SoundTransit

Central Puget Sound Regional Transit Authority

Financial Statements and Independent Auditors' Report for the Years Ended December 31, 2013 and 2012

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

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

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

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2013 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2013 and 2012

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Sound Transit for the years ended December 31, 2013 and 2012. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and notes to the financial statements as a whole.

Sound Transit is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail (Sounder), light rail (Link) and a regional express bus system (ST Express).

Sound Transit's financial statements reflect a growth in net position of $448.8 million in 2013 as major sources of revenue continue to exceed expenses. Operating revenues increased due to ridership growth and increased operating grant revenues. Operations and maintenance expenses increased related to service expansions in the Pierce County corridor and increases in overall operator contract rates. In 2013, tax revenues continued to recover from the 2009 recession increasing 7.4% from 2012. Furthermore, growth in total assets reflects increases in capital spending on ST2 light rail expansion programs while total liabilities remain comparable to 2012.

Financial Highlights

- Total operating revenues were $64.0 million for 2013, an increase of 10.4% from the prior year. Passenger fare revenue increased by $2.8 million from 2012, due to increases in ridership related to service redeployments and expansions.

- Loss from operations was $280.4 million for 2013, an increase of 1.6% from prior year.

  - Overall operations and maintenance expenses increased by 3.2% from 2012 reflecting the full year impact of the extension of Sounder service to Lakewood and increases in purchased transportation rates for ST Express.

  - Fare and regional planning costs increased by $4.0 million as work began on ST3 planning for future expansion along high capacity transit corridors.

- Non-operating revenues, net of expenses, were $569.4 million, a 6.4% increase from 2012 as tax revenues increased by $45.6 million as the economy continues to recover from the 2009 recession. Fair market value changes to the investment portfolio resulted in an unrealized loss on investments of $12.9 million at year-end. Excluding the adjustment to fair market value, interest earnings were $8.0 million and were comparable to the prior year.

- Capital contributions from federal, state and local funding arrangements were $159.8 million, an increase of 21.7% from 2012 reflecting an increase in contributions for the East Link light rail project and a landbank contribution from the Washington State Department of Transportation for an access right granted on the North Link project.

- Total net position at December 31, 2013 was $5.3 billion, an increase of $448.8 million or 9.3% from 2012 primarily related to the Agency's increased investment in its capital assets, net of related debt.

- Total capital assets, net of accumulated depreciation and amortization, were $5.9 billion at December 31, 2013, an increase of $477.5 million or 8.9% from 2012, reflecting progress on the University Link and ST2 light rail expansion projects. In 2013, $144.2 million in expenditures related to completed projects and land acquisitions were transferred to completed capital assets, most significantly related to the purchase of the final permanent easement for the Sounder South corridor, land acquisitions related to East and South Link projects and replacement buses.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with United States Generally Accepted Accounting Principles (GAAP). The 2013 and 2012 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 Statements of Net Position and depreciation and amortization of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

The financial statements provide both long term and short term information about Sound Transit's overall financial status as well as Sound Transit's net position, segregated by net investment in capital assets, restricted and unrestricted. Net position is the difference between Sound Transit's assets, deferred outflows 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 Position

Sound Transit's total net position at December 31, 2013 was $5.3 billion, an increase of $448.8 million or 9.3% from 2012. Total assets increased $447.2 million or 6.8% while total liabilities remained comparable to 2012. The increase in total assets reflects capital program spending, most significantly the University Link light rail project, the acquisition of the final Sounder South easement and the purchase of replacement buses for ST Express. See the following table for a summary of Sound Transit's net position.

Statement of Net Position

(in millions)	December 31			% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
Assets					
Current assets, excluding restricted assets	$ 979.0	$ 1,008.7	$ 991.8	(2.9)%	1.7%
Restricted assets	86.5	96.7	108.3	(10.6)	(10.7)
Capital assets	5,851.2	5,373.7	4,996.8	8.9	7.5
Other non-current assets	74.0	64.4	78.4	14.9	(17.9)
Total assets	**6,990.7**	**6,543.5**	**6,175.3**	**6.8**	**6.0**
Deferred Outflows of Resources	**30.3**	**35.6**	**-**	**(14.8)**	**-**
Liabilities					
Current liabilities, excluding interest payable from restricted assets	210.7	176.3	137.3	19.4	28.5
Interest payable from restricted assets	19.6	19.3	18.0	1.3	7.2
Long-term debt	1,461.8	1,503.2	1,529.0	(2.8)	(1.7)
Other long-term liabilities	64.3	64.4	65.5	0.2	(1.9)
Total liabilities	**1,756.4**	**1,763.2**	**1,749.8**	**(0.4)**	**(0.8)**
Net Position					
Net investment in capital assets	4,386.3	3,872.9	3,448.6	13.3	12.3
Restricted net position	66.8	77.5	90.3	(13.7)	(14.3)
Unrestricted net position	811.6	865.5	886.7	(6.2)	(2.4)
Total net position	**$ 5,264.7**	**$ 4,815.9**	**$ 4,425.6**	**9.3%**	**8.8%**

Current assets, excluding restricted assets, decreased 2.9% from 2012 as investments sufficient to fund spending related to final design and construction activities of the ST2 light rail capital program were liquidated upon maturity. Current assets, excluding restricted assets, for 2012 were comparable to that of 2011.

