Maintenance Expenses by Function**

Operations and maintenance expenses by function are classified using National Transit Database definitions as prescribed by the Federal Transit Administration into vehicle operations, vehicle maintenance and non-vehicle maintenance. Vehicle operations expenses consist of costs to dispatch and operate vehicles while in revenue service, including security and fare collection. Vehicle maintenance expenses include costs associated with ensuring the revenue vehicles are operational, fueled, inspected and repaired. Non-vehicle maintenance expenses include costs necessary to ensure buildings, equipment, and transit structures and systems are operational.

Operations and maintenance expenses increased \$10.0 million or 5.1% in 2014 and by \$6.1 million or 3.2% in 2013, reflecting increased costs related to purchased transportation rates and service hours, increased ridership driven fare transactional costs, and increased mid-life and vehicle maintenance. Service hours were impacted by traffic congestion, increasing travel time. See the following table for operating and maintenance expenses by function.

<b>Operations and Maintenance Expenses by Function</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
Vehicle operations	\$ 123.7	\$ 123.3	\$ 117.4	0.3%	5.1%
Vehicle maintenance	48.0	46.5	44.9	3.2	3.7
Non-vehicle maintenance	35.7	27.6	29.0	29.6	(5.1)
<b>Total</b>	<b>\$ 207.4</b>	<b>\$ 197.4</b>	<b>\$ 191.3</b>	<b>5.1%</b>	<b>3.2%</b>

Vehicle operations expenses increased \$0.4 million or 0.3% in 2014 due to increased ST Express operator rates and increased costs in support of fare collection and other transit systems as ridership and transaction volume increased. Vehicle operations expenses increased \$5.9 million or 5.1% in 2013 with the expansion of service on the Sounder commuter rail South Line, full year operation of service from Tacoma – Lakewood that opened October 2012, increased ST Express operator rates, and increased security costs on all modes.

Vehicle maintenance expenses increased \$1.5 million or 3.2% from 2013. This increase reflects higher maintenance costs for the bus fleet as the average age increases, the use of high capacity buses that have a higher cost to maintain, the full year impact of the additional round-trip of Sounder service in the South corridor and increased costs related to use of the Amtrak Holgate facility. In 2013, vehicle maintenance expenses increased by \$1.6 million with the deployment of three additional locomotives into revenue service, as well as increased service levels on the Seattle – Lakewood commuter rail corridor.

Non-vehicle maintenance expenses increased \$8.1 million or 29.6% from 2013, due in large part to a number of mid-life refurbishment projects at stations. In 2013, non-vehicle maintenance expenses decreased \$1.4 million or 5.1% from 2012 due to a recovery of costs related to the 2012 copper wire theft from the light rail system, as well as less cost was incurred for light rail overhead catenary and fare collection system maintenance. These lower costs more than offset increases related to the full year effect of commuter rail right of way maintenance expenses for Tacoma – Lakewood Sounder service and

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

Downtown Seattle Transit Tunnel (DSTT) maintenance costs as King County Metro reduced its usage of the DSTT with the closure of the downtown Seattle ride free area in October 2012.

#### **Operations and Maintenance Expenses by Mode**

The following table presents operating and maintenance expenses by mode:

<b>Operations and Maintenance Expenses by Mode</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
ST Express	\$ 107.9	\$ 104.1	\$ 101.5	3.7%	2.6%
Link	60.6	56.3	56.5	7.7	(0.4)
Sounder	38.9	37.0	33.3	5.1	11.3
<b>Total</b>	<b>\$ 207.4</b>	<b>\$ 197.4</b>	<b>\$ 191.3</b>	<b>5.1%</b>	<b>3.2%</b>

ST Express operations and maintenance costs increased \$3.8 million or 3.7% from 2013 (\$2.6 million or 2.6% from 2012) as purchased transportation contract costs for operations and vehicle maintenance increased across all operators and mid-life station refurbishments. The 2013 modal expenses for ST Express reflect extension of Route 592 from DuPont to Olympia in partnership with Intercity Transit, establishment of new routes in Pierce County and the full year effect of increased DSTT maintenance costs with the elimination of the downtown Seattle ride free area reducing King County Metro usage of the DSTT by 6%.

Link operations and maintenance expenses include both Central Link and Tacoma Link light rail, which increased \$4.3 million or 7.7% in 2014, reflecting increased purchase transportation rates and fare collection costs on Central Link related to ridership increases. Expenses in 2013 were comparable to those of 2012 and included a recovery for the copper wire theft.

Sounder commuter rail operations and maintenance costs increased \$1.9 million or 5.1% in 2014 due to the full year effect of providing additional service under the fourth and final additional BNSF easement in the South corridor, maintaining three additional locomotives added to provide service to Lakewood in 2012 and additional facility costs at the Amtrak Holgate yard. In 2013, Sounder commuter rail operations and maintenance costs increased \$3.7 million or 11.3% from 2012 due to increases in Amtrak vehicle maintenance, right of way maintenance and BNSF purchased transportation costs with the operation of a full year of service from Tacoma - Lakewood that opened October 2012.

#### **General and Administrative**

General and administrative expenses comprise of staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include salaries, benefits, services and professional fees, and other expenses. General and administrative expenses increased in 2014 by \$1.5 million or 6.7%, this is primarily related to an increase in leased office and managed property costs and higher information technology administrative costs. In 2013, general and administrative expenses decreased by \$1.0 million or 4.0% as overall increases in administrative support related to information technology, human resources and legal were offset by increased capitalization of administrative expenses performed in support of the ST2 capital program.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

#### **General and Administrative Expenses**

<i>(in millions)</i>			% Change		
	2014	2013	2012	2014-2013	2013-2012
Salaries	\$ 11.0	\$ 10.6	\$ 11.9	3.5%	(11.2)%
Benefits	6.6	6.0	6.5	9.5	(7.4)
Services and professional fees	3.8	3.2	2.2	18.8	45.5
Other	2.2	2.3	2.5	(5.9)	(4.6)
<b>Total</b>	<b>\$ 23.6</b>	<b>\$ 22.1</b>	<b>\$ 23.1</b>	<b>6.7%</b>	<b>(4.0)%</b>

Salaries and benefits increased \$1.0 million or 6.0% from 2013 as additional staff were added to support human resources, information technology, outreach and marketing. In 2013, salaries and benefits decreased \$1.8 million or 9.8% from 2012 as increases in administrative staffing were offset by an increase in salaries and wages capitalized to North Link and East Link light rail expansion projects, which were in final design in 2013. Projects in design phases require greater staff labor support than projects in construction as construction management is typically secured through service contracts. Further contributing to the decrease is the start of ST3 planning activities that shifted salaries and related benefits to regional planning activities from general Agency support.

Services and professional fees increased \$0.6 million or 18.8% in 2014 due to higher information technology maintenance and consulting service costs and fees related to the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan application. In 2013, services and professional fees increased by \$1.0 million or 45.5% as the Agency undertook initiatives for records management, used outside recruiters to assist with senior staff vacancies and incurred TIFIA loan application fees. In addition, software maintenance costs and property insurance premiums were higher in 2013 than in prior years.

Other expenses are comparable between years.

#### **Fare and Regional Planning**

Fare and regional planning expense includes regional fare planning, policy research and development, and planning with regional agencies to develop new markets and policies regarding regional and system-wide projects and issues. In 2014, fare and regional planning expense was \$9.8 million, an increase of \$3.8 million from that of 2013, reflecting increased ST3 planning efforts for future expansion of the regional transit system along high capacity transit corridors. Fare and regional planning expense in 2013 was \$6.0 million, an increase of \$4.0 million from that of 2012 as ST3 planning for future expansion of the regional transit system along high capacity transit corridors began.

#### **Depreciation and Amortization**

Depreciation and amortization comprises non-cash expenses that reflect the reduction in the value of capital assets over time. In 2014, depreciation and amortization decreased \$18.0 million or 15.2% as certain asset rights were determined to benefit beyond the original anticipated agreement life and the cost related to those assets is now depreciated over a longer period. Depreciation and amortization was comparable between 2013 and 2012.



## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

#### **Non-Operating Revenues (Expenses)**

Net non-operating revenues increased by \$129.6 million or 22.8% in 2014, reflecting increased tax revenues and investment income as well as lower interest expense and contributions to other governments. Tax revenues are the largest component of non-operating revenues (expenses). In 2013, the higher non-operating revenues (expenses) reflected increased tax revenues, as the regional economy continued to grow from the recession, which ended in 2009.

<b>Non-operating Revenues and Expenses</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change</b>	
				<b>2014-2013</b>	<b>2013-2012</b>
<b>Non-operating revenues</b>					
Sales and use tax	\$ 639.9	\$ 594.1	\$ 551.9	7.7%	7.6%
Motor vehicle excise tax	74.2	69.1	65.8	7.3	4.9
Rental car tax	3.1	2.8	2.5	12.0	9.2
Investment income (loss)	14.7	(4.9)	12.2	(401.2)	(140.2)
Other revenues	6.6	6.8	7.4	(3.7)	(7.0)
<b>Total</b>	<b>738.5</b>	<b>667.9</b>	<b>639.8</b>	<b>10.6</b>	<b>4.4</b>
<b>Non-operating expenses</b>					
Interest expense	2.6	25.0	32.0	(89.7)	(21.9)
Contributions to other governments	30.9	71.1	70.4	(56.5)	0.9
Other expenses	6.0	2.6	2.4	130.8	9.6
Gain (loss) on disposal of asset	-	(0.2)	0.1	(98.6)	(233.7)
<b>Total</b>	<b>39.5</b>	<b>98.5</b>	<b>104.9</b>	<b>(59.9)</b>	<b>(6.2)</b>
<b>Non-operating revenues, net</b>	<b>\$ 699.0</b>	<b>\$ 569.4</b>	<b>\$ 534.9</b>	<b>22.8%</b>	<b>6.4%</b>

Sales and Use tax revenues increased by 7.7% in 2014 and 7.6% in 2013, positively impacted by economic conditions. Results for 2012 include additional revenue for prior years from the Department of Revenue's Amnesty Program; otherwise, the increase in 2013 from 2012 would have been higher. Motor Vehicle Excise and Rental Car Sales tax revenues increased by 7.3% and 4.9% in 2014 and 2013, respectively, as consumers purchased new vehicles and additional rental car services. As the Motor Vehicle Excise Tax is computed on the depreciated vehicle value, the purchasing of new cars results in a higher collected motor vehicle excise tax.

