SoundTransit
RIDE THE WAVE

# 2011 ANNUAL REPORT

# FOCUS ON THE BUSINESS OF REGIONAL TRANSIT


## TABLE OF CONTENTS



**Photo left:**

**Early morning riders depart a Sounder train at Seattle's King Street Station on a typical weekday commute. Sounder trains carried 2.6 million passengers in 2011, a 6 percent increase from a year earlier.**

**Aluminum reflective signage:** ***Moto*** **by Jerry Mayer, 2004**

**Pat McCarthy**
Sound Transit Board Chair

# FOCUS ON CUSTOMER SERVICE

I can think of 26 million reasons why Sound Transit is one of this region's most important assets. That's the number of rides people took on Sound Transit trains and buses in 2011 – an 11 percent increase over 2010. Regional transit use translates to millions of solo car trips that weren't made on our congested highways and freeways, reducing air pollution and our region's overall fuel consumption while making the roadways more bearable for those who must drive. It also means time and money saved for many people who enjoy making transit part of their daily routines.

26 million is an amazing number, and one that will continue to grow as more people rely on our regional transit system every year.

What's even more important, though, is the way Sound Transit is focused on making every ride pleasant and dependable for our customers. This customer focus led to the launch in 2011 of our new website and trip planner that puts the information our customers want most front and center. It's easier for

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people to use, and the public responded positively with a 34 percent increase in page views over the previous year.

In addition to customer service staff who answer hundreds of rider questions every week, in 2011 the agency instituted a new staff team that actively reaches out to neighborhoods and community groups with information about how to ride our services. Project outreach teams also work in communities where projects are planned or under construction. These examples demonstrate Sound Transit's solid commitment to communicating clearly with our customers and the public we serve.

The Sound Transit Board is proud of the agency's performance. I invite you to learn more about 2011 achievements in this annual report. In the meantime, we'll continue to monitor the agency's work as it continues to plan, build and operate your regional transit system.


**Photo right:**
**Link light rail offers fast, frequent, all-day service between Seattle and SeaTac, serving stations and south Seattle communities along the way.**

**Joni Earl**
Sound Transit
Chief Executive Officer

# FOCUS ON STEWARDSHIP

When voters created Sound Transit in 1996 with their approval to plan, build and operate the regional transit system, they entrusted us with their faith and their tax dollars. Doing the public's business is a responsibility we take very seriously.

Since I came to Sound Transit nearly 12 years ago, I am proud that this agency has increasingly demonstrated its commitment to conducting business in a way that is transparent and accountable to the public we serve. That means showing taxpayers their investment in Sound Transit is solid and pays valuable dividends. Offering people dependable public transit options adds to our regional vibrancy and collective quality of life. Building infrastructure, including transit centers and highway HOV access improvements, adds value to communities throughout the region.

This work is often challenging. Here are a couple of examples. Fiscally, because the economy has not rebounded as quickly as many had hoped, we continue to be faced with delivering

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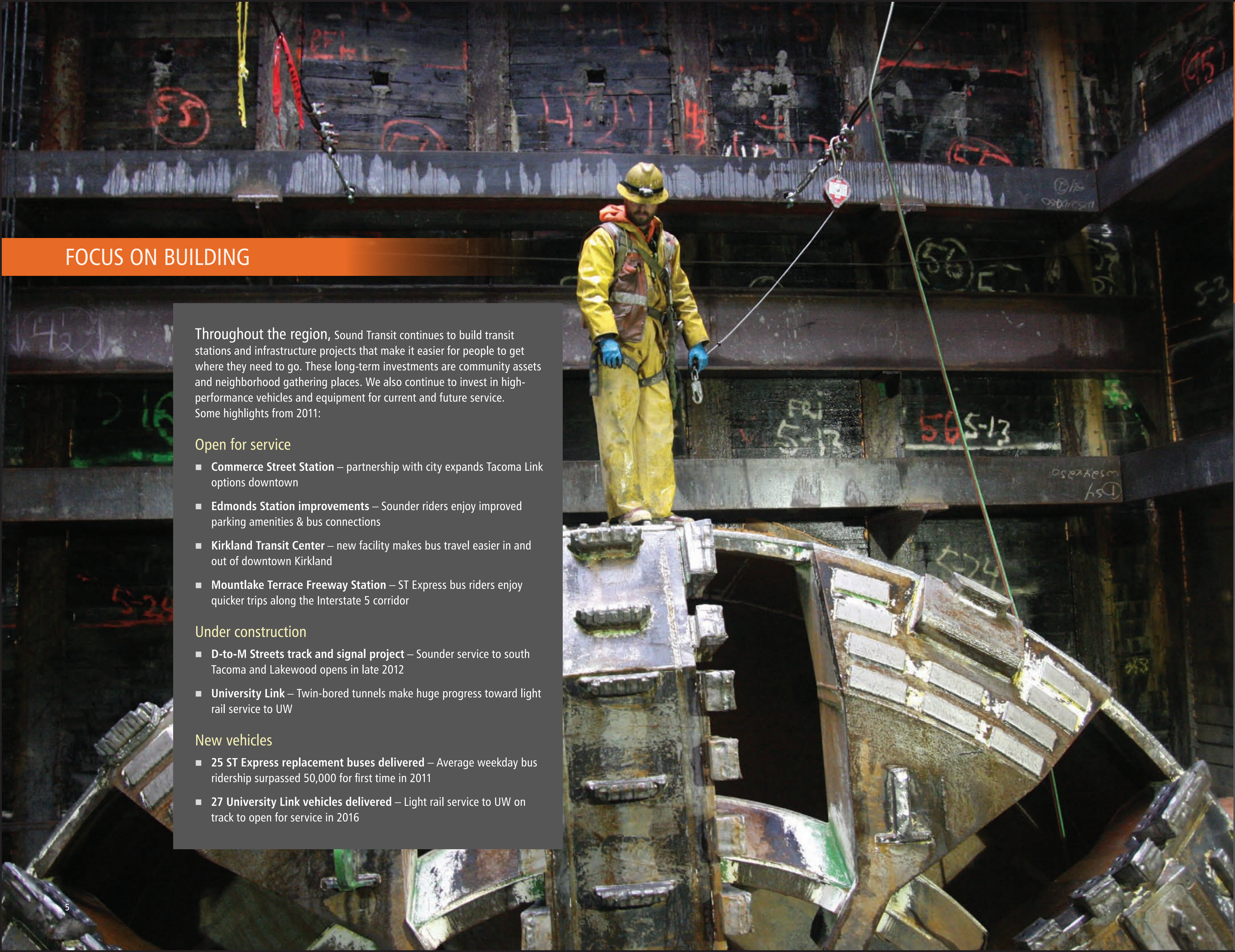
the projects and services that voters approved in 2008 with about $4 billion – some 25 percent – less revenue than projected. Technically, when Link light rail begins running across Lake Washington to Bellevue and the Eastside, it will be the first time in the world that light rail runs across a floating bridge.

Here in the Pacific Northwest, concern about our environment is a priority and a way of life. Sound Transit's commitment to sustainability is reflected in several ways, such as incorporating life-cycle costs into project planning and recycling building materials during construction.

All who are entrusted with doing the public's work are called to be good stewards. It's my commitment to customers, voters and taxpayers that the Sound Transit team works hard every day to meet and exceed that expectation.

Joni Earl

**Photo right:**
**Crews are hard at work building infrastructure projects throughout the region, including the Kirkland Transit Center that opened in early 2011.**



## FOCUS ON BUILDING

Throughout the region, Sound Transit continues to build transit stations and infrastructure projects that make it easier for people to get where they need to go. These long-term investments are community assets and neighborhood gathering places. We also continue to invest in high-performance vehicles and equipment for current and future service. Some highlights from 2011:

### Open for service

- **Commerce Street Station** – partnership with city expands Tacoma Link options downtown
- **Edmonds Station improvements** – Sounder riders enjoy improved parking amenities & bus connections
- **Kirkland Transit Center** – new facility makes bus travel easier in and out of downtown Kirkland
- **Mountlake Terrace Freeway Station** – ST Express bus riders enjoy quicker trips along the Interstate 5 corridor

### Under construction

- **D-to-M Streets track and signal project** – Sounder service to south Tacoma and Lakewood opens in late 2012
- **University Link** – Twin-bored tunnels make huge progress toward light rail service to UW

### New vehicles

- **25 ST Express replacement buses delivered** – Average weekday bus ridership surpassed 50,000 for first time in 2011
- **27 University Link vehicles delivered** – Light rail service to UW on track to open for service in 2016



## 2011 MILESTONES

**Q1**
Kirkland Transit Center opens

**Q1**
Mountlake Terrace Freeway Station opens

**Q1**
East Link I-90 track bridge prototype design started

**Q2**
Sound Transit launches new customer-focused website

**Q2**
25 ST Express replacement buses delivered

**Q2**
Sound Transit Customer Service information call center hours expanded

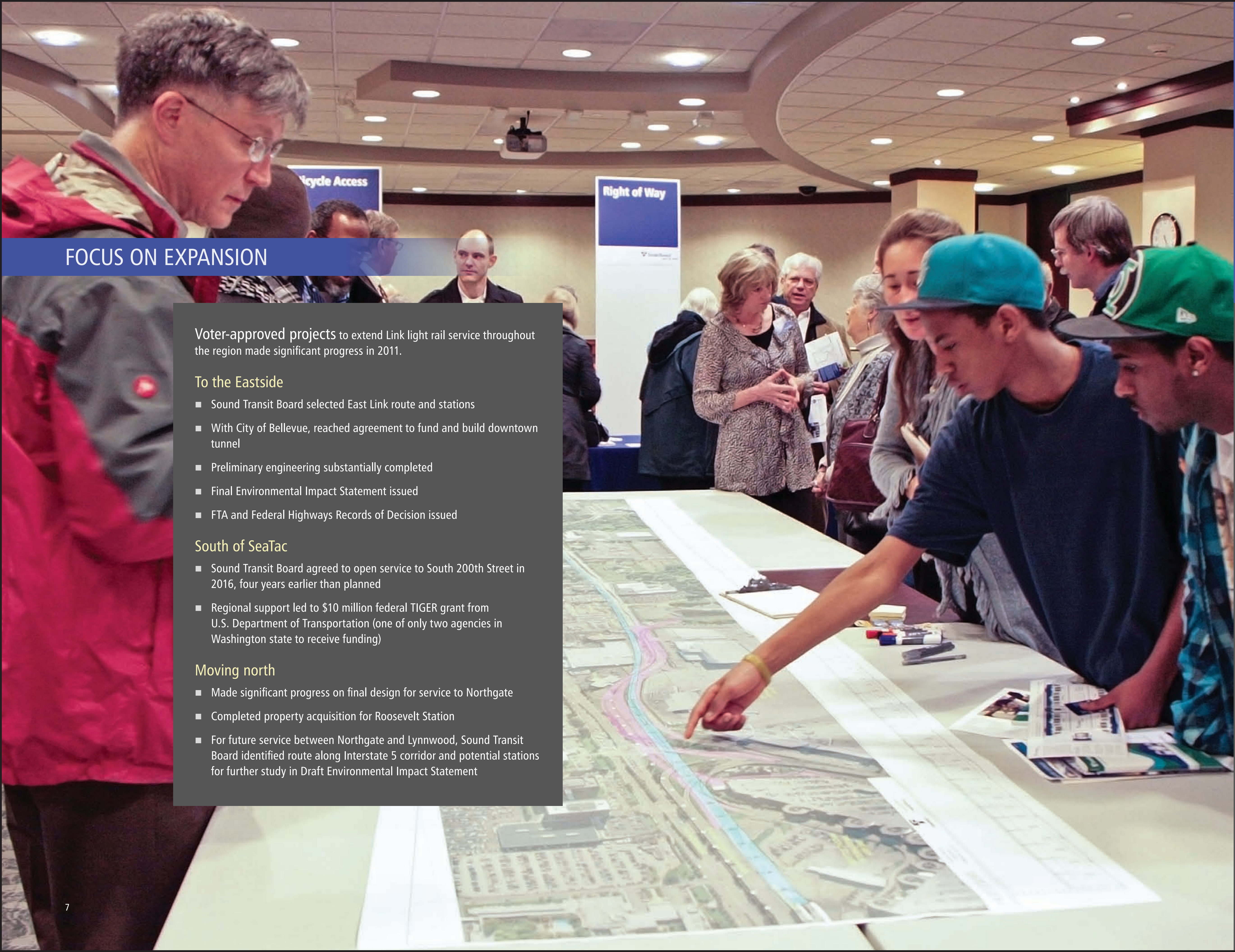
**Q2**
Agency clean financial audit

**Q2**
U-Link tunneling begins at UW Station

**Q2**
Tacoma Link expansion planning begins

**Photo top:**
**Mountlake Terrace Freeway Station opens**

**Photo left:**
**Tunnel boring machine at UW Station**




# FOCUS ON EXPANSION

Voter-approved projects to extend Link light rail service throughout the region made significant progress in 2011.

## To the Eastside

- Sound Transit Board selected East Link route and stations
- With City of Bellevue, reached agreement to fund and build downtown tunnel
- Preliminary engineering substantially completed
- Final Environmental Impact Statement issued
- FTA and Federal Highways Records of Decision issued

## South of SeaTac

- Sound Transit Board agreed to open service to South 200th Street in 2016, four years earlier than planned
- Regional support led to $10 million federal TIGER grant from U.S. Department of Transportation (one of only two agencies in Washington state to receive funding)

## Moving north

- Made significant progress on final design for service to Northgate
- Completed property acquisition for Roosevelt Station
- For future service between Northgate and Lynnwood, Sound Transit Board identified route along Interstate 5 corridor and potential stations for further study in Draft Environmental Impact Statement

## 2011 MILESTONES

**Q3**
New Tacoma Link Commerce Street stop opens

**Q3**
Edmonds Sounder station improvements completed

**Q3**
U-Link tunneling begins at Capitol Hill Station

**Q3**
All 27 U-Link light rail vehicles delivered

**Q3**
Final EIS for East Link published

**Q3**
Complete South 200th Link light rail design refinement and baseline the project

**Q3**
ST Board selects final alignment and stations for East Link

**Q3**
Sustainability Plan completed

**Photo top:**
**Tacoma Commerce Street stop opens**

**Photo left:**
**Planning for South Link Extension to South 200th Street**

# FOCUS ON PUBLIC INVESTMENT

As one of the region's major employers, Sound Transit had a $1.1 billion annual operating budget in 2011 with projects that employed thousands of workers in King, Pierce and Snohomish counties. As we do the public's business, we are committed to working transparently in a way that reflects the shared values and priorities of the communities we serve.