Restricted assets decreased 10.6% from 2012 as assets in the Amtrak lease/sublease escrow account were disbursed after meeting contractual obligations (see note 6). Restricted assets decreased 10.7% from 2011 due to a reduction in the 2005A bonds debt service reserve requirements after advanced refunding of $350.6 million of the related outstanding debt in August 2012 at a lower effective interest rate (see note 8).

Capital assets increased 8.9% from 2012 as construction spending increased on ST2 light rail expansion projects, three additional locomotives and nineteen replacement buses were purchased, and the final permanent easement from the BNSF Railway Company (BNSF) was acquired. Capital assets increased 7.5% from 2011, primarily related to construction spending on University Link and Sounder D-to-M Streets Track & Signal projects, the acquisition of one additional permanent easement from BNSF and the purchase of twenty-four replacement buses.

Total capital project spending for 2013 was $658.1 million (2012 was $551.1 million). University Link represented the single largest capital-spending program comprising 29.7% of total capital project spending while program spending on East, North and South link represented 38.5%. In all, total capital spending for light rail was $535.2 million or 81.3% of total capital spending ($389.5 million or 70.7% in 2012). Capital spending on Sounder and ST Express projects as a percentage of total capital spending was 14.2% and 3.3%, respectively (21.3% and 7.3% in 2012), a decrease from 2012 as major projects related to these programs were substantially completed in 2012. Transfers out of capital projects in progress were $210.3 million ($311.6 million in 2012) as projects were completed and transferred to property, transit facilities, and vehicles or expensed as indicated in the following table.

Transfers Out of Capital Projects in Progress

(in millions)	For the Year Ended December 31		
	2013	2012	2011
Transferred to property, vehicles and equipment	$ 144.2	$ 241.2	$ 214.2
Contributions to other governments	66.1	70.4	81.7
Write-off of overhead, discontinued and impaired project costs	-	-	1.5
Total	**$ 210.3**	**$ 311.6**	**$ 297.4**

Other non-current assets increased 14.9% from 2012 due to payments made for the North Link owner controlled insurance program (OCIP) program. In 2012, other non-current assets decreased 17.9% from 2011 as Washington State Department of Transportation (WSDOT) airspace leases were reclassified to capital assets. Airspace leases grant Sound Transit use of WSDOT property for construction and operation of transit assets in lieu of an easement that is unable to be granted under current state regulations. Prior to 2012, airspace leases were recognized as prepaid expenses and amortized to lease expense over the life of the lease.

Governmental Accounting Standard Board (GASB) No. 65, effective January 2013, requires the deferred loss on debt refunding to be reported as a deferred outflow of resources. Deferred outflows of resources decreased 14.8% from 2012 as the deferred loss incurred on the advanced refunding of the 2005A bonds is amortized over the bonds remaining life.

Current liabilities, excluding interest payable from restricted assets, increased 19.4% from 2012 (28.5% from 2011) primarily related to contributions due to the City of Seattle for work performed on the First Hill Street Car project. While the 2013 current portion of bond principal is comparable to 2012, the increase from 2011 to 2012 in current liabilities, excluding interest payable from restricted assets is due to the first principal payment on the 2012 Parity bonds and contributions due to the City of Seattle as construction began on the First Hill Street Car project.

Interest payable from restricted assets was comparable from 2013 to 2012 while it increased 7.2% from 2011 reflecting the change in timing of interest payments on the refunded 2005A bonds. Long-term debt decreased 2.8% in 2013 (1.7% in 2012) as principal payments were made on outstanding bond series. Other long-term liabilities were comparable for 2013, 2012 and 2011.

The following table presents the net position components and their relative percentage to total net position.

Net Position

(in millions)	December 31			% Total Net Position		
	2013	2012	2011	2013	2012	2011
Net investment in capital assets	$ 4,386.3	$ 3,872.9	$ 3,448.6	83.3%	80.5%	78.0%
Restricted net position	66.8	77.5	90.3	1.3	1.6	2.0
Unrestricted net position	811.6	865.5	886.7	15.4	17.9	20.0
Total	**$ 5,264.7**	**$ 4,815.9**	**$ 4,425.6**	**100.0%**	**100.0%**	**100.0%**

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

Net investment in capital assets increased 13.3% from 2012 reflecting increased spending on ST2 light rail expansion projects. Restricted net position decreased 13.7% from 2012 as the Amtrak lease/sublease escrow requirements were satisfied. Unrestricted net position decreased 6.2% from 2012 as Sound Transit's investment in capital assets increased. Net position categories as a percentage of total net position were comparable for 2013, 2012 and 2011.

Changes in Net Position

Changes in net position reflect the excess of revenue over expenses for a year. In 2013, revenues exceeded expenses by $448.8 million ($390.3 million in 2012). Loss from operations increased by 1.6% from 2012, reflecting the full year effect of Sounder service expansions and increases in ST Express purchased transportation rates. Non-operating revenues, primarily tax revenues, increased by 6.4% and capital contributions increased 21.7% from 2012. Sound Transit's Statement of Revenue, Expenses and Changes in Net Position is summarized in the table below.