Investment income, net of unrealized changes in fair market value, increased by \$19.6 million (decreased by \$17.1 million in 2013) due to a positive adjustment when valuing the Agency's investments at fair market value. In 2013, the Agency recorded a negative adjustment of \$12.9 million. Other revenues were comparable for 2014, 2013 and 2012.

Interest expense decreased \$22.4 million in 2014 and \$7.0 million between 2013 and 2012, as the amount of interest capitalized increased in line with increased capital spending on light rail expansion projects. In 2014, interest incurred was \$67.7 million, and \$65.1 million capitalized, and in 2013 interest incurred was \$70.4 million and \$45.4 million capitalized.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

Contributions to other governments are pursuant to capital improvement or funding agreements and are dependent upon the timing and scope of project activities. As such, they may experience significant fluctuations from year to year. In 2014, capital contributions were \$30.9 million as compared to \$71.1 million in 2013. This is primarily related to contributions to the City of Seattle for the construction of First Hill Street Car. Capital contributions in 2013 were comparable to 2012 and included contributions for the construction of First Hill Street Car and to the City of Renton for major arterial improvements.

### **Capital Contributions**

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2014 by \$34.3 million or 21.4%, as spending increased on the Agency's capital program. The following table summarizes capital contributions by major category.

<b>Capital Contributions</b>					
<i>(in millions)</i>					
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>% Change 2014-2013</b>	<b>2013-2012</b>
Federal	\$ 184.6	\$ 146.7	\$ 127.7	25.8%	14.9%
State and local governments	9.5	13.1	3.6	(27.6)	261.6
<b>Total</b>	<b>\$ 194.1</b>	<b>\$ 159.8</b>	<b>\$ 131.3</b>	<b>21.4%</b>	<b>21.7%</b>

Federal capital contributions increased \$37.9 million in 2014, reflective of project spending on University Link, East Link Extension and bus replacements. Sound Transit also received pass-through federal funds for the permanent Tukwila Commuter Rail Station and funding for the completed D to M Street project. Federal capital contributions increased \$19.0 million in 2013 for East Link Extension design and Northgate Extension construction costs, which more than offset lower contributions received in 2013 for the University Link project.

State and local government contributions decreased \$3.6 million from 2013, which was \$9.5 million higher than 2012. In 2014, state and local government contributions included funding from the Regional Mobility Grant Program for bus replacements and South 200<sup>th</sup> Link Extension. In 2103 however, the higher capital contributions included access rights acquired from WSDOT for the Northgate Extension, obtained on a non-cash basis through the Land Bank Agreement (see also note 12).

### **Capital Assets**

As of December 31, 2014, Sound Transit had invested \$6.5 billion in capital assets, net of accumulated depreciation and amortization, which included \$3.2 billion of depreciable assets in service. This represents a \$675.8 million or 11.6% increase over 2013 and reflects capital project spending for light rail capital expansion in all corridors, Sounder and Regional Express. Capital projects in progress (CIP) increased \$724.5 million or 43.2%, while other non-depreciable assets increased \$33.2 million or 3.5% and depreciable assets decreased \$81.9 million or 2.5%. A summary of Sound Transit's capital assets are presented in the following table.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Management's Discussion and Analysis, continued

### Capital Assets, net

(in millions)	December 31			% Change	
	2014	2013	2012	2014-2013	2013-2012
Land	\$ 485.2	\$ 455.1	\$ 418.0	6.6%	8.9%
Permanent easements	488.2	485.1	428.4	0.6	13.2
Capital projects in progress	2,403.4	1,678.9	1,231.1	43.2	36.4
<b>Total non-depreciable assets</b>	<b>3,376.8</b>	<b>2,619.1</b>	<b>2,077.5</b>	<b>28.9</b>	<b>26.1</b>
Buildings, transit facilities & heavy equipment	2,295.1	2,334.8	2,384.6	(1.7)	(2.1)
Access rights	393.4	414.1	430.3	(5.0)	(3.8)
Revenue vehicles	456.6	480.2	478.7	(4.9)	0.3
Software, furniture, equipment & vehicles	5.1	3.0	2.6	68.9	16.7
<b>Total depreciable assets</b>	<b>3,150.2</b>	<b>3,232.1</b>	<b>3,296.2</b>	<b>(2.5)</b>	<b>(1.9)</b>
<b>Total capital assets, net</b>	<b>\$ 6,527.0</b>	<b>\$ 5,851.2</b>	<b>\$ 5,373.7</b>	<b>11.6%</b>	<b>8.9%</b>

Land increased \$30.1 million in 2014 and \$37.1 million in 2013 related to right of way acquisitions for East Link Extension in 2014 and the East Link, South 200<sup>th</sup> and Northgate Extension projects in 2013.

The 2014 value of permanent easements was comparable to 2013. However, it increased by \$56.7 million in 2013 from 2012 with the acquisition of the final easement from BNSF to operate an additional round trip in the Sounder Seattle -Tacoma corridor.

CIP had a net increase of \$724.5 million in 2014 (\$447.8 million in 2013). Total capital project spending was \$806.1 million in 2014, an increase of 22.5% from 2013 resulting from increased tunneling and construction activity on the Northgate Extension, land acquisition and final design for East Link and preliminary design work for the Lynnwood Link Extension, while construction continued on University Link and South 200<sup>th</sup> Extension. Transfers out of CIP decreased 61.2% from 2013 as no major project entered revenue service in 2014. Total capital spending was \$658.1 million in 2013, an increase of 19.4% from 2012, as construction began on the South 200<sup>th</sup> and Northgate extensions of light rail and progress continued on East Link final design and University Link construction. Capital projects that incurred major spending activity in 2014 and 2013 are summarized in the following table.

Major Capital Project Activities from 2014 and 2013			
	Sounder	Link	ST Express
<b>2014</b>	<ul style="list-style-type: none"> <li>Sounder South Expanded Service</li> <li>Sounder ST2 Fleet Expansion</li> <li>Tukwila Station</li> </ul>	<ul style="list-style-type: none"> <li>East Link (Downtown to Bellevue)</li> <li>First Hill Street Car</li> <li>Link Operations &amp; Maintenance Satellite Facility</li> <li>Noise Abatement</li> <li>Lynnwood Link Extension (Northgate to Lynnwood)</li> <li>Northgate Extension (UW Station to Northgate)</li> <li>South 200<sup>th</sup> Extension (176th to 200th)</li> </ul>	<ul style="list-style-type: none"> <li>Rainier Avenue Arterial Improvements</li> <li>I-90 2-Way Transit &amp; HOV Operations Stage 3</li> </ul>

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Management's Discussion and Analysis, continued*

		<ul style="list-style-type: none"> <li>University Link (PSST to UW Station)</li> <li>University Link Stations (UW and Capitol Hill)</li> </ul>	
2013	<ul style="list-style-type: none"> <li>Sounder South Expanded Service</li> <li>Sounder ST2 Fleet Expansion</li> <li>Tukwila Station</li> </ul>	<ul style="list-style-type: none"> <li>East Link (Downtown to Bellevue)</li> <li>First Hill Street Car</li> <li>Link O&amp;M Satellite</li> <li>Link Noise Abatement</li> <li>Lynnwood Extension (Northgate to Lynnwood)</li> <li>Northgate Extension (UW Station to Northgate)</li> <li>South 200<sup>th</sup> Extension (176<sup>th</sup> to 200<sup>th</sup>)</li> <li>University Link (PSST to UW Station)</li> <li>University Link Stations (UW and Capitol Hill)</li> </ul>	<ul style="list-style-type: none"> <li>Rainier Avenue Arterial Improvements</li> <li>I-90 2-Way Transit &amp; HOV Operations Stage 3</li> </ul>

No major project went into service in either 2014 or 2013 resulting in a decrease in the value, net of depreciation, access rights, buildings, transit facilities and heavy equipment in both years. In 2014, revenue vehicles' annual depreciation exceeded additions. Software, furniture, equipment and administrative vehicles, net of depreciation, increased by \$2.1 million in 2014 as technology hardware infrastructure was upgraded and replaced. In 2013, revenue vehicles, net of depreciation, increased as three locomotives were purchased for expansion of Sounder South line service from Seattle to Lakewood, as well as, 19 hybrid replacement buses.

See note 5 to the Financial Statements for additional information about Sound Transit's capital assets.

### **Long-Term Debt**

Sound Transit issued no debt in 2014 and 2013. In 2012, Sound Transit issued two series of bonds with a par value of \$313.7 million refunding a majority of its 2005A Series bonds in advance of their 2030 maturity date. This resulted in total debt defeasement of \$350.6 million. No additional debt was incurred on the refunding. The bonds were issued at a premium of \$59.1 million for net proceeds before bond issuance costs of \$372.8 million. Total bond issuance costs were \$0.4 million.

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 1.5% of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60.0% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5.0% of the value of taxable property within the service area. Based on the 2013 assessed valuations for collection of 2014 taxes, Sound Transit's current non-voter approved remaining debt capacity is \$4.8 billion and its additional remaining debt capacity subject to voter approval is \$19.3 billion.

Sound Transit's 2014 bond credit ratings remained unchanged from those of 2013. All outstanding prior and parity bond issuances are rated Aa1 and Aa2, respectively, by Moody's and AAA by Standard & Poor's (S&P).

## *Management's Discussion and Analysis, continued*

### **Economic Conditions**

Sound Transit's 2014 tax revenues increased 7.7% over prior year, reflecting a healthy regional economy. Over the course of 2014, regional employment increased 2.9%, while the unemployment rate fell to 5.1%, 0.6% points below the national rate. Inflation for the region has been moderate at 1.8%.

Taxable retail sales, which generate approximately 89.3% of total tax revenue, exhibited particularly strong growth in the construction and manufacturing sectors, up 11% and 22%, respectively, over prior years. The core retail trade sector, which generates approximately 41% of Sound Transit's taxable retail sales, grew 5% over the prior year.