One important example is Sound Transit's commitment to sustainability, which has three important components: people, planet and prosperity.

- Transit connects people and communities
- Getting out of cars and onto trains and buses significantly improves air and water quality
- Transit provides access to jobs and helps build economic prosperity.

In 2011, we completed the development of the agency's Sustainability Plan, which provides current and future sustainability direction. We reached an 80% completion rate on 31 sustainability targets for 2011. We are proud to be one of very few public transit agencies whose Environmental and Sustainability Management System (ESMS) has been certified to the rigorous international standard ISO 14001.

## 2011 MILESTONES

**Q4**
SR 522 HOV enhancements in Bothell open

**Q4**
25 million combined bus & train boardings

**Q4**
Roosevelt Station property acquisitions completed

**Q4**
ST Board identifies North Corridor alternatives for the Draft EIS

**Q4**
Green procurement policy developed

**Q4**
Sustainability design criteria implemented for all Link projects

**Q4**
32 additional ST Express replacement buses, including at least 21 hybrids, ordered

**Photo top:**
**Sound Transit trains and buses provided 26 million rides in 2011**

**Photo left:**
**Reading and traveling go together on an ST Express bus**

Link light rail at Columbia City Station

Sounder train at Sumner Station

Tacoma Link in downtown Tacoma

ST Express bus at Mountlake Terrace

Kirkland Transit Center opened in 2011

Direct access ramps increase bus speed and reliability

## CURRENT SERVICES AND FUTURE PROJECTS

**Link Light Rail**
- Central Link (SeaTac/Airport–Westlake/Seattle)
- Tacoma Link (Tacoma Dome–Theater District)
- Under Construction (Opens 2016)
- In Design
- In Planning

**Sounder Commuter Rail**
- Everett–Seattle Sounder
- Tacoma–Seattle Sounder
- Under Construction (Opens 2012)

**ST Express Regional Bus**
- Express Bus Service
- Future Bus Rapid Transit (BRT)

**Supporting Investments**
- Park & Ride – Rail Station or Bus Facility
- Rail Station, Transit Center or Bus Stop Improvements
- HOV Direct Access Ramp, Freeway Station or Overpass
- HOV/Transit Improvements
- First Hill Link Connector (Opens 2014)

Ferry Terminal
Amtrak
Sea-Tac Airport

N

# FINANCIAL AND OPERATING HIGHLIGHTS

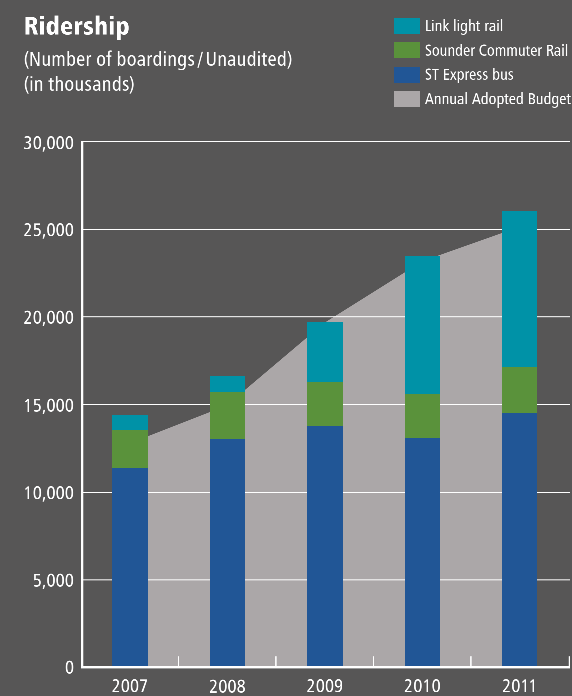
In 2011, Sound Transit not only was able to increase its service provided to the region, but was also able to increase the efficiency of its operations as total operating costs increased only 1.9% from 2010.

Increased service is reflected by a 10.7% increase in total ridership from 2010. Ridership on ST Express increased by 11.0% bringing total ridership to 14.5 million for the year as routes were restructured to capitalize on higher capacity routes and peak service times. Link ridership increased 11.6% to 8.8 million riders as Central Link continues to build ridership and as the new Commerce Street Station opened in September 2011 on Tacoma Link. In 2011, Sounder ridership increased 5.9% providing 2.6 million total rides as a result of the relocation of major businesses to downtown Seattle and an increase in automobile fuel prices.

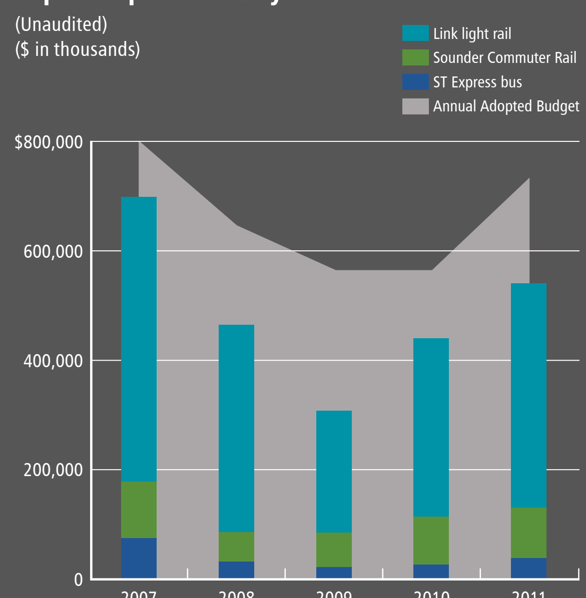
Despite the slow rebound of the economy, tax revenues continued to increase from 2010 by 4%. The increase is reflective of both an easing of the recession and receipts from the Department of Revenue's Amnesty Program in which businesses were provided incentives to pay past-due taxes.

Buildout of the ST2 capital program continued in 2011 with major milestones achieved on several projects. Link light rail capital program incurred $405.7 million primarily for construction of University Link and design of North Link and East Link. Sounder capital program incurred $92.2 million for the construction of the D St. to M St. Track & Signal Project in Tacoma and the acquisition of the second permanent easement from BNSF for the south line. ST Express capital program incurred $38.7 million for design costs related to Burien Transit Center and the I-90 Two Way Transit & HOV stage 2 project, a joint project with Washington State Department of Transportation to provide transit capacity on Interstate 90.

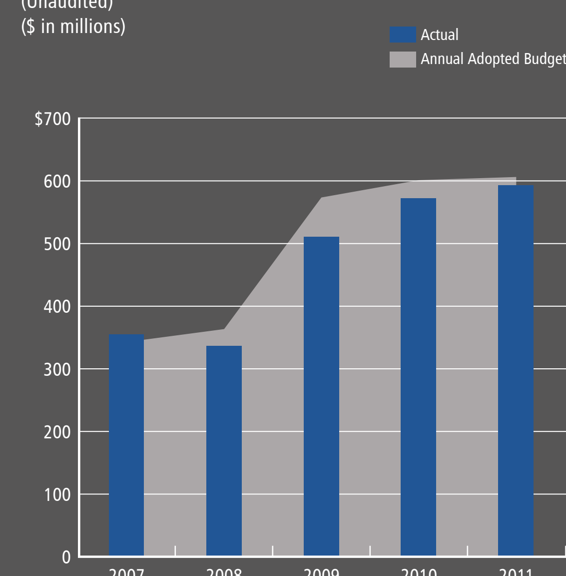
**Ridership**
(Number of boardings / Unaudited)
(in thousands)




**Capital Expenditures by Line of Business**
(Unaudited)
($ in thousands)




**Tax Revenue Collection History**
(Unaudited)
($ in millions)






# STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

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

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

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2011 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

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

**Joni Earl**
Chief Executive Officer

**Brian McCartan**
Chief Financial Officer

**Kelly A. Priestley**
Controller

## FINANCIALS

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2011 and 2010

Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2011 and 2010. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The initial phase of the voter-approved regional mass transit system "Sound Move" is scheduled for completion in 2016. The second phase "ST2," approved by the voters in November 2008, is scheduled for a 2023 completion. As individual transit system elements are completed, service will expand.

Sound Transit's financial statements reflect a growth in operating revenues and capital assets. In 2011, operating revenues increased significantly due to increases in ridership and fares on ST Express and Central Link. Sales and Use tax revenues also increased, mostly due to the Department of Revenue's (DOR) Amnesty Program, but also a growth in sales tax revenues in the latter part of the year. Operating expenses increased by less than 2.0%, as routes and schedules were adjusted to capitalize on efficiencies of higher demand routes and lower maintenance costs were incurred. Major sources of non-operating revenue continue to exceed expenses providing an increase in net assets as Sound Transit continues to build out the voter-approved capital program.

## FINANCIAL HIGHLIGHTS

- Total operating revenues were $51.9 million for 2011, an increase of 29.4% from the prior year. Passenger fares increased by $8.5 million from the prior year primarily as a result of increased ridership and pricing on business passport contracts, as well as an increase in fares on ST Express and Central Link light rail in 2011.
- Loss from operations was $271.5 million for 2011, a decrease of 3.0% from the prior year.
  - Overall operations and maintenance expenses increased by 1.9% from 2010. Costs increased in vehicle and facility maintenance as the light rail vehicles come out of warranty. Also, there were increases in fuel, fare enforcement and security costs incurred on ST Express and Sounder commuter rail, offset substantially by savings from the restructuring of ST Express service, the preservation of ST Express operating rates at 2010 levels and delays in major mid-life maintenance for Sounder commuter rail.
  - General and administrative expenses decreased by 13.5%, primarily due to a decrease in professional fees incurred in support of construction claim resolution.
- Non-operating revenues, net of expenses were $497.8 million, a 5.9% decrease from prior year primarily as a result of increases in contributions to other governments. Tax revenues increased by $23.6 million or 4.1%, largely due to the collection of prior year taxes from 2007 to 2011 under the DOR Amnesty Program. Investment income increased $6.8 million or 47.8% due to an increase in the market value of investments. Capital contributions to other governments increased $74.0 million with the completion of Mountlake Terrace Freeway Station, Kirkland Transit Center and Edmonds Station in 2011.
- Capital contributions from federal, state and local funding arrangements were $174.3 million, an increase of 6.4% from the prior year mostly due to higher drawdowns on the University Link full funding grant agreement resulting from increased construction spending on that project.
- Total net assets at December 31, 2011 were $4.4 billion, an increase of $400.6 million or 9.9% from 2010. The change in net assets in 2011 is less than the change in net assets in 2010 primarily due to the increase in capital contributions to other governments in 2011 consisting mostly of contributions to Washington State Department of Transportation (WSDOT) for the Mountlake Terrace Freeway Station that was completed and donated in 2011.
- Total capital assets, net of accumulated depreciation and amortization, were $5.0 billion at December 31, 2011, an increase of $386.3 million or 8.4% from 2010. The increase in total capital assets was mostly attributable to the progress on the University Link and the Sounder D Street – M Street Track & Signal project. In 2011, $214.2 million in expenditures related to completed projects or land acquisitions were transferred to land, permanent easements, transit facilities, vehicles and equipment.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Sound Transit's financial statements are prepared in conformity with United States Generally Accepted Accounting Principles (GAAP). The 2011 and 2010 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

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

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

## FINANCIAL ANALYSIS

### Net Assets

Sound Transit's total net assets at December 31, 2011, were $4.4 billion, an increase of $400.6 million or 9.9% from 2010. Total assets increased $277.7 million or 4.7% and total liabilities decreased by $122.9 million or 6.6%. The large increase in total assets reflects capital program spending, most significantly the University Link light rail projects and the Sounder D Street to M Street Track & Signal project, as well as the acquisition of an additional Sounder easement in the South corridor and replacement buses for ST Express. See the following table for a summary of Sound Transit's net asset position.

**Net Asset Position**

| | December 31 | | | % Change | |
|---|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2009 | 2011-2010 | 2010-2009 |
| Current assets, excluding restricted assets | $ 988.6 | $ 1,090.6 | $ 918.8 | (9.4)% | 18.7% |
| Restricted assets | 108.3 | 109.3 | 239.7 | (0.9) | (54.4) |
| Capital assets | 4,996.8 | 4,610.5 | 4,200.7 | 8.4 | 9.8 |
| Other non-current assets | 87.8 | 93.4 | 92.0 | (6.0) | 1.5 |
| **Total Assets** | **6,181.5** | **5,903.8** | **5,451.2** | **4.7** | **8.3** |
| Current liabilities, excluding interest payable from restricted assets | 134.1 | 228.4 | 167.4 | (41.3) | 36.4 |
| Interest payable from restricted assets | 18.0 | 18.2 | 19.0 | (1.1) | (4.3) |
| Long-term debt | 1,529.0 | 1,550.5 | 1,571.3 | (1.4) | (1.3) |
| Other long-term liabilties | 65.5 | 72.4 | 72.1 | (9.6) | 0.4 |
| **Total Liabilities** | **1,746.6** | **1,869.5** | **1,829.8** | **(6.6)** | **2.2** |
| **Net Assets** | | | | | |
| Invested in capital assets, net of related debt | 3,457.9 | 3,051.5 | 2,775.5 | 13.3 | 9.9 |
| Restricted net assets | 90.3 | 91.1 | 78.3 | (0.9) | 16.4 |
| Unrestricted net assets | 886.7 | 891.7 | 767.6 | (0.6) | 16.2 |
| **Total Net Assets** | **$ 4,434.9** | **$ 4,034.3** | **$ 3,621.4** | **9.9%** | **11.4%** |

Current assets, excluding restricted assets, decreased in 2011 by 9.4% from 2010. Cash and investments decreased due to further capital program spending in 2011, as significant Sound Move projects were completed and as ST2 projects progressed. In 2010 current assets, excluding restricted assets, increased by 18.7% from 2009 as cash received from revenues exceeded 2010 capital and operating expenditures for the year, allowing Sound Transit to increase its investment position in that year.

In 2011, restricted assets were similar to prior year levels while in 2010 restricted assets decreased by 54.4% from 2009 as cash that was restricted from the 2009 bond issuance was fully spent down.

Capital assets increased in 2011 by 8.4% from 2010 reflecting construction spending on University Link and Sounder D Street to M Street Track & Signal projects, the acquisition of the second permanent easement from the BNSF Railway Company (BNSF) and the purchase of thirty-five replacement buses. In 2010, capital assets increased 9.8% over 2009 as construction ramped up on the University Link project, the acquisition of a permanent easement from BNSF and the purchase of twenty-seven new buses.