Changes in Net Position					
(in millions)	**For the Year Ended December 31**			**% Change**	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
Operating revenues					
Passenger fares	$ 56.9	$ 54.1	$ 46.1	5.3%	17.2%
Other	7.1	3.9	5.8	81.4	(33.1)
Total operating revenues	**64.0**	**58.0**	**51.9**	**10.4**	**11.6**
Operating expenses					
Total operating expenses, before depreciation and loss on disposal of assets	225.6	216.4	210.7	4.3	2.7
Depreciation and loss on disposal of assets	118.8	117.5	110.4	1.1	6.4
Total operating expenses	**344.4**	**333.9**	**321.1**	**3.2**	**4.0**
Loss from operations	**(280.4)**	**(275.9)**	**(269.2)**	**1.6**	**2.5**
Non-operating revenues, net of expenses	569.4	534.9	496.1	6.4	7.8
Income before capital contributions	**289.0**	**259.0**	**226.9**	**11.6**	**14.1**
Capital contributions	159.8	131.3	174.3	21.7	(24.6)
Change in net position	**448.8**	**390.3**	**401.2**	**15.0**	**(2.7)**
Total net position, beginning	4,815.9	4,425.6	4,024.4	8.8	10.0
Total net position, ending	**$ 5,264.7**	**$ 4,815.9**	**$ 4,425.6**	**9.3%**	**8.8%**

Operating Revenues

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

Passenger Fare Revenue

Passenger fares are derived from the sale of Sounder commuter rail and Central Link tickets at ticket vending machines (TVMs), 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 growth in passenger fare revenue of 5.3% and 17.2% in 2013 and 2012, respectively, due to increased ridership in both years and an increase in the average fare rate in 2012. ST Express is the largest revenue-generating mode providing 57.3% of total passenger fare revenue compared to Link and Sounder commuter rail providing 26.1% and 16.6% of total passenger fare revenue, respectively. The effect of each component on passenger fare revenue is discussed in the sections below.

The following table displays passenger fare revenue by mode.

Passenger Fare Revenue

(in millions)				% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
ST Express	$ 32.6	$ 30.6	$ 25.7	6.6%	18.9%
Link	14.9	14.0	12.0	6.1	16.2
Sounder	9.4	9.5	8.4	(1.1)	13.7
Total	**$ 56.9**	**$ 54.1**	**$ 46.1**	**5.3%**	**17.2%**

Ridership

Sound Transit provided 30.3 million rides in 2013, an increase of 6.2% from 2012 as continued economic growth and reductions in local service provided by other operators contributed to increased ridership on all modes. Additional changes in ridership by mode are discussed below.

ST Express ridership increased 3.7% in 2013. ST Express service is at or near capacity on several routes during peak periods, however service redeployments from Everett – Seattle, Seattle – Bellevue and Tacoma – Seattle were implemented to address peak service crush load conditions and additional demand for capacity arising from service reductions in express service operated by other local service providers. In 2012, ST Express ridership increased 10.2% due to the full year effect of the June 2011 service redeployments that proved effective in serving high capacity routes and increased weekend ridership, as ST Express is the primary weekend service provider in its transit service area.

Link consists of Central Link and Tacoma Link. In 2013, Link ridership increased 9.8% from 2012 due to growth in Central Link as service promotion efforts led to changes in commute patterns as well as the conversion of riders from other service providers displaced by service reductions in the light rail corridor. In 2012, Link ridership increased 10.1% from 2011 as the Central Link service establishes itself in the community and as Tacoma Link saw continued growth from the opening of the Commerce Street Station in September 2011, more effectively serving downtown Tacoma businesses. Tacoma Link ridership was comparable in 2013, 2012 and 2011.

In 2013, Sounder commuter rail ridership increased 8.3% from 2012 as South Line ridership increased with the full year of service on the Tacoma – Lakewood segment, the addition of more train cars in June 2013 and an additional round trip in October 2013 on the Seattle-Tacoma corridor. In 2012, Sounder commuter rail ridership increased 6.7% from 2011 reflective of the full year effect of relocation of businesses from Tacoma to downtown Seattle in fall 2011, as well as the opening of the Tacoma – Lakewood corridor in October 2012 that brought new riders to the service.

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

Ridership (in millions)	2013	2012	2011	% Change 2013-2012	% Change 2012-2011
ST Express	16.6	16.0	14.5	3.7%	10.2%
Link	10.7	9.7	8.8	9.8	10.1
Sounder	3.0	2.8	2.6	8.3	6.7
Total	**30.3**	**28.5**	**25.9**	**6.2%**	**9.8%**

Average Fare per Boarding

The combined average fare per boarding (AFB) decreased $0.08 or 3.7% from 2012 reflecting the full year effect of the elimination of the downtown Seattle ride free area. Previously no portion of a Sounder or Central Link trip was allocated to ST Express or local agency bus service for the portion of a rider's bus service trip within the ride free area. With the change, a portion of those trips is treated as a transfer, allocating revenue to ST Express as well as other local bus service providers operating in the downtown Seattle area. This led to a $0.08 and $0.26 decrease in AFB for Central Link and Sounder, respectively. The increase in ST Express revenue related to rail transfers was offset by increases in lower fare boarding within the downtown area as well as from the conversion of passengers from other service providers primarily using fixed price fare products (business passport and Puget Pass) that resulted in the $0.04 decrease in ST Express AFB from 2012.