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KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## **Independent Auditors' Report**

Audit and Reporting Committee  
Central Puget Sound Regional Transit Authority:

We have audited the accompanying financial statements of the 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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Sound Transit's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### ***Other Matter***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015 on our consideration of Sound Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sound Transit's internal control over financial reporting and compliance.

**KPMG LLP**

May 22, 2015



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## STATEMENTS OF NET POSITION

(in thousands)

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	\$ 120,806	\$ 93,313
Restricted assets (note 3)	57,613	55,139
Investments (note 3)	534,537	694,620
Taxes and other receivables (note 4)	197,913	172,648
Inventory	10,817	10,850
Prepaid expenses and deposits	8,240	7,755
<b>Total current assets</b>	<b>929,926</b>	<b>1,034,325</b>
<b>Non-current assets</b>		
Capital assets, net (note 5)	6,527,029	5,851,210
Restricted assets (note 3)	33,797	31,203
Investment held to pay capital lease obligation (note 6)	60,270	59,532
Prepaid expense and deposits	11,482	14,470
<b>Total non-current assets</b>	<b>6,632,578</b>	<b>5,956,415</b>
<b>Total assets</b>	<b>7,562,504</b>	<b>6,990,740</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on debt refunding	26,808	30,336
<b>Total Deferred Outflows of Resources</b>	<b>26,808</b>	<b>30,336</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Cash overdraft	3,046	5,699
Accounts payable and accrued liabilities (note 7)	159,634	166,066
Unearned revenue	5,339	4,559
Interest payable from restricted assets	19,075	19,573
Current portion, long-term debt (note 8)	34,985	33,545
Other claims and short-term obligations	430	819
<b>Total current liabilities</b>	<b>222,509</b>	<b>230,261</b>
<b>Non-current liabilities</b>		
Long-term debt (note 8)	1,419,466	1,461,765
Capital lease obligations (note 6)	60,270	59,532
Other long-term obligations (note 9)	4,785	4,843
<b>Total non-current liabilities</b>	<b>1,484,521</b>	<b>1,526,140</b>
<b>Total liabilities</b>	<b>1,707,030</b>	<b>1,756,401</b>
<b>Commitments contingencies and subsequent event (notes 6, 9, 11, 12 and 13)</b>		
<b>NET POSITION</b>		
Net investment in capital assets	5,099,386	4,384,889
Restricted (note 10)	70,638	68,193
Unrestricted	712,258	811,593
<b>Total net position</b>	<b>\$ 5,882,282</b>	<b>\$ 5,264,675</b>

See accompanying notes to financial statements.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)

	December 31	
	2014	2013
<b>Operating revenues</b>		
Passenger fares	\$ 60,180	\$ 56,944
Other operating revenue	5,951	7,051
<b>Total operating revenues</b>	<b>66,131</b>	<b>63,995</b>
<b>Operating expenses</b>		
Vehicle operations	123,740	123,336
Vehicle maintenance	48,006	46,540
Non-vehicle maintenance	35,676	27,524
General and administrative	23,636	22,147
Fare and regional planning	9,771	6,006
Depreciation, amortization and accretion	100,776	118,833
<b>Total operating expenses</b>	<b>341,605</b>	<b>344,386</b>
<b>Loss from operations</b>	<b>(275,474)</b>	<b>(280,391)</b>
<b>Non-operating revenues (expenses)</b>		
Sales tax	639,890	594,022
Motor vehicle excise tax	74,166	69,095
Rental car tax	3,092	2,761
Investment income (loss)	14,758	(4,900)
Other revenues	6,593	6,848
Contributions to other governments	(30,942)	(71,079)
Interest expense	(2,582)	(24,993)
Other expenses	(5,946)	(2,576)
Gain on disposal of assets	2	180
Impaired projects	(27)	-
<b>Total non-operating revenues, net</b>	<b>699,004</b>	<b>569,358</b>
<b>Income before capital contributions</b>	<b>423,530</b>	<b>288,967</b>
Federal capital contributions	184,595	146,718
State and local capital contributions	9,482	13,088
<b>Total capital contributions</b>	<b>194,077</b>	<b>159,806</b>
<b>Change in net position</b>	<b>617,607</b>	<b>448,773</b>
<b>Total net position, beginning of year</b>	<b>5,264,675</b>	<b>4,815,902</b>
<b>Total net position, end of year</b>	<b>\$ 5,882,282</b>	<b>\$ 5,264,675</b>

See accompanying notes to financial statements.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## STATEMENTS OF CASH FLOWS

(in thousands)

	December 31	
	2014	2013
<b>Cash flows from operating activities</b>		
Cash receipts from fares	\$ 60,528	\$ 56,908
Cash receipts from other operating revenue	6,003	7,044
Payments to employees for wages and benefits	(28,655)	(24,259)
Payments to suppliers	(84,461)	(84,882)
Payments to transportation service providers	(124,103)	(124,062)
<b>Net cash used by operating activities</b>	<b>(170,688)</b>	<b>(169,251)</b>
<b>Cash flows from non-capital financing activities</b>		
Taxes received	708,806	657,721
Tax collection fees paid	(2,713)	(2,559)
Cash overdraft position to be (funded) financed	(2,653)	3,004
<b>Net cash provided by non-capital financing activities</b>	<b>703,440</b>	<b>658,166</b>
<b>Cash flows from capital and related financing activities</b>		
Capital contributions from grants	180,097	135,021
Proceeds from sale of asset	1,976	1,585
(Payments) proceeds for betterments and recoverable costs	(993)	68
Payments for bond principal	(33,545)	(33,250)
Payments for OCIP premiums	(5,448)	(16,292)
Payment for interest and arbitrage	(68,761)	(65,931)
Payments to employees capitalized to capital projects in progress	(44,177)	(43,042)
Payments to suppliers for capital activities	(672,193)	(485,579)
Purchase of property	(32,160)	(41,693)
<b>Net cash used by capital and related financing activities</b>	<b>(675,204)</b>	<b>(549,113)</b>
<b>Cash flows from investing activities</b>		
Investment income	9,301	10,361
Proceeds from sales or maturities of investments	237,313	215,545
Purchases of investments	(73,784)	(153,005)
<b>Net cash provided by investing activities</b>	<b>172,830</b>	<b>72,901</b>
<b>Net increase in cash and cash equivalents</b>	<b>30,378</b>	<b>12,704</b>
<b>Cash and cash equivalents</b>		
Beginning of year	155,459	142,755
<b>End of year</b>	<b>\$ 185,837</b>	<b>\$ 155,459</b>
<b>Cash and cash equivalents (note 3)</b>		
Unrestricted	\$ 120,806	\$ 93,313
Current restricted	56,617	54,137
Non-current restricted	8,414	8,009
	<b>\$ 185,837</b>	<b>\$ 155,459</b>

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS, continued

(in thousands)

	December 31	
	2014	2013
<b>Loss from operations</b>	<b>\$ (275,474)</b>	<b>\$ (280,391)</b>
<b>Adjustments to reconcile loss from operations to net cash used by operating activities</b>		
Bad debt (recovery) expense	(11)	15
Depreciation, amortization and accretion	100,776	118,833
Materials allowance and equipment expense	-	(375)
<b>Changes in operating assets and liabilities</b>		
(Decrease) in other receivables	(1,661)	(4,156)
(Increase) decrease in inventory	(23)	767
Decrease (increase) in prepaid expenses and deposits	256	(119)
Decrease (increase) in accounts payable and accrued liabilities	5,076	(2,171)
Increase in unearned revenue	780	624
(Decrease) in other current liabilities	(407)	(2,278)
<b>Net cash used by operating activities</b>	<b>\$ (170,688)</b>	<b>\$ (169,251)</b>

(in thousands)

	December 31	
	2014	2013
<b>Supplemental disclosures of non-cash operating, investing and financing activities</b>		
Capital contributions to other governments	\$ (27,852)	\$ (66,052)
Capital (donation) contributions from Land Bank	(4)	12,150
Capitalization of airspace access rights	-	12,150
Capitalization of rotatable parts	178	11
Construction in progress in current liabilities	109,740	121,105
Increase (decrease) in fair value of investments	7,014	(12,908)
Interest expense on capital leases	(4,456)	(4,405)
Interest income from investments held to pay capital leases, net	4,456	4,405
Like-kind land exchange	-	4,580
Spare parts previously capitalized	-	(207)

See accompanying notes to financial statements.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

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### 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 (Sonder), light rail (Link) and regional express bus system (ST Express).

**Reporting Entity**—Sound Transit is a special purpose government supported primarily through Sales and Use tax, Motor Vehicle Excise tax and Rental Car Sales tax assessed in Sound Transit's operating jurisdiction (the District). In addition, Sound Transit receives capital funding from federal, state and local agencies.

Sound Transit is governed by an eighteen-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 includes 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.

Generally accepted accounting principles requires 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 GAAP. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for sales and use, 0.8% on rental car revenue 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.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

Operating revenues are recognized in the period earned and consist of passenger fares, fees earned from the provision of various services to regional transit agencies and income from noncapital grants. Operating 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 Statements of Net Position. Depreciation and amortization of capital assets and amortization of unearned revenue, asset retirement obligations and unearned rent are recognized in the Statements of Revenues, Expenses and Changes in Net Position.

**Capital Assets**— Capital assets are stated at cost, except for capital assets contributed to Sound Transit, which are stated at the fair value on the date of contribution. Expenditures and contributions 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. Depreciation and amortization of capital assets are recorded using the straight-line method applied to each asset over its estimated useful life and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

	<b>Estimated useful life</b>
Access rights	5 – 100 years
Buildings and leasehold improvements	5– 30 years
Furniture, equipment and vehicles	3 – 8 years
Revenue vehicles	12 – 40 years
Software	3 – 5 years
Transit facilities, rail and heavy equipment	6 – 150 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 which could result in an impairment of those assets. Impairment is considered to have occurred if there is a large permanent decline in the asset's service utility 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 measured based on the lower of carrying value or fair value of the affected asset. 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. CIP 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.

Access rights include costs incurred or rights acquired that allow Sound Transit to operate its services in public and private right of ways. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right.

Interest costs on funds borrowed through tax-exempt and taxable 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.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### ***Notes to Financial Statements, continued***

***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 CIP until the asset is substantially completed and accepted, at which time it is charged to contributions to other governments.