Total capital project spending for 2011 was $578.1 million (2010 was $520.6 million). University Link represented the largest capital spending component comprising 54.5% of spending on capital projects. In all, total capital spending for light rail was $405.7 million or 69.8% of the total capital spending ($339.2 million or 65.5% in 2010). Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 16.8% and 7.1%, respectively (18.9% and 5.6% in 2010). Transfers out of capital projects in progress were $297.4 million ($201.1 million in 2010) as projects were completed and transferred to property, transit facilities, vehicles and equipment or expensed as indicated in the following table:

**Transfers Out of Capital Projects in Progress**

| (in millions) | For the Year Ended December 31<br>2011 | 2010 | 2009 |
|---|---|---|---|
| Transferred to property, vehicles and equipment | $ 214.2 | $ 191.5 | $2,387.9 |
| Expensed to contributions to other governments | 81.7 | 7.7 | 25.5 |
| Transferred to prepaid expenses, inventory and non-capitalized expenditures | – | 0.1 | 0.5 |
| Link start-up expenditures | – | – | 12.8 |
| Write-off of overhead, discontinued and impaired project costs and loss on disposal of assets | 1.5 | 1.8 | 11.2 |
| | $ 297.4 | $ 201.1 | $2,437.9 |

Costs written off to general and administrative for 2011 were comparable to 2010. In 2010, costs written off to general and administrative expenses decreased as the majority of excess overhead incurred on Sounder projects were written off in 2009 and as no major project impairments were identified.

Current liabilities, in 2011, excluding interest payable from restricted assets, decreased by 41.3% as significant construction claims were settled during the year. Current liabilities, in 2010, excluding interest payable from restricted assets, increased by 36.4% as higher amounts were payable at year-end with the increase in construction activity in 2010. Interest payable and long-term debt decreased in 2011 and 2010 reflecting principal payments made on the 1999, 2005A and 2007A bonds. Other long-term liabilities decreased by 9.6% due to payments made on the capital lease obligation for Sounder rail cars.

The following table presents the net asset components and their relative percentage to total net assets:

**Net Assets**

| (in millions) | December 31<br>2011 | 2010 | 2009 | % Total Net Assets<br>2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Invested in capital assets, net of related debt | $ 3,457.9 | $ 3,051.5 | $ 2,775.5 | 78.0% | 75.6% | 76.6% |
| Restricted net assets | 90.3 | 91.1 | 78.3 | 2.0 | 2.3 | 2.2 |
| Unrestricted net assets | 886.7 | 891.7 | 767.6 | 20.0 | 22.1 | 21.2 |
| **Total** | **$ 4,434.9** | **$ 4,034.3** | **$ 3,621.4** | **100.0%** | **100.0%** | **100.0%** |



Sound Transit's net assets represent the cumulative effect of the excess of revenues over expenses together with the impact of Sound Transit's financing decisions. Invested in capital assets reflects investment in property, net of related debt, construction in progress and depreciable assets used in its operations. Restricted net assets are assets restricted by a third party for use by the agency for a specific purpose and unrestricted net assets are the remainder of net assets not invested in capital nor restricted for a specific purpose. Net asset categories as a percentage of total net assets were comparable for 2011, 2010 and 2009.

## CHANGES IN NET ASSETS

Changes in net assets reflect the excess of revenue over expenses for a year. In 2011, revenues exceeded expenses by $400.6 million, while in 2010 it was $412.9 million. Operating revenues, primarily passenger fares, increased 29.4%, while non-operating revenues, net of expenses decreased 5.9% due to increased capital contributions to other governments primarily consisting of the contribution of the completed Mountlake Terrace Freeway Station project. Sound Transit's Statement of Revenue, Expenses and Changes in Net Assets is summarized in the table below:

**Changes in Net Assets**

| (in millions) | For the Year Ended December 31<br>2011 | 2010 | 2009 | % Change<br>2011-2010 | 2010-2009 |
|---|---|---|---|---|---|
| **Operating revenues** | | | | | |
| Passenger fares | $ 46.1 | $ 37.6 | $ 29.0 | 22.7% | 29.4% |
| Other | 5.8 | 2.5 | 3.6 | 128.3 | (29.6) |
| **Total operating revenues** | **51.9** | **40.1** | **32.6** | **29.4** | **22.9** |
| **Operating expenses** | | | | | |
| Total operating expenses, before depreciation and loss on disposal of assets | 213.0 | 215.7 | 192.7 | (1.3) | 12.0 |
| Depreciation and loss on disposal of assets | 110.4 | 104.3 | 65.8 | 5.9 | 58.5 |
| **Total operating expenses** | **323.4** | **320.0** | **258.5** | **1.0** | **23.8** |
| Loss from operations | (271.5) | (279.9) | (225.9) | (3.0) | 23.9 |
| Non-operating revenues, net of expenses | 497.8 | 529.0 | 492.9 | (5.9) | 7.3 |
| **Income before capital contributions** | **226.3** | **249.1** | **267.0** | **(9.1)** | **(6.7)** |
| Capital contributions | 174.3 | 163.8 | 176.4 | 6.4 | (7.1) |
| **Change in net assets** | **400.6** | **412.9** | **443.4** | **(3.0)** | **(6.9)** |
| Total net assets, beginning | 4,034.3 | 3,621.4 | 3,178.0 | 11.4 | 14.0 |
| **Total net assets, ending** | **$ 4,434.9** | **$ 4,034.3** | **$ 3,621.4** | **9.9%** | **11.4%** |

## OPERATING REVENUES

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

## PASSENGER FARE REVENUE

Passenger fares are derived from the sale of Sounder commuter rail and Central Link tickets from ticket vending machines, farebox 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 overall growth in passenger fare revenue of 22.7% and 29.4% in 2011 and 2010, respectively, due to increases in both ridership and fares. ST Express continues to be the largest revenue generating mode due to the nature of its service serving major corridors and transit centers in the Sound Transit District as well as serving as a connector between other Sound Transit modes and local bus services. The effect of each component on passenger fare revenue is discussed in the sections below.

The following table displays passenger fare revenue by mode:

**Passenger Fare Revenue**

| | | | | % Change | |
|---|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2009 | 2011-2010 | 2010-2009 |
| ST Express | $ 25.7 | $ 20.9 | $ 18.9 | 23.5% | 10.3% |
| Link | 12.0 | 9.6 | 2.3 | 25.3 | 305.1 |
| Sounder | 8.4 | 7.1 | 7.8 | 16.8 | (8.3) |
| **Total** | **$ 46.1** | **$ 37.6** | **$ 29.0** | **22.7%** | **29.4%** |

Overall Sound Transit ridership increased 10.7% in 2011 to 26.0 million riders. ST Express ridership increased 11.0% as increases in automobile fuel prices attracted riders and service redeployments that moved resources to serve higher capacity routes. In 2010, while down 5.0% from 2009, ridership on ST Express was preserved due to route enhancements deployed on heavily traveled routes that included increased service hours of 3.1% in 2010.

Link consists of Central Link and Tacoma Link. Ridership on Link increased 11.6% from 2010 due to continued growth in ridership on Central Link, which opened in 2009, and the opening of the Commerce Street station on Tacoma Link in September 2011. In 2010 Central Link ridership increased by 4.5 million riders, as new ridership was derived from the community as well as other Sound Transit service modes and local bus service that services the Central Link corridor. Ridership on Tacoma Link in 2010 was comparable to that of 2009.

Sounder commuter rail ridership increased to 2.6 million or 5.9% from 2.5 million riders in 2010 as a few major businesses relocated to the downtown Seattle area and automobile fuel prices increased. Sounder commuter rail ridership in 2010 was comparable to the prior year, with growth impacted by a slowing regional economy, lower automobile fuel prices and reduced congestion, which combined to reduce the incentives to use rail transit.

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

**Ridership**

| | | | | % Change | |
|---|---|---|---|---|---|
| (in thousands) | 2011 | 2010 | 2009 | 2011-2010 | 2010-2009 |
| ST Express | 14,534.4 | 13,092.8 | 13,784.8 | 11.0% | (5.0)% |
| Link | 8,831.8 | 7,914.4 | 3,421.8 | 11.6 | 131.3 |
| Sounder | 2,626.7 | 2,480.1 | 2,492.4 | 5.9 | (0.5) |
| **Total** | **25,992.9** | **23,487.3** | **19,699.0** | **10.7%** | **19.2%** |

In addition to the effects of the changes in ridership, the overall average fare per boarding (AFB) in 2011 increased $0.20 or 11.5%, mostly due to changes in pricing methodology for annual business passport contracts that began utilizing actual account ridership data from the ORCA system. Business passport contracts represent the largest source of revenue for each mode. ST Express and Central Link AFB's further increased as a result of a $0.50 and $0.25 fare increase for regular fares on ST Express and Central Link, respectively, and a $0.25 fare increase for youth fares on ST Express. Fares were increased in 2011 on ST Express to align fares with partner transit agencies. The 2011 Sounder commuter rail AFB increased $0.29 or 10.2% from 2010 due to the new pricing methodology utilized in 2011 for business passport contracts.

**Average Fare per Boarding**

| | | | | % Change | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2011 – 2010 | 2010 – 2009 |
| ST Express | $ 1.90 | $ 1.67 | $ 1.47 | 13.5% | 13.6% |
| Link | 1.53 | 1.38 | 0.98 | 11.1 | 40.2 |
| Sounder | 3.17 | 2.88 | 3.12 | 10.2 | (7.7) |
| **Combined average fare per boarding** | **1.92** | **1.72** | **1.64** | **11.5** | **5.0** |

The increase in the overall AFB in 2010 from 2009 was 5.0% primarily due to a fare increase on ST Express and an increase in ridership on Central Link. In 2010, the increase in ST Express AFB from $1.47 to $1.67 is the result of a $0.50 regular fare increase to maintain established farebox recovery levels. The Central Link AFB increased in 2010 from $0.98 to $1.38 as a result of the line completing its first full year of service. Sounder commuter rail AFB decreased 7.7% from $3.12 to $2.88 in 2010 due to varying ridership patterns and greater utilization of the service by business account riders in which revenue is derived from fixed price multi-modal contracts. See the table above for the AFB by mode.

### Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of equipment and facilities, operating grants and other miscellaneous revenue. Other operating revenues of $5.8 million were up $3.3 million or 128.3% from 2010. In 2011, $2.4 million in operating grants from WSDOT were obtained for airspace lease rights for Mountlake Terrace Freeway Station and University of Washington Station upon the opening of University Link scheduled for 2016. Furthermore, rental revenue substantially increased in 2011 as buses were leased to Pierce Transit following the compressed natural gas tank explosion at their maintenance facility in February 2011. In 2010, other operating revenues were down $1.1 million or 29.6% from 2009 as the vehicle lease arrangements with Metrolink were terminated for several Sounder revenue vehicles to meet planned service expansion requirements on the Sounder South Line in 2010.

## OPERATING EXPENSES

Operating expenses are comprised of operations and maintenance costs, general and administrative, fare and regional planning, and depreciation and amortization.

### Operations and Maintenance

Operations and maintenance expenses increased in 2011 by $3.4 million or 1.9% and by $16.3 million or 10.0% in 2010 due to increases in the overall operating cost of Central Link as light rail vehicles come out of warranty and as facilities maintenance increases as a result of increased use. The operating cost of ST Express and Sounder commuter rail in 2011 remained comparable to 2010.

These expenses are classified by function 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. See the following table for operating and maintenance expenses by function.

**Operations and Maintenance Expenses by Function**

| | | | | % Change | |
|---|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2009 | 2011 – 2010 | 2010 – 2009 |
| Vehicle operations | $ 112.5 | $ 107.1 | $ 97.8 | 5.1% | 9.5% |
| Vehicle maintenance | 45.6 | 46.7 | 45.4 | (2.5) | 2.8 |
| Non-vehicle maintenance | 24.0 | 24.9 | 19.2 | (3.5) | 29.7 |
| **Total** | **$ 182.1** | **$ 178.7** | **$ 162.4** | **1.9%** | **10.0%** |

The increase of $5.4 million or 5.1% in 2011 for vehicle operations expense stems from increases in fuel costs, fare enforcement and security on all modes and increases in Central Link operator rates, offset partially by savings realized from the restructuring of ST Express service. The restructure of ST Express service resulted in more cost effective operations as higher capacity routes and peak service times were served more effectively. The increase in 2010 of $9.3 million or 9.5% resulted from the operation of a full year of an additional reverse commute for Sounder commuter rail, which started in June 2009, implementation of ST2 service enhancements for ST Express and the operation of a full year of revenue service on Central Link.

Vehicle maintenance expenses decreased $1.1 million or 2.5% in 2011 (increased $1.3 million or 2.8% in 2010) reflecting the delay in further mid-life maintenance scheduled for Sounder commuter rail to 2012 as well as the replacement of buses that had reached their full service life in 2011. As the agency replaced ST Express buses and expanded the fleet in 2010 and 2011 bus maintenance costs have declined. In 2011, the delay in planned mid-life maintenance for Sounder commuter rail was accomplished without impact to operations or safety of those vehicles and these savings helped offset increases in light rail vehicle maintenance costs that increased as the vehicles came out of warranty during the year. Vehicle maintenance expense increased in 2010 due to performance of mid-life maintenance on Sounder commuter rail and increased maintenance on the aging ST Express fleet as well as a full year of maintenance performed on Central Link light rail vehicles that went into service in June 2009.

Non-vehicle maintenance expenses decreased $0.9 million or 3.5% in 2011 (increased $5.7 million or 29.7% in 2010) due to a decrease in major maintenance related to the Downtown Seattle Transit Tunnel (DSTT) for ST Express and Central Link that was completed in 2010. The decrease in DSTT major maintenance offset increases in facility and track maintenance for Central and Tacoma Link and Sounder commuter rail in 2011. The amount increased in 2010 with the full year impact of the deployment of fare collection equipment for light rail, a full year of increased share of maintenance costs related to the DSTT and transit facilities supporting the Central Link light rail service, opened July 2009, as well as an increase in maintenance performed at existing transit facilities in 2010.

The following table presents operating and maintenance expenses by mode.

**Operating and Maintenance Expenses by Mode**

| | | | | % Change | |
|---|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2009 | 2011-2010 | 2010-2009 |
| ST Express | $ 96.7 | $ 96.6 | $ 85.0 | 0.1% | 13.7% |
| Link | 53.3 | 49.4 | 43.1 | 8.0 | 14.4 |
| Sounder | 32.1 | 32.7 | 34.3 | (1.8) | (4.7) |
| **Total** | **$182.1** | **$178.7** | **$162.4** | **1.9%** | **10.0%** |

Major modal expense categories consist of services, materials, supplies, utilities, insurance, taxes, and purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents 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 to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 62.8% of this category in 2011 and 63.1% in 2010. 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 19.2% in 2011 and 19.7% in 2010 of total operating and maintenance expenses.