The combined AFB increased $0.10 or 5.2% from 2011 due to the full year effect of the June 2011 fare increases on ST Express and Central Link and increases in business passport contract pricing as all existing contracts were priced using actual ridership data upon renewal. Business passport contracts represent the largest source of fare revenue for Sound Transit and in 2012 contributed the greatest amount to each mode's increased AFB.

Average Fare per Boarding	2013	2012	2011	% Change 2013-2012	% Change 2012-2011
ST Express	$ 1.96	$ 2.00	$ 1.90	(1.7)%	5.3%
Link	1.53	1.61	1.53	(4.8)	5.0
Sounder	3.12	3.38	3.17	(7.6)	6.6
Combined average fare per boarding	**$ 1.94**	**$ 2.02**	**$ 1.92**	**(3.7)%**	**5.2%**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, rental of facilities, operating grants and other miscellaneous revenue. Other operating revenues increased by $3.2 million or 81.4% from 2012 primairly due to the receipt of a full year of WSDOT operating grant revenue of which commenced December 2012. Other operating revenues decreased by $1.9 million or 33.1% from 2011, primarily due to decreases in operating grants received as no additional access rights to operate transit facilities on WSDOT property were obtained in 2012.

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 Expenses by Function

Operations and maintenance 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.

Operations and maintenance expenses increased $6.1 million or 3.2% in 2013 primarily related to increases in vehicle operations and vehicle maintenance expenses. While operations and maintenance expenses increased $9.2 million or 5.0% in 2012 from increases in vehicle operations and non-vehicle maintenance costs, vehicle maintenance costs remained comparable between 2012 and 2011. See the following table for operating and maintenance expenses by function.

Operations and Maintenance Expenses by Function

(in millions)				% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
Vehicle operations	$ 123.3	$ 117.4	$ 112.5	5.1%	4.3%
Vehicle maintenance	46.5	44.9	45.6	3.7	(1.6)
Non-vehicle maintenance	27.6	29.0	24.0	(5.1)	20.9
Total	**$ 197.4**	**$ 191.3**	**$ 182.1**	**3.2%**	**5.0%**

Vehicle operations expenses increased $5.9 million or 5.1% in 2013 due to expansion of service on the Sounder commuter rail South Line, the full year operation of service from Tacoma – Lakewood that opened October 2012, increase in ST Express operator rates and and increased security costs on all modes. Vehicle operations expenses increased $4.9 million or 4.3% in 2012 as operator rates increased on all modes.

Vehicle maintenance expenses increased $1.6 million or 3.7% from 2012 as maintenance costs increased from the deployment of three additional locomotives into revenue service as well as increased service levels on the Seattle – Lakewood commuter rail corridor. Vehicle maintenance expenses were similar in 2012 to 2011 as maintenance savings realized from the replacement of twenty-four buses that had reached the end of their useful life in 2012 offset increases in vehicle maintenance contract rates and cost of maintenance materials used on aging locomotives, and the original thirty-five light rail vehicles as those vehicles maintenance warranty expired.

Non-vehicle maintenance expenses decreased $1.4 million or 5.1% due to decreases in light rail overhead cantenary system and fare collection system maintenance expenses that more than offset increases in commuter rail right-of way maintenance expenses due to the full year operation of revenue service from Tacoma – Lakewood, and the full year effect of the increased share of downtown Seattle Transit Tunnel (DSTT) maintenance costs as King County Metro reduced its proportionate usage of the DSTT upon closure of the downtown Seattle ride free area in October 2012. Non-vehicle maintenance expenses increased $5.0 million or 20.9% in 2012 with increased maintenance for rail right-of-way and light rail traction power maintenance staff needed to support increased facility maintenance requirements as facilities age and usage increased.

Operations and Maintenance Expenses by Mode

Major operations and maintenance expense categories consist of services, materials, utilities, insurance, taxes, and purchased transportation, allocated overhead from general and administrative divisions and operating leases and rentals. Purchased transportation includes amounts paid to Community Transit, King County Department of Transportation (DOT) and Pierce Transit who operate Sound Transit's express bus service and King County DOT Rail Division, which operates the Central Link light rail and to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 61.6% of this category in 2013 and 62.3% in 2012. 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 18.2% in 2013 and 17.3% in 2012 of total operating and maintenance expenses.

The following table presents operating and maintenance expenses by mode.