***Cash and Cash Equivalents***— Cash and cash equivalents are carried at cost, which approximates fair value. Restricted cash and cash equivalents contain externally imposed legal and contractual obligations, and are classified as current or non-current in accordance with their requirements.

***Compensated Absences***— Vacation leave that has been earned but not paid is accrued. 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 or in accordance with bi-annual elections within established policy. Sick leave is accrued at the rate of 50% of hours worked up to 120 days for employees hired before January 1, 2004 or 25% of accrued hours up to 240 days for employees hired thereafter. Regardless of hire date, sick leave is paid at 50% of the accumulated leave balance upon termination, retirement or death.

***Environmental Remediation Obligations***— Environmental remediation activities are reviewed routinely to determine whether an obligating event, as defined by GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, has occurred, when the liability should be accrued and whether the cost should be expensed or capitalized. Generally such costs are incurred with respect to properties that Sound Transit is preparing for its own use or are required in the construction of its projects and subsequently resold. As such, these costs are recorded as incurred and capitalized to the project. Costs in excess of the property's fair market value, or that do not meet capitalization criteria under generally accepted accounting principles, are expensed as soon as a reasonable estimate can be obtained.

***Inventory***— Inventory includes land held for sale and spare parts and is recorded at the lower of purchased cost or net realizable value. Allowances for excess and obsolete parts are provided for over the estimated useful lives of the related assets for parts expected to be on hand at the date the assets are retired and for spare parts currently identified as excess and obsolete. Allowances are reflected as a charge to operations and are based on management's estimate that is subject to change. As of December 31, 2014 and 2013, inventory reflects an allowance of \$135 thousand.

***Investment Valuation***— Investments are stated at fair value.

***Reclassifications***— Certain reclassifications have been made to the 2013 Financial Statements to conform to the current year's presentation, most significantly the reclassification from long-term to short-term of cash and investments restricted for debt service.

***Reserves***— Sound Transit's financial policies require the Agency to maintain certain internal reserves as follows: an operating expense reserve in the amount of two months average annual spending expenses; a capital replacement reserve supported by a specific investment fund; and an emergency loss fund to cover retention, deductible or excess loss due to uninsured loss or portion of loss. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net position.

***Restricted Net Position***— Restricted net position consists of cash, cash equivalents and investments that contain externally imposed legal and contractual obligations. Assets comprising restricted net position 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.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## ***Notes to Financial Statements, continued***

***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 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, depreciation and amortization, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Central Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Undivided Interests***— Sound Transit participates in a joint operation (or undivided interest), jointly governed with six other agencies for the provision of regional fare collection services (RFCS). Sound Transit reports its undivided interest in assets, liabilities, expenses and revenues of RFCS within its financial statements, as they are specifically identifiable to Sound Transit. RFCS does not meet the definition of a component unit as defined in GASB No. 61 – *The Financial Reporting Entity: Omnibus*.

***Use of Estimates***— The preparation of the financial statements in conformity with GAAP 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**

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased. Cash in the Local Government Investment Pool (LGIP) is managed by the Washington State Treasurer's Office and investments in the King County Investment Pool (KCIP) are managed by the King County Finance Division. The LGIP is invested in a manner generally consistent with Rule 2a-7 money market funds, as currently recognized by the Securities Exchange Commission. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The weighted average maturity of the LGIP portfolio will not exceed 60 days, and a weighted average life will not exceed 120 days and a unit value of \$1. The LGIP and the KCIP represent an interest in a group of securities and have no specific security subject to custodial risk.

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). All deposits not covered by the FDIC are covered by the PDPC.

All surplus cash is invested in accordance with Washington State statute and an asset liability management policy approved by Sound Transit's Board and certified by the Association of Public Treasurers of the United States and Canada. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's policy and monitoring program addresses common deposit and investment risks as described below, with detailed information by investment type presented in the tables that follow. Modified duration is presented in years.

Other restricted non-current investments comprise a deferred compensation plan self-directed by the plan participant and includes money market funds and other eligible investments as authorized by state law. While the investments are currently in Sound Transit's name and available to Sound Transit creditors, the payment of deferred compensation to the participant will be for the resulting value of the self-directed investments. Therefore, the risk of loss has been transferred to the participant.



## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### *Notes to Financial Statements, continued*

**Interest Rate Risk**— Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. For its undesignated and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration estimates the sensitivity of a bond's price to interest rate changes. Modified duration benchmarks for the undesignated fund was 0.64 and for the capital replacement fund was 2.95. For the Prior and Parity Bond Debt Service funds and the University Link OCIP fund, interest rate risk is managed by using the specific identification method.

**Concentration of Credit Risk**— Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines.

<b>Investment Type</b>	<b>Maximum</b>
Treasury securities and investments in the LGIP	100%
Total U.S. Agency securities	75%
Single U.S. Agency	50%
Repurchase agreements, general obligation Bonds, PDPC financial institution sponsored investment accounts	25%
Deposit bank notes	20%
Certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper	10%

**Credit Risk**— Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2014, all Treasury and U.S. Agency securities are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization and all general obligation bonds are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization. After a bond has been purchased, if it is downgraded below one of the three highest ratings, a case-by-case review is conducted to determine the reason for the downgrade and to evaluate whether or not to continue to hold the bond. The LGIP and KCIP are unrated.

**Custodial Credit Risk**— Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the trust or safekeeping department of a financial institution as established by a written third-party safekeeping agreement between Sound Transit and the financial institution.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Notes to Financial Statements, continued*

Cash, cash equivalents, investments and restricted assets consist of the following:

<i>(in thousands)</i>	December 31	
	2014	2013
<b>Cash and cash equivalents</b>		
Washington State Local Government Investment Pool	\$ 117,157	\$ 91,018
FDIC or PDPC insured bank deposits	191	130
Cash on hand	3,458	2,165
	<b>120,806</b>	<b>93,313</b>
<b>Restricted assets - current</b>		
Cash and cash equivalent		
Health reimbursement trust	1,530	-
King County Investment Pool	1,026	1,019
Washington State Local Government Investment Pool	54,061	53,118
	56,617	54,137
Deductible liability protection policy	996	1,002
	<b>57,613</b>	<b>55,139</b>
<b>Investments</b>		
Undesignated	222,897	441,769
Capital replacement	311,640	252,851
	<b>534,537</b>	<b>694,620</b>
<b>Restricted assets - non-current</b>		
Cash and cash equivalents		
Washington State Local Government Investment Pool	410	-
Escrow funds	8,004	8,009
	<b>8,414</b>	<b>8,009</b>
Investments - Debt service and OCIP reserve	25,085	22,962
Investments - Other	134	68
Interest receivable on restricted investments	164	164
	<b>33,797</b>	<b>31,203</b>
<b>Total cash, cash equivalents, investments and restricted assets</b>	<b>\$ 746,753</b>	<b>\$ 874,275</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

Unrestricted investments consist of the following:

(in thousands)	2014			2013		
	Fair value	Modified duration	Percentage of portfolio	Fair value	Modified duration	Percentage of portfolio
<b>Investments – Undesignated</b>						
King County Investment Pool	\$ 159,412	1.23	71.52%	\$ 257,779	1.23	58.34%
U.S. Agency securities:						
Federal Farm Credit Bank	-	-	-	90,070	0.90	20.39
Federal Home Loan Bank	33,459	0.07	15.01	33,918	1.06	7.68
Federal Home Loan Bank						
Mortgage Corporation	15,017	0.90	6.74	34,989	1.25	7.92
Federal National						
Mortgage Association	-	-	-	10,013	1.42	2.27
U.S. Treasury securities	15,009	0.54	6.73	15,000	1.54	3.40
	<b>\$ 222,897</b>	<b>0.99</b>	<b>100.00%</b>	<b>\$ 441,769</b>	<b>1.17</b>	<b>100.00%</b>
<b>Investments – Capital Replacement</b>						
U.S. Agency securities:						
Federal National						
Mortgage Association	\$ 84,410	2.31	27.09%	\$ 84,601	3.20	33.45%
Federal Home Loan Bank						
Mortgage Corporation	97,747	3.44	31.36	65,150	4.00	25.77
Federal Home Loan Bank	38,109	2.86	12.22	26,191	4.13	10.36
Federal Farm Credit Bank	8,627	7.49	2.77	8,841	7.62	3.50
Municipal bonds	56,177	4.09	18.03	55,607	4.64	21.99
U.S. Treasury securities	26,570	2.69	8.53	12,461	1.63	4.93
	<b>\$ 311,640</b>	<b>3.23</b>	<b>100.00%</b>	<b>\$ 252,851</b>	<b>3.89</b>	<b>100.00%</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

Non-current restricted investments consist of the following:

(in thousands)	2014			2013		
	Fair value	Maturity	Call date	Fair value	Maturity	Call date
<b>Debt Service Reserve</b>						
Municipal bonds:						
Georgia State GO Unlimited	\$ 9,551	4/1/2026	4/1/2017*	\$ 8,598	4/1/2026	4/1/2017*
Florida State Public Education BAB	5,560	6/1/2030	6/1/2019*	5,204	6/1/2030	6/1/2019*
Georgia State GO Unlimited BAB	4,708	11/1/2027	11/24/2009*	4,313	11/1/2027	11/24/2009*
Hawaii State GO Unlimited BAB	3,124	2/1/2024	2/18/2010*	2,959	2/1/2024	2/18/2010*
	<b>22,943</b>			<b>21,074</b>		
<b>OCIP Reserve</b>						
U.S. Agency securities:						
Federal National Mortgage Association	1,295	7/15/2022	-	1,148	7/15/2022	-
Federal Home Loan Mortgage Corporation	847	3/15/2023	-	740	3/15/2023	-
	<b>2,142</b>			<b>1,888</b>		
	<b>\$ 25,085</b>			<b>\$ 22,962</b>		
<b>Other</b>						
Mutual fund:						
T.Rowe Price Retirement 2010 Fund	\$ 134	-	-	\$ 68	-	-
	<b>\$ 134</b>			<b>\$ 68</b>		

\* Continuously callable from this date forward

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

#### **4. TAXES AND OTHER RECEIVABLES**

Taxes and other receivables consist of the following:

<i>(in thousands)</i>	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Taxes receivable	\$ 124,828	\$ 116,499
Grants receivable	55,227	41,243
Due from other governments	14,917	12,241
Interest receivable	1,962	2,140
Accounts receivable, net	979	525
	<b><u>\$ 197,913</u></b>	<b><u>\$ 172,648</u></b>

Amounts due from other governments include amounts due under the ORCA program for fare revenues and administration expenses, 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.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

### 5. CAPITAL ASSETS

Capital assets are summarized as follows:

<i>(in thousands)</i>	<b>2014</b>				<b>2014</b>
	<b>Beginning</b>		<b>Disposals /</b>		<b>Ending</b>
	<b>balance</b>	<b>Additions</b>	<b>reductions</b>	<b>Transfers</b>	<b>balance</b>
<b>Non-depreciable assets</b>					
Land	\$ 455,116	\$ -	\$ (1,930)	\$ 32,042	\$ 485,228
Permanent easements	485,106	-	-	3,062	488,168
Capital projects in progress:					
Sound Transit - tangible	1,654,084	759,075	-	(45,856)	2,367,303
Sound Transit - intangible	10,693	9,990	-	(7,842)	12,841
Other governments - tangible	14,105	37,029	(27,852)	-	23,282
<b>Total non-depreciable assets</b>	<b>2,619,104</b>	<b>806,094</b>	<b>(29,782)</b>	<b>(18,594)</b>	<b>3,376,822</b>
<b>Depreciable assets</b>					
Access rights	577,069	-	-	(8,175)	568,894
Buildings and leasehold improvements	28,848	-	(227)	74	28,695
Furniture, equipment and vehicles	9,771	-	(401)	3,828	13,198
Revenue vehicles	637,993	-	(1,499)	6,445	642,939
Software	15,294	-	(585)	591	15,300
Transit facilities, rail and heavy equipment	2,642,272	-	(318)	16,008	2,657,962
<b>Total depreciable assets</b>	<b>3,911,247</b>	<b>-</b>	<b>(3,030)</b>	<b>18,771</b>	<b>3,926,989</b>
<b>Accumulated depreciation</b>					
Access rights	(162,942)	(12,516)	-	-	(175,458)
Buildings and leasehold improvements	(13,546)	(1,199)	227	-	(14,518)
Furniture, equipment and vehicles	(7,504)	(1,754)	401	-	(8,857)
Revenue vehicles	(157,839)	(29,998)	1,499	-	(186,338)
Software	(14,524)	(574)	585	-	(14,513)
Transit facilities, rail and heavy equipment	(322,786)	(54,598)	286	-	(377,098)
<b>Total accumulated depreciation</b>	<b>(679,141)</b>	<b>(100,639)</b>	<b>2,998</b>	<b>-</b>	<b>(776,782)</b>
<b>Total depreciable assets, net</b>	<b>3,232,106</b>	<b>(100,639)</b>	<b>(32)</b>	<b>18,771</b>	<b>3,150,207</b>
<b>Total capital assets, net</b>	<b>\$ 5,851,210</b>	<b>\$ 705,455</b>	<b>\$ (29,814)</b>	<b>\$ 177</b>	<b>\$ 6,527,029</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Notes to Financial Statements, continued*

<i>(in thousands)</i>	<b>2013</b>				<b>2013</b>
	<b>Beginning</b>		<b>Disposals /</b>		<b>Ending</b>
	<b>balance</b>	<b>Additions</b>	<b>reductions</b>	<b>Transfers</b>	<b>balance</b>
<b>Non-depreciable assets</b>					
Land	\$ 418,004	\$ -	\$ -	\$ 37,112	\$ 455,116
Permanent easements	428,455	-	-	56,651	485,106
Capital projects in progress:					
Sound Transit - tangible	1,215,961	533,281	(1,908)	(93,250)	1,654,084
Sound Transit - intangible	11,537	50,135	-	(50,979)	10,693
Other governments - tangible	3,607	74,715	(64,217)	-	14,105
<b>Total non-depreciable assets</b>	<b>2,077,564</b>	<b>658,131</b>	<b>(66,125)</b>	<b>(50,466)</b>	<b>2,619,104</b>
<b>Depreciable assets</b>					
Access rights	563,835	3,950	-	9,284	577,069
Buildings and leasehold improvements	28,570	70	-	208	28,848
Furniture, equipment and vehicles	9,959	-	(1,061)	873	9,771
Revenue vehicles	615,458	-	(6,715)	29,250	637,993
Software	14,732	-	(77)	639	15,294
Transit facilities, rail and heavy equipment	2,631,924	-	(10)	10,358	2,642,272
<b>Total depreciable assets</b>	<b>3,864,478</b>	<b>4,020</b>	<b>(7,863)</b>	<b>50,612</b>	<b>3,911,247</b>
<b>Accumulated depreciation</b>					
Access rights	(133,521)	(29,421)	-	-	(162,942)
Buildings and leasehold improvements	(12,366)	(1,180)	-	-	(13,546)
Furniture, equipment and vehicles	(7,843)	(685)	1,024	-	(7,504)
Revenue vehicles	(136,808)	(27,746)	6,715	-	(157,839)
Software	(14,246)	(353)	75	-	(14,524)
Transit facilities, rail and heavy equipment	(263,525)	(59,265)	4	-	(322,786)
<b>Total accumulated depreciation</b>	<b>(568,309)</b>	<b>(118,650)</b>	<b>7,818</b>	<b>-</b>	<b>(679,141)</b>
<b>Total depreciable assets, net</b>	<b>3,296,169</b>	<b>(114,630)</b>	<b>(45)</b>	<b>50,612</b>	<b>3,232,106</b>
<b>Total capital assets, net</b>	<b>\$ 5,373,733</b>	<b>\$ 543,501</b>	<b>\$ (66,170)</b>	<b>\$ 146</b>	<b>\$ 5,851,210</b>

During 2014, Sound Transit capitalized \$65.1 million of interest costs (\$45.4 million in 2013), representing interest cost incurred in respect of Sound Transit's capital program for the year, net of premium, discounts and deferred amount on debt refunding, on its outstanding bonds (see note 8).

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### *Notes to Financial Statements, continued*

#### **6. CAPITAL AND OPERATING LEASES**

Capital lease obligations at December 31, 2014 and 2013 are \$60.3 million and \$59.5 million, respectively.

**Lease/Leaseback**— In May 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 \$4.9 million (net of closing costs of \$363 thousand) was retained by Sound Transit and recorded as non-operating revenues during the year ended December 31, 2001.

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 statements of net position.

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by Standard & Poor and "Aaa" by Moody's Investment Service. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of "A-" by Standard & Poor and "A3" by Moody's Investment Service by end of year 2009. As of December 31, 2014 and 2013, the defeasance accounts were unrated, as they were no longer invested in marketable securities.

Because of credit rating downgrades under the lease transaction, Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. However, in January 2009, Sound Transit entered into a waiver agreement with the Owner Participant, Lessor, Lender, and Debt Payment Undertaker waiving any existing default or event of default based on a failure to comply with the ratings downgrade provisions of the Participation Agreement, Loan Agreement, Debt Payment Agreement, and Debt Payment Guarantee until March 1, 2009. Under its agreements with the transaction participants, Sound Transit may request successive six-month extensions of the waiver agreement until September 30, 2016, unless extended by agreement of the parties. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately \$15.6 million. Extensions of the waiver agreement have been granted through September 30, 2016.



## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

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

<i>(in thousands)</i>		
	2014	2013
Net sublease, January 1	\$ 59,532	\$ 58,846
Accrued interest	4,456	4,404
Less payment	(3,718)	(3,718)
<b>Net sublease, December 31</b>	<b>\$ 60,270</b>	<b>\$ 59,532</b>

**Amtrak Lease/Sublease**— In September 2000, Sound Transit entered into a 40-year agreement, amended May 2013, 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 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. Sound Transit and Amtrak agreed by a Memorandum of Understanding to place the funds that would otherwise be payable for these taxes in an escrow account to use for projects that mutually benefit Pacific Northwest intercity rail passenger service. In June 2013, \$10.1 million was disbursed from the escrow account after identification of mutually beneficial projects, satisfying this obligation. 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 has entered into non-cancelable operating leases in excess of one year for the use of the DSTT, ground, office space, parking, land, storage at various locations, and equipment with lease terms expiring between 2015 and 2035, with some leases containing options to renew. Minimum lease payments through 2035 are as follows (in thousands):

Year ending December 31	
2015	\$ 9,391
2016	9,376
2017	8,921
2018	8,866
2019	6,997
2020-2024	692
2025-2029	492
2030-2034	495
2035	16
	<b>\$ 45,246</b>

Total rental expenses for 2014, which include non-cancelable leases as well as other month-to-month rentals, were \$9.5 million, of which \$496.9 thousand was capitalized for capital projects in progress. Total rental expenses for 2013, which include non-cancelable leases as well as other month-to-month rentals, were \$10.0 million, of which \$231.9 thousand was capitalized for capital projects in progress.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

<i>(in thousands)</i>			2014	2013
Accounts payable		\$	2,184	\$ 9,528
Accrued liabilities			95,539	84,101
Accrued salaries, wages and benefits			9,458	9,210
Due to other governments			51,582	62,968
Retainage payable			871	259
			<u>\$ 159,634</u>	<u>\$ 166,066</u>

### 8. LONG-TERM DEBT

In the ordinary course of financing its activities, Sound Transit issues debt as shown in the tables below. There are currently two categories of debt: Prior Bonds and Parity Bonds. Prior Bonds have first claim upon the local option taxes of Sales and Use, Rental Car and Motor Vehicle Excise tax. Parity Bonds are subordinate to the Prior Bonds, but they have the same priority of claim upon the Sales and Use and Rental Car taxes. The following tables set forward average and effective coupon rates, rating Agency information, principal payment commencement, fair value and amounts currently restricted for debt service.

**Prior Bonds**— Debt service requirements for Prior Bonds are payable in February and August of each year and are secured by local option taxes.