ST Express operating and maintenance costs for 2011 were comparable to 2010 levels whereas 2010 experienced an increase of 13.7% over 2009. Costs were maintained in 2011 as a result of transferring routes 566 and 567 from King County DOT to Pierce Transit, a lower cost operator, and a decrease in bus maintenance costs with the majority of the aging New Flyer fleet being replaced. The 2010 increase was a result of an increase in purchased transportation costs of $11.4 million as the majority of the ST2 related service enhancements were implemented, operator fees increased, significant maintenance was performed on the aging New Flyer bus fleet and maintenance fees for facilities and the DSTT increased.



Link operating and maintenance expenses include both Tacoma Link and Central Link light rail lines. Total light rail operating and maintenance expenses increased $3.9 million or 8.0% from 2010 ($6.3 million or 14.4% from 2009) as a result of increases in Central Link operating rates as additional employees were needed to perform revenue vehicle and transit facility maintenance. Total operating and maintenance expense for Central Link was $46.0 million in 2010, an increase of 16.3% from 2009, due to the operation of its first full year of revenue service in 2010. Tacoma Link operating and maintenance expenses were comparable for 2011, 2010 and 2009.

Operating and maintenance costs on Sounder commuter rail were slightly down from 2010 as service levels remained substantially unchanged compared to a 4.7% decrease in 2010 from the prior year. The cost savings realized in 2011 were as a result of fuel saving measures implemented at layover facilities throughout 2010 and improved cost structure related to the Amtrak maintenance contract that offset the increase in service operating rates related to BNSF and increase in fuel prices. In 2010, service costs decreased $2.3 million as security and fare collection services were shared with other modes, resulting in a significant per unit cost decrease for Sounder commuter rail. Purchased transportation costs increased in 2010 with the full year operation of an additional reverse commute trip deployed in June 2009 in the South Corridor.

## General and Administrative

General and administrative expenses comprise Agency 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. In 2011, general and administrative expenses decreased by $4.7 million or 13.5%, while in 2010 they increased by $9.6 million or 38.9% primarily due to the amount incurred in legal defense costs related to construction claim resolution.

Salaries and benefits increased 1.9% in 2011 due to an increase in staff to support critical organizational functions needed to support the ST2 program as well as agency wide services and initiatives such as asset and records management. Salaries and benefits decreased by 5.0% in 2010 as staff were assigned to support the transition of University Link to construction and the ramp up of Central Link operations.

Services and professional fees decreased $3.5 million or 24.3% in 2011 (increased $9.4 million or 197.9% in 2010) reflecting less costs incurred to support construction claim resolution as most outstanding construction claims related to Central Link were settled in 2010. Excluding claims costs, services and professional fees were comparable between years.

Other expenses decreased by $1.5 million or 34.1% from 2010 as additional costs were charged to capital projects in support of the ST2 capital program. Other expenses increased in 2010 by $1.0 million or 31.1% due to a full-year lease of additional office space that commenced at the end of 2009.

## 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 2011, fare and regional planning expenses decreased by $1.6 million or 53.8% as more costs were allocated to capital projects as ST2 projects began preliminary design as well as a decrease in ORCA implementation costs from 2010. In 2010, fare and regional planning expenses decreased by $2.8 million or 49.3% as planning related to East Link was completed in 2009.

**General and Administrative Expenses**

| | | | | % Change | |
|---|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2009 | 2011-2010 | 2010-2009 |
| Salaries | $ 10.7 | $ 10.1 | $ 10.8 | 6.0% | (6.3)% |
| Benefits | 5.3 | 5.6 | 5.7 | (5.5) | (2.4) |
| Services and professional fees | 10.6 | 14.1 | 4.7 | (24.3) | 197.9 |
| Other | 2.9 | 4.4 | 3.4 | (34.1) | 31.1 |
| **Total** | **$ 29.5** | **$ 34.2** | **$ 24.6** | **(13.5)%** | **38.9%** |

### Depreciation and Amortization

Depreciation and amortization includes insignificant gain or loss on disposal of assets used in operations. Depreciation and amortization increased in 2011 by $6.1 million or 5.9% from the prior year ($38.5 million or 58.5% increase in 2010) due to additional revenue vehicles that went into service for ST Express and Central Link light rail as well as additional costs that were capitalized related to Central Link assets as construction contracts reach full completion. In 2010, the increase in depreciation and amortization from 2009 reflects the Central Link light rail system that went into service in July 2009.

### Non-Operating Revenues (Expenses)

Net non-operating revenues decreased by $31.2 million or 5.9% in 2011 compared to an increase of $36.1 million or 7.3% in 2010. In 2011, net non-operating revenues decreased as capital contributions to other governments increased by $74.0 million that offset increases in tax revenues of $23.6 million and $6.8 million in investment income. In 2010 net non-operating revenues increased primarily as a result of the increase in sales and use tax revenue collected at the higher sales and use tax rate of 0.9% for the entire year compared to 9 months in 2009.

Sales and Use tax revenues increased by $23.9 million or 4.7% in 2011 due to taxes received from the DOR Amnesty Program that provided incentives to businesses to satisfy their tax obligations for years 2007 through 2011 by waiving non-compliance penalties and interest, as well as an increase in tax revenues due to faster economic growth. Sales and Use tax revenues increased in 2010 by $63.2 million or 14.3% due to a full year collection of tax at the ST2 voter approved rate of 0.9% that became effective April 2009 versus the prior rate of 0.4%. Motor Vehicle Excise and Rental Car Sales tax revenues were comparable for 2009, 2010 and 2011.

Investment earnings increased by $6.8 million in 2011 due to increases in the fair market value of investments. In 2010, the investment income increased as a result of higher cash and investment balances on hand during the year from the issuance of bonds in September 2009. Other revenue decreased by $2.2 million from 2010 as no insurance recoveries were received in 2011 as there had been in 2010.

Interest expense, net decreased $9.0 million from 2010 as more interest was capitalized due to higher construction spending from the prior year. In 2010 interest expense, net increased $52.6 million as additional interest was incurred on the bonds issued in September 2009 and less interest was capitalized with the decreased capital program spending as Initial Segment construction reached substantial completion and construction on University Link project had not yet fully ramped up.

#### Non-operating Revenues and Expenses

| (in millions) | 2011 | 2010 | 2009 | % Change 2011-2010 | % Change 2010-2009 |
|---|---|---|---|---|---|
| **Non-operating revenues:** | | | | | |
| Sales and use tax | $ 528.0 | $ 504.1 | $ 440.9 | 4.7% | 14.3% |
| Motor vehicle excise tax | 65.9 | 65.8 | 67.3 | 0.2 | (2.2) |
| Rental car tax | 2.0 | 2.4 | 2.9 | (18.7) | (16.0) |
| Investment income | 20.9 | 14.1 | 12.4 | 47.8 | 14.3 |
| Other revenues | 8.6 | 10.8 | 0.9 | (18.7) | 1,070.0 |
| **Total** | **625.4** | **597.2** | **524.4** | **4.7** | **13.9** |
| **Non-operating expenses:** | | | | | |
| Interest expense | 76.0 | 76.4 | 62.5 | (0.6) | 22.3 |
| Interest expense, capitalized | (32.2) | (23.6) | (62.3) | 36.5 | (62.1) |
| Interest expense, net | 43.8 | 52.8 | 0.2 | (17.1) | 28,875.0 |
| Capital contributions to other governments | 81.7 | 7.7 | 25.5 | 961.2 | (69.8) |
| Discontinued/impaired projects | 2.1 | 7.7 | 5.8 | (72.3) | 32.4 |
| **Total** | **127.6** | **68.2** | **31.5** | **87.3** | **116.4** |
| **Non-operating revenues** | **$ 497.8** | **$ 529.0** | **$ 492.9** | **(5.9)%** | **7.3%** |



Capital contributions to other governments are pursuant to capital improvement or funding agreements and are dependent upon the timing and scope of project activities that results in significant fluctuations year over year. In 2011, capital contributions increased $74.0 million from 2010 reflecting the completion of Mountlake Terrace Freeway Station, Kirkland Transit Center and Edmonds Station projects now owned by WSDOT, City of Kirkland and Community Transit, respectively. In 2010 capital contributions decreased $17.8 million from 2009 as Newcastle Transit Center was the only project completed in which Sound Transit didn't retain an ownership interest.

Impairments result from permanent loss in utility of an asset or one of its components. As such, assets and capital projects are reviewed annually for reductions in functionality resulting from obsolescence, scope changes and loss due to casualty that cause impairment, thereby resulting in a write-off of the associated cost. In 2011, impairments decreased by $5.6 million (and increased in 2010 from 2009 by $1.9 million) as costs incurred to mitigate the Beacon Hill Tunnel voids created during the construction of the Initial Segment project were primarily incurred in 2010.

### Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2011 by $10.5 million or 6.4% due to increased spending on eligible federally funded capital projects. The following table summarizes capital contributions by major category:

#### Capital Contributions

| (in millions) | 2011 | 2010 | 2009 | % Change 2011-2010 | % Change 2010-2009 |
|---|---|---|---|---|---|
| Federal | $ 168.7 | $ 151.8 | $ 153.1 | 11.1% | (0.8)% |
| State and local governments | 5.6 | 12.0 | 23.3 | (53.5) | (48.6) |
| **Total** | **$ 174.3** | **$ 163.8** | **$ 176.4** | **6.4%** | **(7.1)%** |

Federal contributions increased by $16.9 million in 2011 reflecting the increased spending on the University Link project that provided for increased grant drawdowns of the University Link full funding grant agreement provided by the Federal Transportation Authority. State and local government contributions decreased in 2011 by $6.4 million over 2010 as the state regional mobility grants related to Mountlake Terrace Freeway Station and the purchase of expansion buses were fully expended in 2010. In 2010, state and local contributions decreased $11.3 million from 2009 due to the receipt of a land bank contribution in 2009 from WSDOT for the right to cross under I-5 for the construction and operating of University Link. The Sounder D Street to M Street Track & Signal project also received $3.1 million and $3.2 million in state regional mobility grants in 2011 and 2010, respectively.

## CAPITAL ASSETS

As of December 31, 2011, Sound Transit had invested $5.0 billion in capital assets, net of accumulated depreciation and amortization, which included $3.2 billion of depreciable assets in service. This represents a $386.3 million or an 8.4% increase over 2010. The increase reflects capital project spending for University Link, Sounder South Line corridor and Regional Express fleet replacement. Capital Projects in Progress (CIP) increased $280.7 million or 39.5% while non-depreciable and depreciable assets increased $50.9 million or 7.1% and $54.7 million or 1.7%, respectively.

Land increased by $4.6 million in 2011, reflecting acquisitions for the North Link project and the Tacoma to Lakewood corridor project and by $9.1 million in 2010, also for the North Link project as well as the reclassification of land from inventory for land Sound Transit will use in the South Link project.

**Sound Transit Capital Assets (net of depreciation)**

| (in millions) | December 31 2011 | 2010 | 2009 | % Change 2011-2010 | 2010-2009 |
|---|---|---|---|---|---|
| Land | $392.7 | $388.1 | $379.0 | 1.2% | 2.4% |
| Permanent easements | 374.1 | 327.8 | 285.6 | 14.1 | 14.8 |
| Capital projects in progress | | | | | |
| Sound Transit | 968.1 | 661.0 | 368.1 | 46.5 | 79.6 |
| Other governments | 23.4 | 49.8 | 23.2 | (52.9) | 114.4 |
| Total capital projects in progress | 991.5 | 710.8 | 391.3 | 39.5 | 81.6 |
| **Total non-depreciable assets** | **1,758.3** | **1,426.7** | **1,055.9** | **23.2** | **35.1** |
| Buildings, transit facilities & rail | 2,346.6 | 2,370.2 | 2,329.1 | (1.0) | 1.8 |
| Access rights | 400.6 | 421.6 | 445.3 | (5.0) | (5.3) |
| Revenue vehicles | 487.1 | 386.0 | 362.1 | 26.2 | 6.6 |
| Equipment, vehicles & other | 4.2 | 6.0 | 8.3 | (30.2) | (28.6) |
| **Total depreciable assets** | **3,238.5** | **3,183.8** | **3,144.8** | **1.7** | **1.2** |
| **Total net capital assets** | **$ 4,996.8** | **$ 4,610.5** | **$ 4,200.7** | **8.4%** | **9.8%** |

Permanent easements increased in 2011 by $46.3 million with the acquisition of the second of four permanent easements from BNSF to operate an additional round trip in the Sounder Seattle to Tacoma corridor and by $42.2 million in 2010 for the acquisition of the first of four permanent easements.

CIP had a net increase of $280.7 million in 2011 ($319.5 million in 2010). In 2011, total capital spending was $578.1 million, up 11.0% from 2010, as the tunnel and light rail vehicle portion of the University Link project were completed ahead of schedule while transfers out of CIP increased $96.3 million as new light rail vehicles and buses and Mountlake Terrace Freeway Station were placed into service. Total capital spending in 2010 increased 30.1% from 2009 as University Link project entered construction. Transfers out of CIP decreased by $2.2 billion in 2010 due to the Initial Segment project starting revenue service in 2009. Capital projects that incurred major spending activity in 2011 and 2010 are summarized in the following table.

**Major Capital Project Activities from 2011 and 2010**

| | Sounder | Link | ST Express |
|---|---|---|---|
| 2011 | ■ D Street to M Street Track & Signal<br>■ Sounder South Expanded Service | ■ First Hill Link Street Car<br>■ East Link (Downtown to Bellevue)<br>■ North Link (UW Station to Northgate)<br>■ University Link (PSST to UW Station)<br>■ University Link (University Tunnel)<br>■ University Link (UW Staton and Capital Hill Station)<br>■ South Link (176th to 200th) | ■ Burien Transit Center Parking Expansion<br>■ Fleet Replacement<br>■ I-90 2-Way Transit & HOV Stage 2 |
| 2010 | ■ D Street to M Street Track & Signal<br>■ Sounder South Expanded Service<br>■ Tacoma to Lakewood Track & Signal | ■ Central Link (Beacon Hill Tunnel)<br>■ East Link (Downtown to Bellevue)<br>■ Northlink (UW Station to Northgate)<br>■ University Link (PSST to UW Station)<br>■ University Maintenance Base Expansion<br>■ South Link (176th to 200th) | ■ Fleet Expansion & Replacement<br>■ Mountlake Terrace Freeway Station |



Building, transit facilities, and rail, net of depreciation and amortization, decreased in 2011 by $23.6 million due to depreciation exceeding current year asset additions. In 2010, this category increased by $41.1 million, primarily related to the capitalization of Tacoma to Lakewood Track & Signal project and additional capitalized costs to close out the Initial Segment light rail projects.