Operations and Maintenance Expenses by Mode

(in millions)				% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
ST Express	$ 104.1	$ 101.5	$ 96.7	2.6%	4.9%
Link	56.3	56.5	53.3	(0.4)	6.0
Sounder	37.0	33.3	32.1	11.3	3.7
Total	**$ 197.4**	**$ 191.3**	**$ 182.1**	**3.2%**	**5.0%**

ST Express operations and maintenance costs increased $2.6 million of 2.6% from 2012 ($4.8 million or 4.9% from 2011) as purchased transportation contract costs increased across all operators. This year's results also reflect extension of Route 592 from DuPont to Olympia in partnership with Intercity Transit, establishment of new routes in Pierce County and the full year effect of increased DSTT maintenance costs starting October 2012 with the closure of the downtown Seattle ride free area that led King County Metro to reduce its usage of the DSTT by 6%.

Link operations and maintenance expenses include both Central Link and Tacoma Link light rail lines. Link operations and maintenance expenses for 2013 were comparable to those of 2012 for both light rail lines as no significant changes in service and maintenance levels were made. In 2012 Link operations and maintenance expenses increased $3.2 million or 6.0% from 2011 primarily resulting from increases in Central Link due to replacement of stolen copper wire as well as major increases in purchased transportation costs related to the full year effect of additional vehicle and facility maintenance employees added in 2011 as twenty-seven additional light rail vehicles went into service and as facilities experienced increased usage. Tacoma Link operations and maintenance expenses were comparable for 2012 and 2011.

Sounder commuter rail operations and maintenance costs increased $3.7 million or 11.3% due to increases in Amtrak vehicle maintenance, right of way maintenance and BNSF purchased transportation costs with the operation of a full year of service from Tacoma – Lakewood that opened October 2012. In 2012, Sounder commuter rail operations and maintenance costs increased $1.2 million or 3.7% from 2011 due to increases in Amtrak overall vehicle maintenance contract costs, increases in electricity costs for locomotive recharging at the layover yards and increases in excise taxes related to increased fare revenue.

General and Administrative

General and administrative expenses comprise staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include salaries, benefits, services and professional fees, and other expenses. General and administrative expenses decreased in 2013 by $0.9 million or 4.0% as overall increases in administrative support related to information technology, human resources and legal were offset by increased capitalization of administrative expenses performed in support of the ST2 capital program. In 2012 general and administrative expenses decreased $3.6 million or 13.4% from 2011, primarily due to a decrease in legal defense costs related to construction claim resolution, which more than offset increases in salaries and benefits related to supporting agency activities.

General and Administrative Expenses

(in millions)				% Change	
	2013	**2012**	**2011**	**2013-2012**	**2012-2011**
Salaries	$ 10.6	$ 11.9	$ 10.5	(11.2)%	13.8%
Benefits	6.0	6.5	5.2	(7.4)	26.0
Services and professional fees	3.2	2.2	8.2	45.5	(73.2)
Other	2.3	2.5	2.8	(4.6)	(13.2)
Total	**$ 22.1**	**$ 23.1**	**$ 26.7**	**(4.0)%**	**(13.4)%**

Salaries and benefits decreased 9.9% or $1.8 million from 2012 as increases in administrative staffing were offset by an increase in salaries and wages capitalized as North Link and East Link light rail expansion projects entered final design in 2013 and more staff was used to support those projects. Further contributing to the decrease is the start of ST3 planning activities that shifted salaries and related benefits to regional planning activities from general agency support. Salaries and benefits increased 17.8% from 2011 as staff vacancies within legal, finance and IT decreased as positions were filled in 2012.

Services and professional fees increased $1.1 million or 45.5% due to agency initiatives for records management, recruitment of senior staff, software maintenance and Transportation Infrastructure Finance and Innovation Act (TIFIA) loan application fees to fund the East Link project as well as increases in property insurance premiums. Services and professional fees decreased $6.0 million or 73.2% in 2012 as costs incurred in support of construction claims resolution decreased with the settlement of all outstanding Central Link construction claims in 2011. Excluding claims costs, services and professional fees decreased in 2012 by $1.1 million or 35.4% due to a lower use of consulting services to support agency activities including grants processing, administering the project labor agreement and financial advisory services. Starting in 2013 claim support costs are now capitalized to the associated project.

Other expenses were $0.2 million or 4.6% lower than 2012 as increases in information systems infrastructure and administrative leases were offset by reduced advertising expenses and increased rent abatement on administrative buildings. In 2012, other expenses decreased $0.3 million or 13.2% from 2011 due to Central Link construction claims reserve reduction and increased support for regional fare collection administration.

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 2013, fare and regional planning expenses were $6.0 million, an increase of $4.0 million from that of 2012 as ST3 planning for future expansion of the regional transit system along high capacity transit corridors began. Fare and regional planning expenses in 2012 were comparable to that of 2011.

Depreciation and Amortization

Depreciation and amortization comprises non-cash expenses that reduce the value of capital assets over time. In 2013, depreciation and amortization was comparable to that of 2012 whereas depreciation and amortization increased $7.1 million or 6.4% from 2011 resulting from the capitalization of airspace leases and the start of revenue service in the Tacoma – Lakewood commuter rail corridor in October 2012.

Non-Operating Revenues (Expenses)

Net non-operating revenues increased by $34.5 million or 6.4% as increases in tax revenues offset unrealized losses incurred on investments resulting from changes in market value. Net non-operating revenues increased by $38.8 million or 7.8% in 2012 resulting from a growth in tax revenues, lower net interest expense and lower capital contributions to other governments.