<i>(in millions)</i>										
	Issue date	Average rate		Ratings		Principal Payment begins	Fair value*		Principal and interest restricted	
		Coupon	Effective	Moody's	S&P		2014	2013	2014	2013
Series 1999	Dec 1, 1998	4.88	5.03	Aa1	AAA	Feb 1, 2006	\$ 318.2	\$ 323.2	\$ 12.7	\$ 12.5
Series 2009P-1	Sep 29, 2009	4.31	2.52	Aa1	AAA	Feb 1, 2015	24.0	24.8	6.0	0.4
Series 2009P-2T	Sep 29, 2009	5.01	3.31**	Aa1	AAA	Feb 1, 2020	88.6	81.9	1.6	1.6
Series 2012P-1	Aug 22, 2012	4.97	2.62	Aa1	AAA	Feb 1, 2013	219.2	227.5	14.3	18.3

\* Estimated using quoted market prices

\*\*Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

**Parity Bonds**— Debt service requirements for Parity Bonds are payable in May and November each year and are secured by local option taxes.

(in millions)

		Average Rate		Ratings		Principal Payment	Fair value*		Principal and interest restricted	
	Issue date	Coupon	Effective	Moody's	S&P	begins	2014	2013	2014	2013
Series 2005A	Mar 31, 2005	4.95	4.60	Aa2	AAA	Nov 1, 2011	\$ 12.7	\$ 26.9	\$ 12.6	\$ 13.4
Series 2007A	Dec 18, 2007	4.99	4.76	Aa2	AAA	Nov 1, 2008	435.9	414.7	3.3	3.3
Series 2009S-2T	Sep 29, 2009	5.49	3.62**	Aa2	AAA	Nov 1, 2029	380.1	324.1	2.7	2.7
Series 2012S-1	Aug 22, 2012	4.91	2.73	Aa2	AAA	Nov 1, 2016	115.4	110.5	0.8	0.8

\* Estimated using quoted market prices

\*\* Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution to meet debt service requirements. In addition, Sound Transit is required to maintain a common debt service reserve account for all Prior Bonds and series-specific debt service reserve accounts for the Parity Bonds. As of December 31, 2014, the common debt service reserve requirement for Prior bonds is met by a surety policy in the amount of \$31.7 million purchased in 1999, a \$7.9 million cash reserve funded at the time the 2009P bonds were issued and an \$11.5 million cash reserve funded at the time the 2012P-1 bonds were issued. For the Parity Bonds, a cash reserve was established in 2005 for the 2005A bonds. The required balance for the Parity debt service reserve account was \$3.2 million at the end of 2014 and is fully funded by investments (see note 3).

Under the bond covenants, Sound Transit is required to value at market the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. As of December 31, 2014, the market value of the Prior and Parity debt service reserves exceeded the required reserve amount by \$769 thousand. No reserve account was required to be established for the 2007A, 2009S-2T and 2012S-1 series bonds. Reserve account proceeds are invested in municipal bonds.

Long-term debt requirements are displayed in the table below:

<i>(in thousands)</i>			
<b>Year ending December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 34,985	\$ 70,346	\$ 105,331
2016	30,430	68,666	99,096
2017	33,235	67,133	100,368
2018	36,290	65,387	101,677
2019	39,520	63,500	103,020
2020-2024	251,730	283,027	534,757
2025-2029	287,970	210,680	498,650
2030-2034	276,935	157,266	434,201
2034-2039	409,565	68,292	477,857
	<u><b>\$ 1,400,660</b></u>	<u><b>\$ 1,054,297</b></u>	<u><b>\$ 2,454,957</b></u>

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing costs paid to investors of BABs. The direct federal subsidy, once earned, is considered a non-exchange transaction separate from the interest payments made and is recorded in other non-operating revenue when Sound Transit makes its interest payment. The direct federal subsidy was reduced in 2013 because of a sequestration order issued pursuant to the Balanced Budget and Emergency Deficit Control Act of 2011. The reduction rate changes annually. The table below summarizes the sequestration rate reduction history:

<b>Time Period</b>	<b>Sequestration Rate</b>
March 1, 2013 through September 30, 2013	8.7%
October 1, 2013 through September 30, 2014	7.2%
October 1, 2014 through September 30, 2015	7.3%

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

The subsidy received in 2014 and 2013 was reduced by \$515.0 thousand and \$266.0 thousand, respectively, as compared to the amount that would have been received if the rate had not been reduced. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

Proceeds from all bond issues except for the 2009P-1, 2012P-1 and 2012S-1 are used for funding capital construction projects.

Long-term debt consists of the following:

<i>(in thousands)</i>	<b>2014</b>			<b>2014</b>	<b>Amounts due</b>
	<b>Beginning</b>			<b>Ending</b>	<b>within</b>
	<b>balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>balance</b>	<b>one year</b>
<b>Bonds payable</b>					
Series 1999	\$ 309,985	\$ -	\$ (6,195)	\$ 303,790	\$ 6,520
Series 2005A	25,670	-	(13,200)	12,470	12,470
Series 2007A	397,955	-	-	397,955	-
Series 2009P-1	23,155	-	-	23,155	5,535
Series 2009P-2T	76,845	-	-	76,845	-
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	203,050	-	(14,150)	188,900	10,460
Series 2012S-1	97,545	-	-	97,545	-
	<b>1,434,205</b>	<b>-</b>	<b>(33,545)</b>	<b>1,400,660</b>	<b>34,985</b>
Plus unamortized premium	65,225	-	(7,685)	57,540	-
Less unamortized discount	(4,120)	-	371	(3,749)	-
<b>Total bonds payable</b>	<b>1,495,310</b>	<b>-</b>	<b>(40,859)</b>	<b>1,454,451</b>	<b>34,985</b>
<b>Total long-term debt</b>	<b>\$ 1,495,310</b>	<b>\$ -</b>	<b>\$ (40,859)</b>	<b>\$ 1,454,451</b>	<b>\$ 34,985</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## *Notes to Financial Statements, continued*

<i>(in thousands)</i>	<b>2013</b>			<b>2013</b>	<b>Amounts due</b>
	<b>Beginning</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending</b>	<b>within</b>
	<b>balance</b>			<b>balance</b>	<b>one year</b>
<b>Bonds payable</b>					
Series 1999	\$ 315,875	\$ -	\$ (5,890)	\$ 309,985	\$ 6,195
Series 2005A	35,345	-	(9,675)	25,670	13,200
Series 2007A	402,525	-	(4,570)	397,955	-
Series 2009P-1	23,155	-	-	23,155	-
Series 2009P-2T	76,845	-	-	76,845	-
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	216,165	-	(13,115)	203,050	14,150
Series 2012S-1	97,545	-	-	97,545	-
	<b>1,467,455</b>	<b>-</b>	<b>(33,250)</b>	<b>1,434,205</b>	<b>33,545</b>
Plus unamortized premium	73,459	-	(8,234)	65,225	-
Less unamortized discount	(4,490)	-	370	(4,120)	-
<b>Total bonds payable</b>	<b>1,536,424</b>	<b>-</b>	<b>(41,114)</b>	<b>1,495,310</b>	<b>33,545</b>
<b>Total long-term debt</b>	<b>\$ 1,536,424</b>	<b>\$ -</b>	<b>\$ (41,114)</b>	<b>\$ 1,495,310</b>	<b>\$ 33,545</b>

## 9. OTHER LONG-TERM OBLIGATIONS

Other long-term obligations include provisions for asset retirement obligations, uninsured losses related to Sound Transit's risk management program, employee compensated absences and deferred compensation as follows:

<i>(in thousands)</i>	<b>2014</b>	<b>Additions, accretion</b>		<b>2014</b>	<b>Amounts due</b>
	<b>Beginning</b>	<b>and changes</b>	<b>Reductions</b>	<b>Ending</b>	<b>within</b>
	<b>balance</b>	<b>in estimates</b>		<b>balance</b>	<b>one year</b>
<b>Asset retirement obligations</b>					
Sounder station platforms	\$ 1,216	\$ 61	\$ -	\$ 1,277	\$ -
Tacoma link surface rail	1,762	88	-	1,850	-
<b>Total asset retirement obligations</b>	<b>2,978</b>	<b>149</b>	<b>-</b>	<b>3,127</b>	<b>-</b>
<b>Uninsured losses</b>					
OCIP	425	249	(33)	641	217
Transit operations	908	(422)	-	486	140
<b>Total uninsured losses</b>	<b>1,333</b>	<b>(173)</b>	<b>(33)</b>	<b>1,127</b>	<b>357</b>
<b>Compensated absences</b>	<b>6,139</b>	<b>4,847</b>	<b>(4,583)</b>	<b>6,403</b>	<b>5,650</b>
<b>Deferred compensation</b>	<b>68</b>	<b>67</b>	<b>-</b>	<b>135</b>	<b>-</b>
<b>Total other long-term obligations</b>	<b>\$ 10,518</b>	<b>\$ 4,890</b>	<b>\$ (4,616)</b>	<b>\$ 10,792</b>	<b>\$ 6,007</b>

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements, continued

<i>(in thousands)</i>	2013 Beginning balance	Additions, accretion and changes in estimates	Reductions	2013 Ending balance	Amounts due within one year
<b>Asset retirement obligations</b>					
Sounder station platforms	\$ 1,158	\$ 58	\$ -	\$ 1,216	\$ -
Tacoma link surface rail	1,678	84	-	1,762	-
<b>Total asset retirement obligations</b>	<b>2,836</b>	<b>142</b>	<b>-</b>	<b>2,978</b>	<b>-</b>
<b>Uninsured losses</b>					
OCIP	1,906	(1,345)	(136)	425	165
Transit operations	652	256	-	908	247
<b>Total uninsured losses</b>	<b>2,558</b>	<b>(1,089)</b>	<b>(136)</b>	<b>1,333</b>	<b>412</b>
<b>Compensated absences</b>	<b>5,373</b>	<b>5,567</b>	<b>(4,801)</b>	<b>6,139</b>	<b>5,263</b>
<b>Deferred compensation</b>	<b>-</b>	<b>68</b>	<b>-</b>	<b>68</b>	<b>-</b>
<b>Total other long-term obligations</b>	<b>\$ 10,767</b>	<b>\$ 4,688</b>	<b>\$ (4,937)</b>	<b>\$ 10,518</b>	<b>\$ 5,675</b>

**Asset Retirement Obligations**— In the course of entering into agreements with other governments and rail providers to construct Sound Transit’s capital assets used in providing transportation services, certain agreements contain clauses that impose a legal burden on Sound Transit to remove all or a portion of those constructed assets at the termination of those agreements.