Access rights, net of depreciation and amortization, decreased by $21.0 million in 2011 and decreased by $23.7 million in 2010. Access rights decreased due to depreciation and amortization exceeding current year additions. Access rights reflect the cost of acquiring rights from the Cities of Seattle, Tukwila and Sea Tac for the purposes of running the light rail in city right of way, rights acquired from BNSF to operate Sounder train service, as well as a right to use Washington State Fairgrounds for Sounder commuter rail parking.

Revenue vehicles, net of depreciation and amortization, increased in 2011 by $101.1 million with the delivery of thirty-five buses (the balance of the ST2 replacement and service expansion bus program) and delivery of twenty-seven light rail vehicles for University Link that were deployed in revenue service in 2011. In 2010, revenue vehicles, net of depreciation and amortization, increased $23.9 million with the purchase of additional buses for bus replacement and service expansion.

More detailed information about Sound Transit's capital assets is presented in note 5 to the Financial Statements.

## LONG-TERM DEBT

Sound Transit issued no debt in 2011 and 2010. 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 2010 assessed valuations for collection of 2011 taxes, Sound Transit's nonvoter approved remaining debt capacity is $4.7 billion and its voter approved remaining debt capacity is $19.4 billion.

## ECONOMIC CONDITIONS

Recovery from the economic recession continues to impact Sound Transit's tax collections with slower recovery in retail and motor vehicle sales that have translated into lower tax revenues than planned, but also the agency has experienced lower construction bid costs on the ST2 capital program. Tax revenues increased in 2011 due to the collection of past due taxes from 2007 through 2011 under DOR's Amnesty Program and a slight easing of the recession and in 2010 due to the impact of a 0.5% Sales and Use Tax increase effective April 1, 2009, implemented to fund the ST2 program approved by voters in November 2008. Without the increased collections received from the Amnesty Program and the rate increase, tax revenues would be comparable to 2009 levels.

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## Independent Auditors' Report

The Board of Directors
Central Puget Sound Regional Transit Authority:

We have audited the accompanying balance sheets of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name Sound Transit) as of December 31, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows (herein referred to as the financial statements) for the years then ended. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sound Transit's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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.

KPMG LLP

May 25, 2012



## Balance Sheets

| (in thousands) | December 31 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 3) | $ 85,949 | $ 124,746 |
| Restricted assets (note 3) | 2,230 | 2,812 |
| Investments (note 3) | 752,108 | 815,089 |
| Taxes and other receivables (notes 4) | 130,696 | 132,709 |
| Inventory | 14,190 | 12,334 |
| Prepaid expenses | 5,645 | 5,727 |
| **Total current assets** | **990,818** | **1,093,417** |
| **Non-current assets** | | |
| Capital assets, net of accumulated depreciation (note 5) | 4,996,822 | 4,610,501 |
| Restricted assets (note 3) | 106,087 | 106,512 |
| Investment held to pay capital lease obligation (note 6) | 57,578 | 63,308 |
| Unamortized bond issuance costs | 9,302 | 9,890 |
| Prepaid expense and deposits | 20,859 | 20,149 |
| **Total non-current assets** | **5,190,648** | **4,810,360** |
| **Total assets** | **$ 6,181,466** | **$ 5,903,777** |
| **LIABILITIES AND NET ASSETS** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 7) | $ 109,573 | $ 131,784 |
| Deferred receipts | 3,050 | 2,058 |
| Interest payable from restricted assets | 18,017 | 18,225 |
| Current portion, long-term debt (note 8) | 19,195 | 18,465 |
| Other claims and short-term obligations | 2,232 | 76,075 |
| **Total current liabilities** | **152,067** | **246,607** |
| **Non-current liabilities** | | |
| Long-term debt (note 8) | 1,529,002 | 1,550,473 |
| Capital lease obligations (note 6) | 57,578 | 63,308 |
| Other long-term obligations (note 9) | 7,907 | 9,099 |
| **Total non-current liabilities** | **1,594,487** | **1,622,880** |
| **Total liabilities** | **1,746,554** | **1,869,487** |
| **Commitments and contingencies (notes 6, 9, 11, and 12)** | | |
| **Net assets** | | |
| Invested in capital assets, net of related debt | 3,457,927 | 3,051,453 |
| Restricted for debt service and other (note 10) | 90,299 | 91,099 |
| Unrestricted | 886,686 | 891,738 |
| **Total net assets** | **4,434,912** | **4,034,290** |
| **Total liabilities and net assets** | **$ 6,181,466** | **$ 5,903,777** |

See accompanying notes to financial statements.

## Statements of Revenues, Expenses and Changes in Net Assets

| (in thousands) | December 31 2011 | December 31 2010 |
|---|---|---|
| **Operating revenues** | | |
| Passenger fares | $ 46,116 | $ 37,589 |
| Other operating revenue | 5,814 | 2,547 |
| **Total operating revenues** | **51,930** | **40,136** |
| **Operating expenses** | | |
| Vehicle operations | 112,511 | 107,092 |
| Vehicle maintenance | 45,598 | 46,757 |
| Non-vehicle maintenance | 23,997 | 24,869 |
| General and administrative | 29,542 | 34,165 |
| Fare and regional planning | 1,337 | 2,891 |
| Depreciation, amortization and accretion | 110,413 | 104,285 |
| **Total operating expenses** | **323,398** | **320,059** |
| **Loss from operations** | **(271,468)** | **(279,923)** |
| **Non-operating revenues (expenses)** | | |
| Sales tax | 528,022 | 504,101 |
| Motor vehicle excise tax | 65,893 | 65,788 |
| Rental car tax | 1,958 | 2,409 |
| Investment income | 20,875 | 14,122 |
| Other revenues | 8,676 | 10,678 |
| Contributions to other governments | (81,742) | (7,703) |
| Interest expense | (43,728) | (52,765) |
| Discontinued and impaired projects | (2,118) | (7,659) |
| **Total non-operating revenues, net** | **497,836** | **528,971** |
| **Income before capital contributions** | **226,368** | **249,048** |
| Federal capital contributions | 168,671 | 151,824 |
| State and local capital contributions | 5,583 | 12,003 |
| **Total capital contributions** | **174,254** | **163,827** |
| **Change in net assets** | **400,622** | **412,875** |
| **Total net assets, beginning of year** | **4,034,290** | **3,621,415** |
| **Total net assets, end of year** | **$ 4,434,912** | **$ 4,034,290** |

See accompanying notes to financial statements.

## Statements of Cash Flows

| (in thousands) | December 31 2011 | December 31 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from fares | $ 45,642 | $ 39,907 |
| Cash receipts from other operating revenue | 2,928 | 2,856 |
| Payments to suppliers | (67,526) | (64,485) |
| Payments to transportation service providers | (112,655) | (100,929) |
| Payments to employees for wages and benefits | (36,002) | (35,584) |
| **Net cash used by operating activities** | **(167,613)** | **(158,235)** |
| **Cash flows from non-capital financing activities** | | |
| Taxes received | 593,350 | 569,565 |
| **Net cash provided by non-capital financing activities** | **593,350** | **569,565** |
| **Cash flows from capital and related financing activities** | | |
| Capital contributions from grants | 182,142 | 187,300 |
| Proceeds for betterments and recoverable costs | 457 | 774 |
| Purchase of property, vehicles and equipment | (1,428) | (358) |
| Payments in respect of capital projects in progress | (624,961) | (446,746) |
| Payments to employees capitalized to capital projects in progress | (17,898) | (14,925) |
| Payments for bond principal | (18,465) | (8,065) |
| Recovery (payments) for owner controlled insurance premiums | 339 | (3,942) |
| Cash paid for interest | (70,684) | (71,463) |
| Other | – | (32) |
| **Net cash used provided by capital and related financing activities** | **(550,498)** | **(357,457)** |
| **Cash flows from investing activities** | | |
| Purchases of investments | (517,481) | (809,448) |
| Proceeds from sales or maturities of investments | 590,481 | 302,709 |
| Investment income | 12,973 | 10,256 |
| **Net cash provided (used) by investing activities** | **85,973** | **(496,483)** |
| **Net decrease in cash and cash equivalents** | **(38,788)** | **(442,610)** |
| **Cash and cash equivalents** | | |
| Beginning of year | 173,973 | 616,583 |
| **End of year** | **$ 135,185** | **$ 173,973** |
| **Cash and cash equivalents (note 3)** | | |
| Unrestricted | $ 85,949 | $ 124,746 |
| Current restricted | 1,024 | 1,018 |
| Non-current restricted | 48,212 | 48,209 |
| | **$ 135,185** | **$ 173,973** |

See accompanying notes to financial statements.

**Statements of Cash Flows, continued**

| (in thousands) | | December 31 2011 | | 2010 |
|---|---|---|---|---|
| **Loss from operations** | $ | **(271,468)** | $ | **(279,923)** |
| **Adjustments to reconcile loss from operations to net cash used by operating activities** | | | | |
| Depreciation, amortization and accretion | | 110,413 | | 104,285 |
| Land bank operating contribution | | (2,359) | | – |
| Airspace lease amortization | | 514 | | 232 |
| **Changes in operating assets and liabilities** | | | | |
| (Increase) decrease in accounts receivable | | (551) | | 323 |
| (Increase) decrease in due from other governments | | (2,405) | | 2,686 |
| (Increase) in grants receivable | | (14) | | (4) |
| (Increase) in materials, parts and supplies | | (63) | | (575) |
| (Increase) decrease in prepaid expenses | | (1,028) | | 279 |
| Increase in accounts payable, accrued and other liabilities | | 4,911 | | 4,445 |
| Increase in salaries, wages and benefits payable | | 585 | | 409 |
| Increase in deferred pass fare receipts | | 1,002 | | 442 |
| (Decrease) increase in due to other governments | | (5,201) | | 10,114 |
| (Decrease) in other current liabilities | | (1,949) | | (948) |
| **Net cash used by operating activities** | $ | **(167,613)** | $ | **(158,235)** |

| (in thousands) | | December 31 2011 | | 2010 |
|---|---|---|---|---|
| **Supplemental disclosures of non-cash operating, investing and financing activities** | | | | |
| Capital contributions to other governments | $ | (81,742) | $ | (7,703) |
| Capital contributions from Land Bank | | 35 | | 173 |
| Construction in progress in current liabilities | | 58,699 | | 153,951 |
| Interest income from investments held to pay capital leases, net | | 26 | | 844 |
| Interest expense on capital leases | | (26) | | (844) |
| Increase (decrease) in fair value of investments | | 10,095 | | (982) |

See accompanying notes to financial statements.



# NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

## 1. ORGANIZATION AND REPORTING ENTITY

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

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

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board 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.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Basis of Accounting** – The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) codification have been applied, except for FASB codification that contradicts GASB pronouncements.

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. For collections April 1, 2009 and thereafter, the sales and use tax rate increased from 0.4% to 0.9%. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues consist primarily of passenger fares, which are recognized in the period in which services are provided and are earned, and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets. Depreciation and amortization of capital assets and amortization of deferred revenue, bond issuance costs, asset retirement obligation and deferred rent is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

**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 is recorded using the straight line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

| (in years) | Estimated useful life |
|---|---|
| Access rights | 5 – 100 |
| Buildings | 8 – 30 |
| Fixed guideways | 30 – 150 |
| Furniture and equipment, administrative vehicles | 3 – 10 |
| Operations maintenance facilities | 30 – 75 |
| Park-and-ride lots and shelters | 10 – 20 |
| Pedestrian bridges | 30 – 100 |
| Revenue vehicles – buses | 12 – 15 |
| Revenue vehicles – cab cars and coach cars | 40 |
| Revenue vehicles – light rail | 25 – 30 |
| Revenue vehicles – locomotives | 29 |
| Transit facilities, rail, equipment and leasehold improvements | 6 – 70 |

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 decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are 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. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Access rights include costs incurred or rights acquired that allow Sound Transit to operate its commuter rail and light rail service in the right of way of other entities. Access rights are amortized over the life of the underlying asset constructed or the term of the contractual agreement granting the related right. See note 12, Commitments and Contingencies, for additional access right details.

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.

**Capital Contributions to Other Governments** – Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments or their wholly owned subsidiaries for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and 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.

**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. Sick leave is payable at the rate of 50% of accrued hours upon resignation, retirement or death for employees hired before January 1, 2004 and is limited up to 120 days, and 25% for employees hired after that date, and is limited to 240 days for termination other than for retirement or death.



**Environmental Remediation Obligations** – Environmental remediation activities are reviewed routinely to determine if 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 accrued and expensed as soon as a reasonable estimate can be obtained.

**Inventory** – Inventory includes land held for sale, parts, materials and supplies, and is recorded at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow moving and obsolete items and any impairment in value is reflected as a charge to operations.

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

**New Accounting Pronouncement** – In June 2010, the GASB issued Statement No. 59 Financial Instruments Omnibus (GASB No. 59), effective for years beginning after June 15, 2010. GASB No. 59 statement amends existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. As of January 1, 2011, Sound Transit adopted GASB No. 59 and found there was no material impact on the reporting of applicable financial instruments and external investment pools.

**Reclassifications** – Certain reclassifications have been made to the 2010 Financial Statements to conform to the current year's presentation.

**Restricted Assets** – Restricted net assets consist of net assets that contain externally imposed legal and contractual obligations. Restricted net assets are used in accordance with their requirements, and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

**Reserves** – Sound Transit has internally designated an operating reserve, consisting of two months of average annual operating expenses for the years ended December 31, 2011 and 2010. In addition, Sound Transit has established an investment fund for capital replacement, as established by resolution of its board in 2007. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net assets.

**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 seven other agencies for the provision of regional smart card fare collection services (ORCA). Sound Transit reports its undivided interest in assets, liabilities, expenses, and revenues of ORCA within its financial statements, as they are specifically identifiable to Sound Transit in accordance with GASB Statement No.14 – *The Financial Reporting Entity.*

**Use of Estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## 3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased. Investments in the Local Government Investment Pool (LGIP) are 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. Investments in the LGIP are considered a 2a7-like fund as defined by the amended Investment Company Act of 1940 (the Act). All LGIP investments are managed in accordance with the Act to ensure a stable value and average investment maturity remains within 60 days and has a unit value of $1.

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. Cash held in the LGIP and the KCIP is managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

All surplus cash is invested in accordance with Washington state statute, and an investment policy approved by Sound Transit's Board and certified by the Association of Public Treasuries 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 investment 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.