Non-operating Revenues and Expenses

(in millions)	2013	2012	2011	% Change 2013-2012	% Change 2012-2011
Non-operating revenues					
Sales and use tax	$ 594.1	$ 551.9	$ 528.0	7.6%	4.5%
Motor vehicle excise tax	69.1	65.8	65.9	4.9	(0.1)
Rental car tax	2.8	2.5	2.0	9.2	29.1
Interest income	8.0	9.1	10.8	(12.1)	(15.7)
Unrealized (loss) gain on fair market value change	(12.9)	3.1	10.1	(515.1)	(69.3)
Investment income	(4.9)	12.2	20.9	(140.2)	(41.7)
Other revenues	6.8	7.4	8.6	(7.0)	(15.1)
Total	**667.9**	**639.8**	**625.4**	**4.4**	**2.3**
Non-operating expenses					
Interest expense	25.0	32.0	43.2	(21.9)	(25.8)
Contributions to other governments	71.1	70.4	81.7	0.9	(13.8)
Tax collection fees	2.6	2.4	2.3	9.6	(0.8)
Loss on disposal of assets	(0.2)	0.1	-	(233.7)	-
Impaired projects	-	-	2.1	-	(99.1)
Total	**98.5**	**104.9**	**129.3**	**(6.2)**	**(18.9)**
Non-operating revenues, net	**$ 569.4**	**$ 534.9**	**$ 496.1**	**6.4%**	**7.8%**

Sales and Use tax revenues increased by 7.6% in 2013 and 4.5% in 2012 with a strengthened economy and the Department of Revenue Amnesty Program that waived non-compliance penalties and interest for tax obligations related to years 2007 through 2011 that were settled between February and April 2012. Motor Vehicle Excise and Rental Car Sales tax revenues increased by 4.9% and 9.2%, respectively, in 2013 as consumers purchased new vehicles and additional rental car services. Motor Vehicle Excise and Rental Car Sales tax revenues were comparable for 2012 and 2011.

Investment income, net of unrealized changes in fair market value decreased by $17.1 million ($8.7 million in 2012) due to decreases in the fair market value of investments. Other revenues were comparable for 2013 and 2012, and decreased $1.2 million from 2011 as recoveries related to the settlement of investment and construction claims for the Initial Segment and Airport Link projects were received in 2011.

Interest expense decreased $7.0 million from 2012 due to an increase in the amount of interest capitalized as capital project spending on light rail expansion projects ramped up. Interest expense decreased $11.2 million from 2011 with the refunding of the 2005 bonds at lower effective interest rates.

Contributions to other governments are pursuant to capital improvement or funding agreements and are dependent upon the timing and scope of project activities that result in significant fluctuations year over year. In 2013, capital contributions were $71.1 million, comparable to that of 2012, comprising contributions to the City of Seattle for the construction of First Hill Street Car and to the City of Renton for major arterial improvements. In 2012, capital contributions were $70.4 million, a decrease of 13.8% from 2011, comprising contributions to the City of Seattle for the construction of First Hill Street Car and the contribution of I-90 Two-Way Transit & HOV Operations, Stage 2 to WSDOT.

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, thereby resulting in a write-off of the associated cost. In 2013 and 2012, no impairments were incurred as compared to 2011 when an impairment related to Tukwila Station design costs was incurred as the station was redesigned to improve major right of way access.

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2013 by $28.5 million or 21.7% due to federal grants for East Link and access rights granted under the WSDOT landbank. The following table summarizes capital contributions by major category.

Capital Contributions

(in millions)	2013	2012	2011	% Change 2013-2012	% Change 2012-2011
Federal	$ 146.7	$ 127.7	$ 168.7	14.9%	(24.3)%
State and local governments	13.1	3.6	5.6	261.6	(35.2)
Total	**$ 159.8**	**$ 131.3**	**$ 174.3**	**21.7%**	**(24.6)%**

Federal capital contributions in 2013 increased $19.0 million in 2013 as increases in contributions received for East Link project final design and North Link project construction costs more than offset lower contributions for the University Link project. Federal capital contributions decreased by $41.0 million in

2012 primarily due to the timing of spending on the University Link project, a Federal Transportation Authority approved full funding grant agreement project. Drawdowns related to the light rail vehicle portion of the University Link project were accelerated into 2011 and the tunnel-boring project completed the first twin tunnel early and had not mobilized by the end of 2012 on the next tunnel, accelerating when contributions were received.

State and local government contributions increased $9.5 million for contributions received from WSDOT for access rights granted under the landbank agreement for the North Link project (see note 12). State and local government contributions decreased in 2012 by $2.0 million as the state regional mobility grants related to Tacoma – Lakewood commuter rail expansion were exhausted in 2011.

Capital Assets

As of December 31, 2013, Sound Transit had invested $5.9 billion in capital assets, net of accumulated depreciation and amortization, which included $3.2 billion of depreciable assets in service. This represents a $477.5 million or an 8.9% increase over 2012. The increase reflects capital project spending for all light rail expansion corridors, Sounder South line corridor and Regional Express major arterial expansions. Capital projects in progress (CIP) increased $447.8 million or 36.4% while other non-depreciable assets increased $93.8 million or 11.1% and depreciable assets decreased $64.1 million or 1.9%. A summary of Sound Transit's capital assets are presented in the following table.