**Risk Management**— In the ordinary course of planning, building and operating its regional transit systems and services to improve mobility for the Central Puget Sound region, which includes construction projects and Agency and rail operations, Sound Transit is exposed to various types of risks and exposures 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 and insurance program to mitigate the potential for loss and for the administration of claims.

For its Agency operation, a commercial insurance program has been put in place that provides first-level coverage for property, primary and excess liability, commercial auto liability, premises pollution liability, public officials and employment practices liability, crime and fidelity and fiduciary liability, to provide protections from these risks and exposures.

For its rail operations, a commercial insurance program has been put in place that provides rail liability and excess rail liability, as well as rail rolling-stock/property insurance coverage.

For Sound Transit Express bus operations under Sound Transit’s agreements, insurance coverage and associated claim payments are provided by its bus partner agencies, which are included in the pro-rata transit operations cost rate established by Sound Transit and its bus partner agencies.

Sound Transit utilizes Owner Controlled Insurance Programs (OCIP) for its larger capital development projects to address general liability claims due to third-party injuries and/or property damage related to project construction activities carried out by Sound Transit’s third-party contractors. Its first OCIP was secured in 2001, primarily for construction of the Central Link light rail project, and subsequently amended to include the Airport Link light rail extension project and provided coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only remaining insurance policy under the first OCIP that has not expired is the professional liability and contractor’s pollution policy, which provides coverage through December 31, 2016 with an additional three-year

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### *Notes to Financial Statements, continued*

reporting period extending to December 31, 2019. This insurance policy was extended in order to provide insurance coverage for the final design of the University Link light rail project.

A second OCIP was secured in October 2008 for the University Link Light rail extension project with coverage provided from October 20, 2008 through September 30, 2016. The University Link project OCIP insurance coverage includes primary and excess commercial general liability (CGL), builder's risk, and contractors' pollution liability policies. The CGL insurance policy includes six years of completed operations coverage, which will expire September 30, 2022.

A third OCIP was secured in December 2012 for the North Link Light rail extension project with coverage provided from December 31, 2012 to December 31, 2021. The North Link project OCIP insurance coverage includes primary CGL, excess liability, builder's risk, excess builder's risk, and contractors' pollution liability policies. The CGL insurance policy includes six years of completed operations coverage, which will expire December 31, 2027.

On each of its commercial insurance policies, Sound Transit is responsible for either a specific deductible or a self-insured retention. Most of these insurance policies are written either on a per occurrence basis or on a claims-made basis. For its Initial Segment Light Rail OCIP general liability policy, Sound Transit procured a deductible liability protection policy as collateral to supplement the \$500.0 thousand deductible responsibility with the CGL insurer for the probable maximum claims exposure. This collateral account was established at the inception of the policy and estimated at \$6.5 million, which Sound Transit deposited with the CGL insurer in an interest-bearing loss fund account that is used to pay general liability claims under Sound Transit's \$500.0 thousand deductible responsibility. For its University Link project OCIP general liability policy, and its North Link project OCIP policy, there is no buy-down deductible policy in place to supplement the Sound Transit deductible obligation of \$100.0 thousand under these policies. However, Sound Transit deposited \$1.0 million for the University Link project OCIP, and an additional \$700.0 thousand for the North Link project OCIP, with the insurer in an interest-bearing account with Wells Fargo Bank as collateral to ensure Sound Transit's financial obligation for payment of any general liability claims under the terms of the CGL policies for both of these projects.

On both the University and North Link project OCIPs, Sound Transit has made the prime contractor(s) responsible for the deductibles through contractual risk-transfer. The deductible for the general liability insurance is \$100.0 thousand, which the contractor is responsible for 100% up to a maximum of \$100.0 thousand. The deductible for the builders' risk insurance is \$500.0 thousand, which the contractor is responsible for the first \$250.0 thousand of any loss, and Sound Transit is responsible for the remaining \$250.0 thousand in excess of the first \$250.0 thousand. The deductible for the contractor's pollution liability insurance is \$250.0 thousand, which the contractor is responsible for 100% up to a maximum of \$250.0 thousand. Sound Transit, as first named insured on the insurance policies is directly responsible for payment of the deductible to insurers. Sound Transit then bills the responsible contractor(s) for the deductible. In the event that a contractor is unwilling to reimburse Sound Transit for the deductible amount within a sixty-day period, Sound Transit utilizes a deductible chargeback process to deduct the claim amount under the deductible from the contractor's progress payment. This provides Sound Transit with no risk of non-payment by contractors, and any amount due to Sound Transit is offset against a contractor's progress payments or the retainage.

Annually, Sound Transit engages an actuary to prepare an independent actuarial analysis and to prepare an actuarial report in order to estimate its total insurance claim exposure under all of its insurance and risk management programs. The insurance claim amount estimated to be paid within the next year is included in other claims and short-term obligations.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

**Compensated Balances**— Amounts estimated to be paid within the next year are included in accounts payable and accrued liabilities.

**Deferred Compensation**— Executive deferred compensation obligation as established under an Internal Revenue Service (IRS) Section 457(f) deferred compensation plan. See also note 3.

### 10. RESTRICTED NET POSITION

Restricted net position consists of the following:

	2014	2013
Debt service	\$ 56,801	\$ 56,129
Contractual arrangements	12,841	11,062
Deductible liability protection policy	996	1,002
	<u>\$ 70,638</u>	<u>\$ 68,193</u>

### 11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (401(a) Plan) to its employees. Great West Retirement Services is the plan's administrator and trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees and members of the Sound Transit Board eligible for compensation. 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.

Eligible employees are required to participate in the plan 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 payrolls. The amount of covered payroll during 2014 and 2013 was \$56.2 million and \$51.7 million, respectively, and total payroll was \$56.4 million and \$52.1 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2014, 2013, and 2012 are as follows:

	Contribution rate			Contributions		
				(in thousands)		
	2014	2013	2012	2014	2013	2012
Employer	12%	12%	12%	\$ 6,740	\$ 6,198	\$ 5,697
Employee	10	10	10	5,616	5,165	4,747
<b>Total</b>	<u><b>22%</b></u>	<u><b>22%</b></u>	<u><b>22%</b></u>	<u><b>\$ 12,356</b></u>	<u><b>\$ 11,363</b></u>	<u><b>\$ 10,444</b></u>



### *Notes to Financial Statements, continued*

#### 12. COMMITMENTS AND CONTINGENCIES

**Operations and Maintenance Agreements**— In May 2000, Sound Transit entered into a 40 year service agreement with BNSF for the operation of 18 commuter rail train trips by BNSF between Seattle and Tacoma establishing compensation paid to BNSF for train crews, maintenance of way, and other expenses incurred in the operation of the Sounder service. The compensation is based on the actual costs of crew, dispatch and management, as well as costs for maintenance of way plus performance incentives. This agreement has been amended to extend the service beyond Tacoma to the City of Lakewood and to add up to 8 additional trips (the acquisition of which is described below).

In December 2003, Sound Transit entered into an agreement with BNSF for the operation of the commuter trains by BNSF between Seattle and Everett and the compensation paid to BNSF for train crews, maintenance of way and other expenses incurred in the operation of the Sounder service. The compensation is structured as an hourly rate per train mile operated for a baseline service plan, with inflation adjustments plus performance incentives. 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.

Between June 2000 and June 2012, the cities of Seattle, Tukwila and SeaTac granted Sound Transit perpetual light rail access rights to operate its light rail service in their municipalities in return for Sound Transit constructing public right of way improvements in each of these cities' light rail transit ways. Costs included in the public right of way improvements necessary to operate light rail service include the costs to acquire real property and relocate existing residents and businesses.

In March 2010, Sound Transit and Amtrak entered into a new five-year agreement with one two-year option for renewal at Sound Transit's consent and three one-year renewal options at the mutual consent of both parties. Under the agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips and train sets in operation for a baseline set of operating assumptions. Sound Transit pays a negotiated rate for additional service above this baseline-operating plan (see related agreements described in note 6).

In June 2002, Sound Transit entered into an agreement with King County DOT to share DSTT maintenance and operation costs in exchange for the right to use the DSTT for light rail operations. Sound Transit's ongoing obligations include reimbursement of costs and payment of a share of King County DOT debt service owed for the original tunnel construction. Sound Transit is also committed under this agreement to share costs for future capital repairs or replacements as they arise. Compensation is calculated as reimbursement of certain King County DOT costs based on fixed percentages related to Sound Transit's share of usage of the DSTT. The DSTT agreement is in effect for five years after the opening of light rail operations in July 2009, at which point Sound Transit will either be required to purchase the DSTT or Sound Transit and King County DOT will enter into another operating agreement for joint use. In January 2014, the agreement was extended for one year to July 2015.

In June 2003, Sound Transit entered into a Central Link Light Rail system operation and maintenance agreement with King County DOT. Compensation for this service is based on reimbursement for King County DOT expenses based on a fixed amount for a baseline level of service, with additional costs billed for service changes directed by Sound Transit. This agreement was revised effective December 21, 2009 for a term of five years, and was extended to July 17, 2016.

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

In April 2006, Sound Transit entered into a Construction Services and Operations Agreement with the Port of Seattle. The agreement provides construction and operating terms for Airport Link, on Port property. In August 2013, Sound Transit entered into a similar agreement covering Port property between the Airport station and South 200<sup>th</sup> Street in the City of SeaTac. The agreements are supported by easement for operation of light rail.

In January 2010, Sound Transit entered into new service agreements with King County DOT and Pierce Transit for the operation of its ST Express bus service. The agreements expire in July 2015. In April 2010, Sound Transit entered into a new three-year service agreement with Community Transit which also expires in July 2015. Service is compensated based upon a fixed fee agreed to annually with certain items subject to variable pricing, such as fuel and special services.

In July 2010, Sound Transit entered into an agreement with BNSF to acquire four perpetual easements on its Seattle to Tacoma corridor between 2010 and 2013 for total compensation of \$185.0 million. Each easement allows the operation of one round trip commuter train service (subject to the service agreement described above) no earlier than the later of either the agreed upon effective operational date of each easement or 24 months after Sound Transit has obtained required approvals and permits to allow BNSF to construct related improvements necessary for the operation of each easement.