In 2010, Sound Transit entered into a new agreement governing the investment of its funds in the KCIP. While available for withdrawal within established timeframes in the agreement, the underlying commitment under the new agreement is to hold the funds as long-term.

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. For its internally managed 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 internally managed fund was 0.65 and for the capital replacement fund was 2.99. For the Prior and Parity Bond Debt Service funds and the University Link Owner-Controlled Insurance Program (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 whereby no single Agency exceeds 50% of the overall portfolio, or 25% for repurchase agreements, general obligation bonds, PDPC financial institution sponsored investment accounts or 20% for deposit bank notes or 10% for certificates of deposit, bankers' acceptances, reverse repurchase agreements and A1/P1 commercial paper. Treasury securities and investments in the LGIP may comprise up to 100% of the portfolio. Agency securities (combined) may comprise up to 75% of the portfolio. Participation in the KCIP is limited to 50% of the portfolio.

**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, 2011, all treasury and agency securities are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization and all but one of the 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 certificate of deposit is covered by the PDPC and all short-term investments are rated A1/P1 as of December 31, 2011. The KCIP's rating of AAAf has not been restored as King County is re-evaluating the pursuit of a rating while it establishes a credit review process and completes the implementation of new reporting software. The LGIP is a 2a7-like pool and is 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.



Cash, cash equivalents, investments and restricted assets are as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair Value | Maturity | Call Date | Fair Value | Maturity | Call Date |
| **Investments – Debt Service Reserve** | | | | | | |
| Municipal bonds: | | | | | | |
| Pennsylvania State GO Unlimited BAB | $ 11,702 | 2/15/2030 | ** | $ 10,080 | 2/15/2030 | ** |
| Georgia State GO Unlimited | 8,647 | 4/1/2026 | 4/1/2017* | 7,319 | 4/1/2026 | 4/1/2017* |
| Florida State Public Education BAB | 5,341 | 6/1/2030 | 6/1/2019* | 4,885 | 6/1/2030 | 6/1/2019* |
| Hawaii State GO Unlimited BAB | 4,540 | 2/1/2024 | — | 4,065 | 2/1/2024 | — |
| Georgia State GO Unlimited BAB | 4,786 | 11/1/2027 | — | 4,052 | 11/1/2027 | — |
| U.S. Agency securities: | | | | | | |
| Federal Home Loan Mortgage Corp. | 12,922 | 9/15/2029 | — | 11,105 | 9/15/2029 | — |
| Federal Home Loan Mortgage Corp. | 8,059 | 2/7/2028 | 2/7/2013* | 8,068 | 2/7/2028 | 2/7/2013* |
| | **55,997** | | | **49,574** | | |
| **University Link OCIP** | | | | | | |
| U.S. Agency securities: | | | | | | |
| Federal National Mortgage Association | 1,148 | | | — | | |
| | **57,145** | | | **49,574** | | |
| **Cash and cash equivalents** | | | | | | |
| Washington State Local Government Investment Pool | — | | | 187 | | |
| | **$ 57,145** | | | **$ 49,761** | | |

* Continuously callable from this date forward.
** Sinking fund begins in 2027, ends in 2030

| (in thousands) | 2011 Fair value | 2011 Modified duration | 2011 Percentage of portfolio | 2010 Fair value | 2010 Modified duration | 2010 Percentage of portfolio |
|---|---|---|---|---|---|---|
| **Investments – Internally Managed** | | | | | | |
| King County Investment Pool | $ 301,056 | 0.720 | 49.70% | $ 300,569 | 0.710 | 41.68% |
| U.S. Agency securities: | | | | | | |
| Federal Farm Credit Bank | 24,992 | 1.741 | 4.13 | 68,880 | 2.437 | 9.52 |
| Federal Home Loan Bank | 40,261 | 1.144 | 6.65 | 73,719 | 0.898 | 10.19 |
| Federal Home Loan Mortgage Corporation | 83,495 | 1.673 | 13.78 | 39,885 | 2.826 | 5.51 |
| Federal National Mortgage Association | 100,872 | 1.383 | 16.65 | 140,392 | 1.501 | 19.40 |
| U.S. Treasury securities | 20,033 | 0.498 | 3.31 | 75,914 | 0.469 | 10.49 |
| Municipal bonds | 14,965 | 1.258 | 2.47 | 15,256 | 2.159 | 2.11 |
| Certificate of deposit | 20,078 | 1.470 | 3.31 | 8,000 | 0.170 | 1.10 |
| | **$ 605,752** | **1.063** | **100.00%** | **$ 722,615** | **1.163** | **100.00%** |
| **Investments – Capital Replacement** | | | | | | |
| U.S. Agency securities: | | | | | | |
| Federal Farm Credit Bank | $ 28,661 | 4.870 | 19.55% | $ 6,662 | 7.812 | 6.63% |
| Federal Home Loan Bank | 21,897 | 1.120 | 14.96 | 18,638 | 1.787 | 18.55 |
| Federal Home Loan Mortgage Corporation | 31,185 | 3.234 | 21.31 | 24,471 | 3.764 | 24.36 |
| Federal National Mortgage Association | 26,947 | 4.180 | 18.41 | 14,674 | 1.972 | 14.60 |
| Municipal bonds | 37,716 | 4.289 | 25.77 | 27,515 | 4.413 | 27.39 |
| U.S. Treasury securities | — | — | — | 8,514 | 0.247 | 8.47 |
| | **$ 146,356** | **3.684** | **100.00%** | **$ 100,474** | **3.284** | **100.00%** |

| (in thousands) | December 31 2011 | December 31 2010 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Investment pools: | | |
| King County | $ 1,024 | $ 1,018 |
| Washington State Local Government * | 116,444 | 157,538 |
| FDIC or PDPC insured bank deposits | 6,965 | 11,226 |
| Cash on hand | 2,736 | 2,062 |
| Escrow funds | 8,016 | 2,129 |
| | **135,185** | **173,973** |
| **Investments and debt service reserve** | | |
| Debt service and OCIP reserves | 57,145 | 49,574 |
| Investments – internally managed | 605,752 | 722,615 |
| Investments – capital replacement | 146,356 | 100,474 |
| | **809,253** | **872,663** |
| **Other restricted assets** | | |
| Deductible liability protection policy | 1,206 | 1,794 |
| Interest receivable on restricted investments | 730 | 729 |
| | **1,936** | **2,523** |
| **Total cash and cash equivalents, investments and other restricted assets** | **$ 946,374** | **$ 1,049,159** |

* Portion segregated for the Prior Debt Reserve. See also table on page 36.

| (in thousands) | December 31 2011 | December 31 2010 |
|---|---|---|
| **Balance sheet classifications** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 85,949 | $ 124,746 |
| Current restricted assets: | | |
| Cash equivalents | 1,024 | 1,018 |
| Deductible liability protection policy | 1,206 | 1,794 |
| **Total current restricted assets** | **2,230** | **2,812** |
| **Investments** | **752,108** | **815,089** |
| **Non-current restricted assets** | | |
| Cash equivalents | 48,212 | 48,209 |
| Investments | 57,145 | 57,574 |
| Interest receivable | 730 | 729 |
| **Total non-current restricted assets** | **106,087** | **106,512** |
| **Total cash and cash equivalents, investments and restricted assets** | **$ 946,374** | **$ 1,049,159** |

## 4. RECEIVABLES

Receivables consist of the following:

| (in thousands) | December 31 2011 | December 31 2010 |
|---|---|---|
| Taxes receivable | $ 101,842 | $ 99,577 |
| Grants receivable | 17,911 | 25,799 |
| Accounts receivable, net | 607 | 56 |
| Due from other governments | 8,543 | 5,337 |
| Interest receivable | 1,793 | 1,940 |
| | $ 130,696 | $ 132,709 |

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

## 5. CAPITAL ASSETS

Capital assets are summarized as follows:

| (in thousands) | December 31 2010 | Additions | Disposals Retirements | Transfers | December 31 2011 |
|---|---|---|---|---|---|
| **Non-depreciable assets** | | | | | |
| Land | $ 388,086 | $ – | $ – | $ 4,644 | $ 392,730 |
| Permanent easements | 327,757 | – | – | 46,350 | 374,107 |
| Capital projects in progress | | | | | |
| Sound Transit | 661,048 | 528,570 | (8,357) | (213,150) | 968,111 |
| Other governments | 49,820 | 49,511 | (74,868) | (1,018) | 23,445 |
| **Total non-depreciable assets** | **1,426,711** | **578,081** | **(83,225)** | **(163,174)** | **1,758,393** |
| **Depreciable assets** | | | | | |
| Transit facilities, rail and heavy equipment | 2,509,702 | – | (186) | 28,896 | 2,538,412 |
| Access rights | 499,644 | 322 | – | 5,847 | 505,813 |
| Buildings and leasehold improvements | 26,469 | 1,815 | – | 234 | 28,518 |
| Revenue vehicles | 498,382 | – | (20,992) | 126,087 | 603,477 |
| Furniture, equipment and vehicles | 22,456 | – | (385) | 2,110 | 24,181 |
| **Total depreciable assets** | **3,556,653** | **2,137** | **(21,563)** | **163,174** | **3,700,401** |
| **Accumulated depreciation** | | | | | |
| Transit facilities, rail and heavy equipment | (156,045) | (53,194) | 186 | – | (209,053) |
| Access rights | (78,060) | (27,190) | – | – | (105,250) |
| Buildings and leasehold improvements | (9,868) | (1,366) | – | – | (11,234) |
| Revenue vehicles | (112,393) | (25,012) | 20,991 | – | (116,414) |
| Furniture, equipment and vehicles | (16,497) | (3,656) | 132 | – | (20,021) |
| **Total accumulated depreciation** | **(372,863)** | **(110,418)** | **21,309** | – | **(461,972)** |
| | **3,183,790** | **(108,281)** | **(254)** | **163,174** | **3,238,429** |
| **Total capital assets, net** | **$ 4,610,501** | **$ 469,800** | **$ (83,479)** | **$ –** | **$ 4,996,822** |



| (in thousands) | December 31 2009 | Additions | Disposals Retirements | Transfers | December 31 2010 |
|---|---|---|---|---|---|
| **Non-depreciable assets** | | | | | |
| Land | $ 378,965 | $ 2,416 | $ – | $ 6,705 | $ 388,086 |
| Permanent easements | 285,573 | – | – | 42,184 | 327,757 |
| Capital projects in progress | | | | | |
| Sound Transit | 368,130 | 487,059 | (2,658) | (191,483) | 661,048 |
| Other governments | 23,238 | 33,576 | (6,994) | – | 49,820 |
| **Total non-depreciable assets** | **1,055,906** | **523,051** | **(9,652)** | **(142,594)** | **1,426,711** |
| **Depreciable assets** | | | | | |
| Transit facilities, rail and heavy equipment | 2,416,424 | 237 | – | 93,041 | 2,509,702 |
| Access rights | 496,503 | – | – | 3,141 | 499,644 |
| Buildings and leasehold improvements | 25,093 | 238 | – | 1,138 | 26,469 |
| Revenue vehicles | 454,193 | – | – | 44,189 | 498,382 |
| Furniture, equipment and vehicles | 21,245 | 126 | – | 1,085 | 22,456 |
| Equipment under capital lease | 230 | – | (230) | – | – |
| **Total depreciable assets** | **3,413,688** | **601** | **(230)** | **142,594** | **3,556,653** |
| **Accumulated depreciation** | | | | | |
| Transit facilities, rail and heavy equipment | (103,449) | (52,596) | – | – | (156,045) |
| Access rights | (51,250) | (26,810) | – | – | (78,060) |
| Buildings and leasehold improvements | (8,920) | (948) | – | – | (9,868) |
| Revenue vehicles | (92,145) | (20,248) | – | – | (112,393) |
| Furniture, equipment, and vehicles | (12,945) | (3,552) | – | – | (16,497) |
| Equipment under capital lease | (201) | (29) | 230 | – | – |
| **Total accumulated depreciation** | **(268,910)** | **(104,183)** | **230** | – | **(372,863)** |
| | **3,144,778** | **(103,582)** | – | **142,594** | **3,183,790** |
| **Total capital assets, net** | **$ 4,200,684** | **$ 419,469** | **$ (9,652)** | **$ –** | **$ 4,610,501** |

During 2011, Sound Transit capitalized $32.2 million of interest costs ($23.6 million in 2010), representing interest cost incurred in respect of Sound Transit's capital program for the year, net of premium, discounts and bond issue costs, on its outstanding bonds (see note 8).

## 6. CAPITAL AND OPERATING LEASES

Capital lease obligation at December 31, 2011 and 2010 is $57.6 million and $63.3 million, respectively.

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

The vehicles had a fair market value of $61.3 million with a book value of $37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling $61.3 million. From those proceeds, $50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit's obligations under the sublease payments. In addition, $5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining $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 balance sheet.

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 S&P and "Aaa" by Moody's. However, starting in March 2005, AIG suffered a series of credit rating downgrades to reach a level of "A-" by S&P and "A3" by Moody's by end of year 2009. As a result of these 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. As of year-end 2011 and 2010, the defeasance accounts were unrated as they were no longer invested in marketable securities.

Sound Transit has negotiated the terms of an agreement with the transaction participants on the requirements to replace the debt defeasance, letter of credits and payment undertaker as required under the transaction. The draft terms provide for Sound Transit to potentially provide additional collateral in a securities custodial account for the benefit of the equity investor to satisfy Sound Transit's obligation under the Participation Agreement related to AIG equity defeasance accounts and credit enhancement. The transaction participants and Sound Transit have agreed to postpone the date for replacement of the debt defeasance, letter of credits and payment undertaker as required under the transaction in order to explore alternative arrangements and possible legislative solutions. Sound Transit has received confirmation from transaction participants that no default conditions exist under the agreements as of year-end 2011. Under its agreements with the transaction participants, Sound Transit may request successive three-month extensions of the date for replacement of the debt defeasance, letter of credits and payment undertaker. If the investor does not consent to such an extension, or if an event of default occurs in the upcoming year, the investor could demand a termination payment from Sound Transit of approximately $16.0 million.

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

| (in thousands) | 2011 | 2010 |
|---|---|---|
| Net sublease, January 1 | $ 63,308 | $ 62,464 |
| Accrued interest | 26 | 4,675 |
| Less payment | (5,756) | (3,831) |
| **Net sublease, December 31** | **$ 57,578** | **$ 63,308** |

**Amtrak Lease/Sublease** – In September 2000, Sound Transit entered into a 40-year agreement to lease its locomotives, passenger coaches and cab cars (rolling stock) to the National Railroad Passenger Corporation (Amtrak) for $1. Under the agreement, Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement, which it had entered into with 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 have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for these taxes for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

**Operating Rentals** – Sound Transit has entered into leases of ground, office space, parking, land, storage at various locations, as well as equipment leases under non-cancelable operating leases in excess of one year with lease terms expiring between 2012 and 2016, with some leases containing options to renew for one year beyond the original lease term. Significant lease arrangements include office space and parking adjacent to Union Station. In 2009, Sound Transit entered into two new 10-year lease agreements for space adjacent to Union Station and extended the existing adjacent office space lease for an additional 5 years.