Capital Assets, net

(in millions)	December 31			% Change	
	2013	2012	2011	2013-2012	2012-2011
Land	$ 455.1	$ 418.0	$ 387.0	8.9%	8.0%
Permanent easements	485.1	428.4	374.1	13.2	14.5
Capital projects in progress	1,678.9	1,231.1	991.6	36.4	24.2
Total non-depreciable assets	**2,619.1**	**2,077.5**	**1,752.7**	**26.1**	**18.5**
Buildings, transit facilities & heavy equipment	2,334.8	2,384.6	2,343.7	(2.1)	1.7
Access rights	414.1	430.3	409.3	(3.8)	5.1
Revenue vehicles	480.2	478.7	487.2	0.3	(1.7)
Software, furniture, equipment & vehicles	3.0	2.6	3.9	16.7	(33.7)
Total depreciable assets	**3,232.1**	**3,296.2**	**3,244.1**	**(1.9)**	**1.6**
Total capital assets, net	**$ 5,851.2**	**$ 5,373.7**	**$ 4,996.8**	**8.9%**	**7.5%**

Land increased $37.1 million in 2013 and $31.0 million in 2012 related to right-of-way acquisitions for the East, South and North Link projects in 2013 and additional transfers of land costs in 2012 from CIP related to the Tacoma – Lakewood corridor project that entered revenue service in October 2012.

Permanent easements increased by $56.7 million in 2013 and $54.3 million in 2012 with the acquisition of an additional permanent easement from BNSF to operate an additional round trip in the Sounder Seattle-Tacoma corridor in each year.

CIP had a net increase of $447.8 million in 2013 ($239.5 million in 2012). Total capital project spending was $658.1 million in 2013, an increase of 19.4% from 2012 as construction began on the South Link and North Link light rail segments, as East Link progressed through final design and construction continued on University Link. Transfers out of CIP decreased 32.5% from 2012 as no major project entered revenue service in 2013. Total capital spending was $551.1 million in 2012, a decrease of 4.7% from 2011 as University Link project construction spending tapered on its tunnel-boring project and the Tacoma –

Lakewood project completed construction in summer 2012. Transfers out of CIP increased 4.8% in 2012 from 2011 with the Tacoma – Lakewood corridor project going into service. Capital projects that incurred major spending activity in 2013 and 2012 are summarized in the following table.

Major Capital Project Activities from 2013 and 2012

	Sounder	Link	ST Express
2013	• Sounder South Expanded Service • Sounder ST2 Fleet Expansion • Tukwila Station	• East Link (Downtown to Bellevue) • First Hill Link Street Car • Link O&M Satellite • Link Noise Abatement • Lynnwood Link (Northgate to Lynnwood) • North Link (UW Station to Northgate) • South Link (176th to 200th) • University Link (PSST to UW Station) • University Link (UW Station and Capitol Hill Station)	• Rainier Avenue Arterial Improvements • I-90 2-Way Transit & HOV Operations Stage 3
2012	• D to M Streets Track & Signal • Sounder South Expanded Service • Sounder ST2 Fleet Expansion	• East Link (Downtown to Bellevue) • First Hill Link Street Car • Lynnwood Link (Northgate to Lynnwood) • North Link (UW Station to Northgate) • South Link (176th to 200th) • University Link (PSST to UW Station) • University Link (University Tunnel) • University Link (UW Station and Capitol Hill Station)	• Fleet Replacement

Buildings, transit facilities, and heavy equipment, net of depreciation decreased $49.8 million in 2013 as depreciation exceeded current year additions. Buildings, transit facilities, and heavy equipment, net of depreciation increased $40.7 million in 2012 as the Tacoma – Lakewood Sounder corridor entered revenue service in October 2012.

Access rights, net of amortization, decreased $16.2 million in 2013 as amortization exceeded current year asset additions. Access rights increased $21.0 million in 2012 with the reclassification of previously entered into WSDOT airspace leases and new access rights obtained from the City of Tacoma related to the operation of the Tacoma – Lakewood Sounder corridor.

Revenue vehicles, net of depreciation, increased $1.5 million in 2013 due to the purchase of three locomotives for expansion of Sounder South line service from Seattle to Lakewood and nineteen hybrid replacement buses. Revenue vehicles, net of depreciation, decreased in 2012 by $8.5 million as current year depreciation exceeded asset additions related to replacement of twenty-four buses that had reached their full service lives.

Software, furniture, equipment, and vehicles, net of amortization and depreciation were comparable for 2013, 2012 and 2011.

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

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1.5% of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60.0% of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5.0% of the value of taxable property within the service area. Based on the 2012 assessed valuations for collection of 2013 taxes, Sound Transit's current non-voter approved remaining debt capacity is $4.4 billion and its additional remaining debt capacity subject to voter approval is $18.0 billion.