***Amended and Restated Agreement for Regional Fare Coordination System***— In April 2009, Sound Transit entered into an amended agreement to operate and maintain a RFCS that establishes a common, non-cash fare system throughout seven participating transit agencies service areas and commits the agencies to using the RFCS for a minimum of ten years. Each Agency shares in operating and maintaining the RFCS in accordance with the agreement. Sound Transit's proportionate share of RFCS operating and maintenance costs for years 2014 and 2013 is 19.4% and 18.9%, respectively.

The following table represents the amounts included in these financial statements of Sound Transit's participation:

<i>(in thousands)</i>	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,352	\$ 6,458
Accounts receivable	7,066	6,245
<b>Total assets</b>	<b>14,418</b>	<b>12,703</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	9,082	8,233
Unearned revenue	5,336	4,470
<b>Total liabilities</b>	<b>14,418</b>	<b>12,703</b>
<b>Net position</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total operating revenues</b>	<b>\$ 48,826</b>	<b>\$ 45,865</b>
<b>Total expenses</b>	<b>\$ 1,551</b>	<b>\$ 1,077</b>

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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### ***Notes to Financial Statements, continued***

**Governmental Agreements**— In its ordinary course of planning, design and construction of its projects, Sound Transit enters into agreements with other governments. These agreements establish the working relationships with the other governmental entities and may obligate Sound Transit to pay for services over the lifecycle of a construction project, and often include provisions to transfer property or property rights upon completion of construction. Significant governmental agreements containing outstanding commitments include:

***City of Seattle Funding and Cooperative Agreement for the implementation of the First Hill Streetcar Connector Project:*** Entered into on November 11, 2009, this agreement establishes the minimum scope of work for the project and funding obligations for Sound Transit. In October 2010, Sound Transit agreed to fully fund \$132.8 million of the costs necessary to design, construct and operate the First Hill Streetcar that were established in the November 2009 funding and cooperative agreement. The City will own the First Hill Streetcar facilities and vehicles, while Sound Transit will assume operation of the Streetcar service if the City and King County DOT fail to reach an initial operating agreement or after the initial five years of operation by King County DOT.

***WSDOT Umbrella Agreement for R8A Project and East Link Light Rail:*** On August 26, 2010, Sound Transit was authorized to enter into an umbrella agreement with WSDOT to implement the remainder of the R8A project that consists of the I-90 Two-Way Transit and HOV Operations Project Stages 2 and 3 and the use of the I-90 center lanes for construction and operation of East Link. Sound Transit has agreed to fund Stages 2 and 3 of the I-90 Two Way Transit and HOV projects for \$153.2 million in exchange for a temporary construction airspace lease for the construction of light rail along the I-90 center lanes as well as a 40 year airspace lease with an option to renew for 35 years for the operation of light rail in the center lanes of I-90.

***City of Bellevue Binding Umbrella Memorandum of Understanding and Transitway Agreement for East Link Project:*** In November 2011, Sound Transit and the City of Bellevue (the City) entered into a transitway agreement whereby Sound Transit would construct a tunnel through downtown Bellevue and the City granted Sound Transit non-exclusive use of City right of way to construct, operate and maintain the project. Additionally the agreement set forward the manner project risks and benefits would be shared, and how the parties would work together during final design, permitting and construction to manage the project. The agreement provided for an up-front contribution of property access, utility relocations and cash payments up to \$100 million, as well as a contingent contribution by the City up to \$60 million. In May 2015, the agreement was amended clarifying various elements, eliminating the \$60 million contingent contribution and Bellevue's termination rights and established terms around a potential Operations and Maintenance Satellite Facility in the Bel-Red transit node in Bellevue.

***Land Bank Agreement***— Sound Transit entered into an agreement called the Land Bank Agreement with WSDOT in July 2000 and as restated in December 2003, the purpose of which is to establish a framework within which WSDOT can from time to time convey portions of WSDOT property to Sound Transit and to make other portions of other WSDOT property available for non-highway use by Sound Transit in consideration for Sound Transit's funding of highway purpose improvements. In August 2010, as part of the Umbrella Agreement with WSDOT to complete the R8A Project, WSDOT agreed to grant Sound Transit land bank credits for all of its funding on the R8A projects as well as to extend the land bank agreement to 2080. Sound Transit will continue to earn land bank credits for projects involving highway improvements and use credits on projects that are located within the public highway right of way.

Sound Transit has guideways located on WSDOT property governed under multiple twenty-year airspace leases issued under the land bank agreement. These airspace leases have options to renew for an additional

## CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

### *Notes to Financial Statements, continued*

20 years, at no additional cost or use of Land Bank Agreement credits. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property ownership transfers to WSDOT. At December 31, 2014, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was \$232.2 million. This value is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2014 and 2013.

<i>(in millions)</i>		
	2014	2013
Balance in Land Bank, beginning of year	\$ 232.2	\$ 244.4
Credits (Draws):		
Northgate Link	-	(12.2)
<b>Balance in Land Bank, end of year</b>	<b>\$ 232.2</b>	<b>\$ 232.2</b>

**Purchases**— At December 31, 2014 and 2013, Sound Transit had outstanding construction commitments of approximately \$0.9 billion and \$1.2 billion, 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 collectability of any related receivable at December 31, 2014 and 2013 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Claims**— In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims and, where that exposure is probable, has reflected in the accounts of Sound Transit its best estimate of the exposure.

### **13. SUBSEQUENT EVENT**

Management has evaluated events and transactions that have occurred after December 31, 2014, through May 22, 2015, the date these financial statements were issued.

On January 16, 2015, Sound Transit entered into a loan agreement with the United States Department of Transportation, acting by and through the Federal Highway Administrator under the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program. The principal amount of the TIFIA Loan shall not exceed \$1,330,000,000 (excluding capitalized interest), to be used to pay a portion of the eligible project costs for the East Link Light Rail Project. As evidence of Sound Transit's obligation to repay the TIFIA loan, Sound Transit has issued to the lender a registered Sales Tax Bond, series 2015T-1. The TIFIA Bond is a second-tier junior obligation, secured by the TIFIA lien on pledged taxes, with a maximum principal amount of \$1,330,000,000 (excluding capitalized interest) with a maturity date of November 1, 2058.

The loan has not yet been drawn on. The first draw is anticipated to occur in 2019.



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**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Audit and Reporting Committee  
Central Puget Sound Regional Transit Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name of Sound Transit), which comprise the statement of net position as of December 31, 2014, and the related statements of revenues, expenses, and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2015.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

KPMG LLP

May 22, 2015



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**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

Audit and Reporting Committee Central Puget Sound Regional Transit Authority:

**Report on Compliance for Each Major Federal Program**

We have audited Central Puget Sound Regional Transit Authority's (a public corporation acting under the service name of Sound Transit) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sound Transit's major federal programs for the year ended December 31, 2014. Sound Transit's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Sound Transit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sound Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Sound Transit's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Sound Transit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.



## **Report on Internal Control over Compliance**

Management of Sound Transit is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sound Transit's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sound Transit's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Sound Transit as of and for the year ended December 31, 2014, and have issued our report thereon dated May 22, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**KPMG LLP**

May 22, 2015



# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

## SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended December 31, 2014

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Federal Award Expended
<b>Federal Transit Cluster</b>		
<b>U.S. Department of Transportation</b>		
Federal Transit Administration, Capital Investment Grants	20.500	\$ 102,124,118
Federal Transit Administration, Formula Grants	20.507	50,206,611
Federal Transit Administration, State of Good Repair	20.525	1,876,480
<b>Total U.S. Department of Transportation</b>		<u>154,207,209</u>
<b>Total Federal Transit Cluster</b>		<u><b>154,207,209</b></u>
 <b>Other Federal Awards</b>		
<b>U.S. Department of Transportation</b>		
Federal Highway Administration(FHWA), Highway Planning and Construction	20.205	1,021,315
Federal Railroad Administration, Capital Assistance to States- Intercity Passenger Rail Service (pass-through from the Washington State Department of Transportation)	20.317	3,827,234
Federal Railroad Administration, High-Speed Rail Corridors and Intercity Passenger Rail Grants (pass-through from the Washington State Department of Transportation)	20.319	19,281,180
Federal Transit Administration, Alternatives Analysis	20.522	804,713
Federal Transit Administration, Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523	927,489
Office of the Secretary(OST) Administration Secretariate, National Infrastructure Investments	20.933	3,379,041
Federal Transit Administration, Public Transportation Research	20.514	25,420
<b>Total U.S. Department of Transportation</b>		<u><b>29,266,393</b></u>
 <b>Environmental Protection Agency</b>		
	66.039	1,121,210
<b>Total Environmental Protection Agency</b>		<u><b>1,121,210</b></u>
<b>Total Other Federal Awards</b>		<u><b>30,387,603</b></u>
 <b>Total Expenditures of Federal Awards</b>		<u><u><b>\$ 184,594,812</b></u></u>

## ***Notes to Supplemental Schedule of Expenditures of Federal Awards***

### **1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Sound Transit under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Sound Transit, it is not intended to and does not present the net position, changes in net position or cash flows of Sound Transit.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

# CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY

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## SUPPLEMENTAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED DECEMBER 31, 2014

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### PART I—SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified: **No**
- Significant deficiency(ies) identified that are not considered to be material weaknesses: **None reported**

Noncompliance material to financial statements noted: **No**

#### *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified: **No**
- Significant deficiency(ies) identified that are not considered to be material weaknesses: **None reported**

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **No**

Identification of major programs:

<u>Federal grantor and program title</u>	<u>CFDA number</u>
Federal Transit Cluster	20.500, 20.507 and 20.525
Capital Assistance to States – Intercity Passenger Rail Service	20.317
High Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance	20.319
National Clean Diesel Emissions Reductions Program	66.039

Dollar threshold used to distinguish between type A and type B programs: **\$3,000,000**

Auditee qualified as low-risk auditee: **Yes**

## **CENTRAL PUGET SOUND REGIONAL TRANSIT AUTHORITY**

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### **PART II—FINANCIAL STATEMENT FINDINGS SECTION**

No matters reported.

### **PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COST SECTION**

No matters reported.