Minimum lease payments through 2016 are as follows (in thousands):

| | |
|---|---|
| 2012 | $ 3,640 |
| 2013 | 3,749 |
| 2014 | 3,775 |
| 2015 | 3,688 |
| 2016 | 3,764 |
| | **$ 18,616** |

Total rental expenses for 2011, which include non-cancelable leases as well as other month-to-month rentals, were $3.9 million, of which $158.0 thousand was for capital projects in progress. Total rental expenses for 2010, which include non-cancelable leases as well as other month-to-month rentals, were $3.7 million, of which $391.0 thousand was for capital projects in progress.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

| (in thousands) | 2011 | 2010 |
|---|---|---|
| Accounts payable | $ 3,941 | $ 37,187 |
| Accrued liabilities | 61,947 | 41,424 |
| Due to other governments | 39,564 | 46,778 |
| Accrued salaries, wages, and benefits | 3,808 | 3,175 |
| Retainage payable | 313 | 3,220 |
| | **$ 109,573** | **$ 131,784** |

## 8. LONG-TERM DEBT

Long-term debt consists of the following:

| (in thousands) | 2011 Beginning balance | Additions | Reductions | 2011 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Bonds payable** | | | | | |
| Series 1999 Bonds, at par | $ 326,790 | $ – | $ (5,320) | $ 321,470 | $ 5,595 |
| Series 2005A Bonds, at par | 397,815 | – | (5,810) | 392,005 | 6,015 |
| Series 2007A Bonds, at par | 417,445 | – | (7,335) | 410,110 | 7,585 |
| Series 2009P-1 Bonds, at par | 23,155 | – | – | 23,155 | – |
| Series 2009P-2T Bonds, at par | 76,845 | – | – | 76,845 | – |
| Series 2009S-2T Bonds, at par | 300,000 | – | – | 300,000 | – |
| | **1,542,050** | **–** | **(18,465)** | **1,523,585** | **19,195** |
| Plus unamortized premium | 32,104 | – | (2,652) | 29,452 | – |
| Less unamortized discount | (5,216) | – | 376 | (4,840) | – |
| **Total bonds payable** | **1,568,938** | **–** | **(20,741)** | **1,548,197** | **19,195** |
| **Total long-term debt** | **$ 1,568,938** | **$ –** | **$ (20,741)** | **$ 1,548,197** | **$ 19,195** |

| (in thousands) | 2010 Beginning balance | Additions | Reductions | 2010 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Bonds payable** | | | | | |
| Series 1999 Bonds, at par | $ 331,855 | $ – | $ (5,065) | $ 326,790 | $ 5,320 |
| Series 2005A Bonds, at par | 397,815 | – | – | 397,815 | 5,810 |
| Series 2007A Bonds, at par | 420,445 | – | (3,000) | 417,445 | 7,335 |
| Series 2009P-1 Bonds, at par | 23,155 | – | – | 23,155 | – |
| Series 2009P-2T Bonds, at par | 76,845 | – | – | 76,845 | – |
| Series 2009S-2T Bonds, at par | 300,000 | – | – | 300,000 | – |
| | **1,550,115** | **–** | **(8,065)** | **1,542,050** | **18,465** |
| Plus unamortized premium | 34,792 | – | (2,688) | 32,104 | – |
| Less unamortized discount | (5,594) | – | 378 | (5,216) | – |
| **Total bonds payable** | **1,579,313** | **–** | **(10,375)** | **1,568,938** | **18,465** |
| **Total long-term debt** | **$ 1,579,313** | **$ –** | **$ (10,375)** | **$ 1,568,938** | **$ 18,465** |

In the ordinary course of financing its activities, Sound Transit issues debt as shown in the tables above. There are currently two categories of debt: Prior Bonds and Parity Bonds. Prior Bonds have first claim upon the local option taxes. 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 among each Parity Bond issue. The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value, amounts currently restricted for debt service and debt requirements to maturity.

**Prior Bonds** – The Prior Bonds comprise the 1999, 2009P-1 and 2009P-2T issues. These bonds are payable in February and August of each year and are secured by Sales and Use, Motor Vehicle Excise and Rental Car taxes.

**Parity Bonds** – The Parity Bonds comprise the 2005A, 2007A and 2009S-2T issues. These bonds are payable in May and November each year and are secured by Sales and Use and Rental Car taxes.

### Prior Bonds

| | | Average rate | | Ratings | | Principal | Fair value* | | Principal and interest restricted | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | Issue date | Coupon | Effective | Moody's | S&P | Payment begins | 2011 | 2010 | 2011 | 2010 |
| Series 1999 | Dec 1, 1998 | 4.88 | 5.03 | Aa1 | AAA | Feb 1, 2006 | $ 344.60 | $ 343.60 | $ 12.20 | $ 12.00 |
| Series 2009P-1 | Sept 29, 2009 | 4.31 | 2.52 | Aa1 | AAA | Feb 1, 2015 | 26.00 | 25.70 | 0.40 | 0.40 |
| Series 2009P-2T | Sept 29, 2009 | 5.01 | 3.31** | Aa1 | AAA | Feb 1, 2020 | 86.90 | 76.90 | 1.60 | 1.60 |

* Estimated using quoted market prices
** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds

### Parity Bonds

| | | Average rate | | Ratings | | Principal | Fair value* | | Principal and interest restricted | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | Issue date | Coupon | Effective | Moody's | S&P | Payment begins | 2011 | 2010 | 2011 | 2010 |
| Series 2005A | Mar 31, 2005 | 4.95 | 4.60 | Aa2 | AAA | Nov 1, 2011 | $ 428.90 | $ 414.10 | $ 9.30 | $ 9.10 |
| Series 2007A | Dec 18, 2007 | 4.99 | 4.76 | Aa2 | AAA | Nov 1, 2008 | 437.70 | 416.40 | 11.00 | 10.80 |
| Series 2009S-2T | Sept 29, 2009 | 5.49 | 3.62** | Aa2 | AAA | Nov 1, 2029 | 359.60 | 299.70 | 2.70 | 2.70 |

* Estimated using quoted market prices
** Effective rate reduced due to 35% subsidy provided by US Government for Build America Bonds

Sound Transit is required to maintain certain minimum deposits as defined in the respective bond resolution for each bond issue 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, 2011, the common debt service reserve account for Prior bonds comprise a surety policy in the amount of $31.7 million purchased in 1999 and a $7.9 million cash reserve funded at the time the 2009P 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 $41.1 million at the end of 2011.

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. No reserve account was required to be established for the 2007A and 2009S-2T series bonds. Reserve account proceeds are primarily invested in AAA rated Agency and General Obligation bonds.

Sound Transit's long-term debt requirements are displayed in the table below.

| Year ending December 31, 2011 | Principal | (in thousands) Interest | Total |
|---|---|---|---|
| 2012 | $ 19,195 | $ 76,948 | $ 96,143 |
| 2013 | 20,135 | 76,006 | 96,141 |
| 2014 | 19,395 | 75,036 | 94,431 |
| 2015 | 24,475 | 73,935 | 98,410 |
| 2016 | 24,480 | 72,468 | 96,948 |
| 2017 – 2021 | 199,670 | 340,531 | 540,201 |
| 2022 – 2026 | 289,615 | 277,684 | 567,299 |
| 2027 – 2031 | 312,805 | 204,425 | 517,230 |
| 2032 – 2036 | 357,610 | 126,123 | 483,733 |
| 2037 – 2039 | 256,205 | 28,473 | 284,678 |
| | **$ 1,523,585** | **$ 1,351,629** | **$ 2,875,214** |

Proceeds from all bond issues except for the 2009P-1 are used for funding Agency capital construction projects. The 2009P-1 issue was for the purpose of refunding a portion of the 2005A bonds. The partial defeasance of the 2005A Series bonds decreased aggregate debt service payments by $3.6 million resulting in a net present value savings to the Agency in the amount of $2.5 million.

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorizes 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 on BABs equal to 35 percent of the total coupon interest paid to investors. The direct federal subsidy once earned, will be considered a non-exchange transaction separate from the interest payments made by the Agency and will be recorded in other non-operating revenue when Sound Transit makes its interest payment. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

## 9. OTHER LONG-TERM OBLIGATIONS

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

| (in thousands) | 2011 Beginning balance | Additions and accretion | Reductions | 2011 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Asset retirement obligations** | | | | | |
| Sounder station platforms | $ 1,051 | $ 52 | $ – | $ 1,103 | $ – |
| Tacoma Link surface rail | 1,521 | 77 | – | 1,598 | – |
| **Total asset retirement obligations** | **2,572** | **129** | **–** | **2,701** | **–** |
| **Uninsured losses** | | | | | |
| Owner controlled insurance program | 3,833 | (232) | (1,118) | 2,483 | 720 |
| Transit operations | 981 | (501) | – | 480 | 140 |
| **Total uninsured losses** | **4,814** | **(733)** | **(1,118)** | **2,963** | **860** |
| **Compensated absences** | **4,493** | **4,225** | **(3,789)** | **4,929** | **1,826** |
| **Total other long-term obligations** | **$ 11,879** | **$ 3,621** | **$ (4,907)** | **$ 10,593** | **$ 2,686** |

| (in thousands) | 2010 Beginning balance | Additions and accretion | Reductions | 2010 Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **Asset retirement obligations** | | | | | |
| Sounder station platforms | $ 1,001 | $ 50 | $ – | $ 1,051 | $ – |
| Tacoma Link surface rail | 1,449 | 72 | – | 1,521 | – |
| **Total asset retirement obligations** | **2,450** | **122** | **–** | **2,572** | **–** |
| **Uninsured losses** | | | | | |
| Owner controlled insurance program | 4,627 | (222) | (572) | 3,833 | 869 |
| Transit operations | 1,208 | (227) | – | 981 | 285 |
| **Total uninsured losses** | **5,835** | **(449)** | **(572)** | **4,814** | **1,154** |
| **Compensated absences** | **4,106** | **4,295** | **(3,908)** | **4,493** | **1,626** |
| **Total other long-term obligations** | **$ 12,391** | **$ 3,968** | **$ (4,480)** | **$ 11,879** | **$ 2,780** |



**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 of those 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, 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. For its agency and railroad operation, a commercial insurance program has been put in place that provides coverage for all property, primary and excess liability, commercial auto liability, premises pollution liability, public officials & employment practices liability, crime & fidelity, and fiduciary liability to provide Sound Transit with the appropriate protections for these various types of risks and exposures.

For ST Express bus operations, under Sound Transit's interagency agreements, insurance coverage is provided by its bus partner agencies, which is included in the pro-rata transit operations cost rate that is established by Sound Transit and its bus partner agencies. However, under its interagency agreement for ST Express Bus Service Operations and Maintenance in Pierce County, Sound Transit reimburses Pierce Transit for the costs of all individual claims paid up to $1 million per occurrence for all liability claims generated from ST Regional Express Bus service through December 31, 2009. In 2010, Sound Transit entered into a new operations and maintenance agreement with Pierce Transit that transfers this risk and general liability claim responsibility back to Pierce Transit, and establishes a pro-rata transit operations cost rate structure similar to Sound Transit's operations and maintenance agreements with King County DOT and Community Transit.

Sound Transit has utilized two OCIP programs 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 program was secured in 2001, primarily for construction of the Central Link light rail segment and subsequently amended to include the Airport Link light rail segment and provided coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only remaining insurance policy 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 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 program was procured in October 2008 for the University Link Light rail segment. The funding of the premium for this OCIP was structured with initial premium payments of $6.8 million in 2008 and the final premium payments in 2010 of $3.9 million, with a coverage period provided from October 20, 2008 through September 30, 2016. The University Link OCIP insurance coverage includes: primary commercial general liability, excess commercial general liability, builders risk, and contractors pollution liability policies.

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 deductible responsibility with the comprehensive general liability (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.

Annually, Sound Transit engages an actuary to prepare an actuarial report in order to estimate its total claim exposure under all of these risk management and insurance programs. The claim amounts estimated to be paid within the next year are included as an accrual in other current liabilities of the financial statements.

**Compensated Balances** – Amounts estimated to be paid within the next year are included in accrued salaries, wages and benefits.

## 10. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

| (in thousands) | 2011 | 2010 |
|---|---|---|
| Debt service | $ 68,864 | $ 70,557 |
| Contractural arrangements | 20,229 | 18,748 |
| Deductible liability protection policy | 1,206 | 1,794 |
| | $ 90,299 | $ 91,099 |

## 11. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust (401(a) Plan) to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System (PERS). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers to either terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date were eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2011, 2010 and 2009, there was one remaining employee participating in PERS.

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

**401(a) Plans** – In 2010 the ICMA Retirement Corporation administered the Central Puget Sound Regional Transit Authority Pension Plan and served as the plan's trustee. In June 2011, the Agency entered into an agreement with Great West Retirement Services to be 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.

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

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2011 and 2010 was $41.2 million and $37.4 million, respectively, and total payroll was $41.9 million and $38.0 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2011, 2010, and 2009 are as follows:

| | Contribution rate | | | Contributions (in thousands) | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Employer | 12% | 12% | 12% | $ 4,994 | $ 4,490 | $ 3,972 |
| Employee | 10 | 10 | 10 | 4,120 | 3,742 | 3,310 |
| **Total** | 22% | 22% | 22% | $ 9,064 | $ 8,232 | $ 7,282 |



## 12. COMMITMENTS AND CONTINGENCIES

**Operations and Maintenance Agreements** – In May, 2000, Sound Transit entered into a 40 year agreement with BNSF for the operation of commuter trains by BNSF between Seattle and Tacoma and for 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 based on the actual costs of crew, dispatch and management, as well as costs for maintenance of way plus performance incentives.

Between June 2000 and February 2006, 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 September 2000, Sound Transit entered into an agreement with Amtrak for the operations and maintenance of its Sounder commuter rail rolling stock, expiring December 31, 2009. A memorandum of agreement was entered into for the continuance of operations from January 2010 to February 2010 under the original contract terms. A new five-year agreement was entered into effective March 1, 2010 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 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 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.

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. In addition, a first amendment was executed to the existing long term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood to Tacoma corridor, provided Sound Transit eventually operates in the corridor.

On April 17, 2006, Sound Transit entered into a Construction Services Agreement with the Port of Seattle. The agreement provides construction and operating terms for Airport Link. The agreement will not expire as long as Sound Transit operates rail transit systems on the segment.

On January 1, 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 December 31, 2012 and contain two 1 year renewal options at the mutual consent of both parties. The Community Transit 2004 bus service agreement was extended to March 31, 2010, following which a new service agreement was entered into effective April 1, 2010 and expiring March 31, 2012, with two 1 year renewal options at the mutual consent of both parties. 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 October 2010, Sound Transit entered into a 20-year agreement with the Washington State Fair Association to use one of its parking lots for commuter rail passengers accessing Puyallup Station. The amount paid to acquire the right was equal to costs incurred to improve the existing parking lot to be able to accommodate commuter rail passengers.

**Agreements with BNSF for Sounder Commuter Rail Service Easements in the Everett-to-Seattle and Lakewood-to-Tacoma Corridors** – In May 2000, Sound Transit entered into a construction agreement with BNSF in which track and signal improvements necessary to operate its service in the Seattle to Tacoma corridor would be constructed in exchange for the right to operate commuter rail service for 40 years. In the Everett to Seattle corridor operating rights were acquired through direct acquisition of easements and include Sound Transit's direct and indirect costs related to planning and design, environmental management and permitting for that corridor.

In December 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements between 2003 and 2007, each in exchange for a payment of $50 million for commuter rail service between Everett and Seattle, the purchase of railroad right of way between Nisqually and Tacoma for service and station improvements, terms for joint use of the railroad right of way and the purchase of operation services in each corridor. Each easement allows the addition by Sound Transit of one round trip commuter train service.

The Joint Use Agreement for the Everett to Seattle corridor provides the mechanism for determining the cost to Sound Transit for the maintenance of way and rehabilitation activities on the corridor.

The Joint Use Agreement for the Lakewood to Tacoma corridor sets forth the cost to BNSF for the maintenance of way and rehabilitation activities on the corridor and Sound Transit and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

In July 2010, Sound Transit entered into an agreement with BNSF to acquire four perpetual easements on its Seattle to Tacoma corridor. The easements will be acquired between 2010 and 2013 for total compensation of $185.0 million. As of December 31, 2011, two easements totaling $85.0 million have been acquired. Each easement allows the operation of one round trip commuter train service 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. The cost of each remaining easement is listed in the table below.

| Closing date | Amount (in millions) |
|---|---|
| July 2012 | $ 52.0 |
| July 2013 | 48.0 |
| | $ 100.0 |

**Amended and Restated Agreement for Regional Fare Coordination System** – In April 2009, Sound Transit entered into an amended agreement establishing the design, implementation, operation and maintenance of the Regional Fare Coordination System (RFCS) among seven participating agencies that simplifies and establishes a common, non-cash fare system through their service areas. The amended agreement defines and establishes a framework for the Operating Phase of the RFCS, which launched on April 1, 2009. The participating agencies have committed to utilizing the RFCS for a minimum of 10 years and funding a proportionate share of regionally shared costs.

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

| | December 31 | |
|---|---|---|
| | 2011 | 2010 |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 4,834,779 | $ 3,492,218 |
| Accounts receivable | 4,998,869 | 6,431,590 |
| **Total assets** | **$ 9,833,648** | **$ 9,923,808** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 3,572,156 | $ 7,877,942 |
| Deferred receipts | 6,261,492 | 2,045,866 |
| **Total liabilities** | **$ 9,833,648** | **$ 9,923,808** |
| **Total operating revenues** | **$ 33,744,323** | **$ 24,407,982** |
| **Total expenses** | **$ 865,498** | **$ 466,925** |

**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 include:

- **University of Washington Master Implementation Agreement**
  Entered into on July 2, 2007, this agreement allows Sound Transit entry to the University's Seattle Campus to construct Link light rail; establishes compensation amounts for certain staffing costs, parking mitigation in the amount of $15.2 million, which was paid in 2007, and consideration for easements granted by the University in the amount of $20.0 million, which was paid in May 2008. Both parties anticipate additional agreements providing terms for the operation of Link light rail on University property.
- **WSDOT Funding and Cooperative Agreement**
  Entered into on November 2008, this agreement establishes the project scope, management and construction of certain improvements within the Lakewood track improvements and Point Defiance Bypass project. WSDOT will reimburse Sound Transit for actual costs incurred up to a maximum amount of $9.5 million.
- **WSDOT Construction Administration Agreement**
  Entered into on March 16, 2009, this agreement establishes the terms of construction, construction engineering, contract administration, support and payments for WSDOT to construct the I-5, Mountlake Terrace Freeway Station. Sound Transit's estimated expense for this project is $22.6 million. The station went into service March 2011, however Sound Transit is required to pay for environmental monitoring for 2 years after construction under the agreement.
- **City of Seattle Construction Services Agreement**
  Entered into on August 12, 2009, this agreement covers areas including quality assurance, inspections, emergency services, traffic signal design, and utility work by city crews during Sound Transit's development of the University Link Project up to $6.0 million. The agreement also commits Sound Transit to accomplish certain improvements as requested by the City, at the City's expense.
- **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**
  On November 17, 2011, Sound Transit and the City of Bellevue (the City) entered into an agreement in which the City will contribute up to $100 million for the construction of a tunnel through downtown Bellevue and $60 million as a contingent contribution. The City also agreed to establish a collaborative partnership with Sound Transit in which project risks and benefits would be shared and both parties would work together during final design, permitting and construction to manage the project. Furthermore, a transitway agreement was executed in which the City granted Sound Transit non-exclusive use of City right-of-way to construct, operate and maintain the project.

**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 has 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 in which Sound Transit can 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 light rail guideways located on WSDOT property governed under multiple forty-year airspace leases issued under the land bank agreement. 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, 2011, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $131.3 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 2011 and 2010.

| (in millions) | 2011 | 2010 |
|---|---|---|
| **Balance in Land Bank, beginning of year** | $ 133.6 | $ 133.8 |
| Credits (Draws) | | |
| Mountlake Terrace Freeway Station | (2.3) | – |
| University Link I-5 Twin Bore Tunnel Crossing | – | 1.8 |
| East Link | – | (0.1) |
| D Street to M Street Track & Signal | – | (1.9) |
| **Balance in Land Bank, end of year** | **$ 131.3** | **$ 133.6** |

**Purchases** – At December 31, 2011 and 2010, Sound Transit had outstanding construction commitments of approximately $585.7 million and $844.2 million, respectively.

**Grants** – Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2011 and 2010 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.

**Subsequent Event** – Management has evaluated events and transactions that have occurred after December 31, 2011, through May 25, 2012, the date these financial statements were issued.

# STATISTICAL DATA (UNAUDITED)

## ST Express Operating & Maintenance Expenses

| (in thousands) | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Salaries & Benefits | $ 362 | $ 291 | $ 345 | $ 457 | $ 355 |
| Services & Materials | 2,986 | 6,387 | 7,604 | 6,955 | 6,791 |
| Utilities, Insurance, Taxes, Leases & Miscellaneous | 867 | 1,232 | 1,211 | 1,345 | 1,424 |
| Purchased Transportation | 63,086 | 70,159 | 71,629 | 83,019 | 82,930 |
| | **67,301** | **78,069** | **80,789** | **91,776** | **91,500** |
| Depreciation, Disposals & Recoveries | 13,171 | 15,211 | 19,290 | 20,653 | 23,729 |
| Indirect Expenses | 3,806 | 4,186 | 4,193 | 4,890 | 5,214 |
| Total | **$ 84,278** | **$ 97,466** | **$ 104,272** | **$ 117,319** | **$ 120,444** |

## Link Operating & Maintenance Expenses

| (in thousands) | 2007 | 2008 | 2009* | 2010 | 2011 |
|---|---|---|---|---|---|
| Salaries & Benefits | $ 1,358 | $ 1,370 | $ 1,929 | $ 2,836 | $ 2,917 |
| Services & Materials | 4,805 | 5,403 | 24,728 | 16,672 | 18,143 |
| Utilities, Insurance, Taxes, Leases & Miscellaneous | 491 | 1,524 | 3,079 | 4,421 | 4,540 |
| Purchased Transportation | 1 | 2 | 11,575 | 22,194 | 23,316 |
| | **6,655** | **8,299** | **41,311** | **46,123** | **48,916** |
| Depreciation, Disposals & Recoveries | 2,848 | 2,827 | 25,290 | 62,009 | 64,292 |
| Indirect Expenses | 466 | 540 | 1,877 | 3,278 | 4,415 |
| Total | **$ 9,969** | **$ 11,666** | **$ 68,478** | **$ 111,410** | **$ 117,622** |

*Central Link opened July 2009

## Sounder Operating & Maintenance Expenses

| (in thousands) | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Salaries & Benefits | $ 306 | $ 470 | $ 854 | $ 778 | $ 828 |
| Services & Materials | 12,846 | 17,033 | 20,421 | 18,667 | 17,941 |
| Utilities, Insurance, Taxes, Leases & Miscellaneous | 2,715 | 2,940 | 3,625 | 2,478 | 2,180 |
| Purchased Transportation | 6,867 | 8,621 | 6,915 | 7,575 | 8,147 |
| | **22,734** | **29,064** | **31,815** | **29,498** | **29,097** |
| Depreciation, Disposals & Recoveries | 16,653 | 17,560 | 18,941 | 19,757 | 19,743 |
| Indirect Expenses | 2,118 | 2,231 | 2,432 | 3,154 | 2,964 |
| Total | **$ 41,505** | **$ 48,855** | **$ 53,188** | **$ 52,409** | **$ 51,805** |

### Revenue by Source

(in thousands)

| Year | Passenger Fares | Sales & Use Taxes | Motor Vehicle Excise Taxes | Rental Car Taxes | Grant Revenues | Investment Income | Other Revenues | Total |
|---|---|---|---|---|---|---|---|---|
| **2007** | $ 22,029 | $ 280,263 | $ 72,403 | $ 2,531 | $ 115,777 | $ 24,952 | $ 5,914 | $ 523,868 |
| **2008** | 26,611 | 265,358 | 68,621 | 2,498 | 175,503 | 23,630 | 11,864 | 574,085 |
| **2009** | 29,048 | 440,929 | 67,290 | 2,869 | 176,422 | 12,360 | 4,529 | 733,447 |
| **2010** | 37,589 | 504,101 | 65,788 | 2,409 | 163,827 | 14,122 | 13,225 | 801,061 |
| **2011** | 46,117 | 528,022 | 65,893 | 1,958 | 174,254 | 20,875 | 14,490 | 851,609 |

## KEY OPERATING PERFORMANCE MEASURES (UNAUDITED)

### ST Express

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Total ridership | 11,394,629 | 13,028,486 | 13,784,753 | 13,092,785 | 14,534,397 |
| Service hours | 522,602 | 504,709 | 536,225 | 552,860 | 553,147 |
| Boardings per service hour | 21.80 | 25.81 | 25.71 | 23.68 | 26.28 |
| Cost per service hour | $135.48 | $160.80 | $157.02 | $172.71 | $171.55 |
| Cost per boarding | $6.21 | $6.23 | $6.11 | $7.29 | $6.53 |

### Link

| | 2007 | 2008 | 2009* | 2010 | 2011 |
|---|---|---|---|---|---|
| Total ridership | 860,349 | 926,076 | 3,390,771 | 7,831,905 | 8,831,760 |
| Service hours | 10,060 | 9,708 | 69,902 | 147,255 | 147,879 |
| Boardings per service hour | 85.52 | 95.39 | 48.51 | 53.19 | 59.72 |
| Cost per service hour | $296.21 | $313.83 | $296.68 | $302.04 | $328.58 |
| Cost per boarding | $3.46 | $3.29 | $6.12 | $5.68 | $5.50 |

### Sounder

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Total ridership | 2,156,652 | 2,668,623 | 2,492,362 | 2,480,052 | 2,626,711 |
| Service hours | 19,279 | 27,006 | 36,010 | 38,518 | 47,303 |
| Boardings per service hour | 111.87 | 98.82 | 69.21 | 64.39 | 55.53 |
| Cost per service hour | $1,277.66 | $1,151.03 | $944.74 | $842.72 | $669.77 |
| Cost per boarding | $11.42 | $11.65 | $13.65 | $13.09 | $12.06 |

*Central Link opened July 2009
Source Data - National Transit Database
1 Service hour = 1 Revenue Vehicle Mile Hour

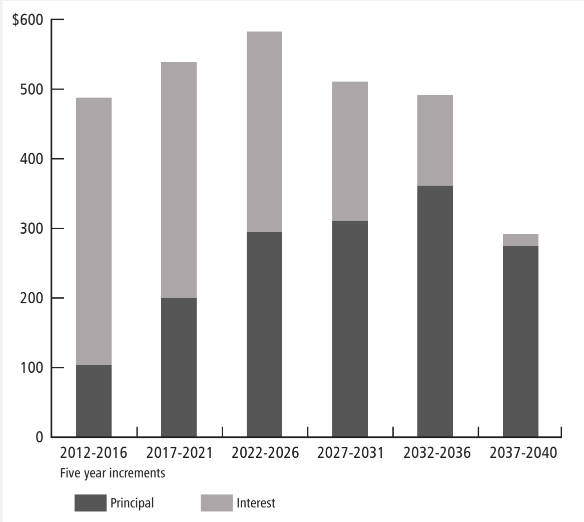


### 2011 Debt Capacity (unaudited)

| (in millions) | |
|---|---|
| Assessed Valuation in 2010 for collection of taxes in 2011 | $ 418,235 |
| Maximum nonvoted debt (1.5% of assessed valuation) | 6,274 |
| Less: Series 1999, 2005A, 2007A, 2009 Bonds and Other Long-term debt | (1,524) |
| Nonvoted debt capacity remaining | 4,750 |
| Maximum voted debt (5% of assessed valuation) | $ 20,912 |
| Less: Series 1999, 2005A & 2007A Bonds and Other Long-term debt | (1,542) |
| Voted debt capacity remaining | $ 19,388 |

### Debt Service Requirements to Maturity

(unaudited)




### Debt Service Coverage Ratio (unaudited)

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Prior Bonds | 16.64x | 15.77x | 23.98x | 23.61x | 24.04x |
| Parity Bonds | 13.74x | 4.91x | 5.39x | 9.16x | 8.23x |

* Debt Service is reduced by Build America Bonds Federal subsidy payments.

## Sound Transit Board of Directors

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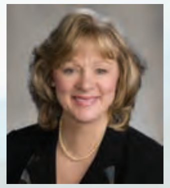

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