Sound Transit's 2013 bond credit ratings remained unchanged from those of 2012. All outstanding prior and parity bond issuances are rated Aa1 and Aa2, respectively, by Moody's and AAA by Standard & Poor's (S&P).

Economic Conditions

Sound Transit's 2013 tax revenues increased 7.4% over prior year, reflecting continued recovery since the 2009 economic recession. Although year-over-year tax revenues increased, taxable retail sales, which generate approximately 89.2% of total tax revenue, remains 5.8% below pre-recession levels.

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

Audit and Reporting Committee
Central Puget Sound Regional Transit Authority:

We have audited the accompanying financial statements of Central Puget Sound Regional Transit Authority (a public corporation acting under the service name of Sound Transit), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sound Transit as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1 through 15 be presented to supplement the financial statements. Such information, although not a part of the statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 23, 2014

STATEMENTS OF NET POSITION

(in thousands)	December 31	
	2013	**2012**
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 93,313	$ 71,832
Restricted assets (note 3)	2,161	2,151
Investments (note 3)	694,620	770,378
Taxes and other receivables (note 4)	172,648	147,835
Inventory	10,850	12,774
Prepaid expenses	7,615	5,770
Total current assets	**981,207**	**1,010,740**
Non-current assets		
Capital assets, net (note 5)	5,851,210	5,373,733
Restricted assets (note 3)	84,321	94,619
Investment held to pay capital lease obligation (note 6)	59,532	58,846
Prepaid expense and deposits	14,470	5,539
Total non-current assets	**6,009,533**	**5,532,737**
Total assets	**6,990,740**	**6,543,477**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on debt refunding	30,336	35,614
Total Deferred Outflows of Resources	**30,336**	**35,614**
LIABILITIES		
Current liabilities		
Cash overdraft	5,699	2,695
Accounts payable and accrued liabilities (note 7)	166,066	135,049
Unearned revenue	4,559	3,935
Interest payable from restricted assets	19,573	19,320
Current portion, long-term debt (note 8)	33,545	33,250
Other claims and short-term obligations (note 9)	819	1,506
Total current liabilities	**230,261**	**195,755**
Non-current liabilities		
Long-term debt (note 8)	1,461,765	1,503,174
Capital lease obligations (note 6)	59,532	58,846
Other long-term obligations (note 9)	4,843	5,414
Total non-current liabilities	**1,526,140**	**1,567,434**
Total liabilities	**1,756,401**	**1,763,189**
Commitments and contingencies (notes 6, 9, 11, and 12)		
NET POSITION		
Net investment in capital assets	4,386,235	3,872,923
Restricted (note 10)	66,841	77,450
Unrestricted	811,599	865,529
Total net position	**$ 5,264,675**	**$ 4,815,902**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)	December 31 2013	December 31 2012
Operating revenues		
Passenger fares	$ 56,944	$ 54,068
Other operating revenue	7,051	3,887
Total operating revenues	**63,995**	**57,955**
Operating expenses		
Vehicle operations	123,336	117,384
Vehicle maintenance	46,540	44,869
Non-vehicle maintenance	27,524	29,015
General and administrative	22,147	23,080
Fare and regional planning	6,006	2,010
Depreciation, amortization and accretion	118,833	117,495
Total operating expenses	**344,386**	**333,853**
Loss from operations	**(280,391)**	**(275,898)**
Non-operating revenues (expenses)		
Sales tax	594,022	551,898
Motor vehicle excise tax	69,095	65,844
Rental car tax	2,761	2,527
Investment (loss) income	(4,900)	12,176
Other revenues	6,848	7,365
Contributions to other governments	(71,079)	(70,426)
Interest expense	(24,993)	(31,992)
Tax collection fees	(2,576)	(2,351)
Gain (loss) on disposal of assets	180	(134)
Impaired projects	-	(19)
Total non-operating revenues, net	**569,358**	**534,888**
Income before capital contributions	**288,967**	**258,990**
Federal capital contributions	146,718	127,682
State and local capital contributions	13,088	3,620
Total capital contributions	**159,806**	**131,302**
Change in net position	**448,773**	**390,292**
Total net position, beginning of year	**4,815,902**	**4,425,610**
Total net position, end of year	**$ 5,264,675**	**$ 4,815,902**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(in thousands)

	December 31 2013	December 31 2012
Cash flows from operating activities		
Cash receipts from fares	$ 56,908	$ 54,752
Cash receipts from other operating revenue	7,044	3,961
Payments to suppliers	(84,741)	(68,131)
Payments to transportation service providers	(124,062)	(126,476)
Payments to employees for wages and benefits	(24,259)	(27,984)
Net cash used by operating activities	**(169,110)**	**(163,878)**
Cash flows from non-capital financing activities		
Taxes received	657,721	613,681
Tax collection fees paid	(2,559)	(2,283)
Cash overdraft position to be financed (funded)	3,004	(528)
Net cash provided by non-capital financing activities	**658,166**	**610,870**
Cash flows from capital and related financing activities		
Capital contributions from grants	135,021	120,578
Proceeds on issuance of bonds	-	19
Proceeds for betterments and recoverable costs	68	611
Proceeds from sale of asset	1,585	-
Purchase of property, vehicles and equipment	-	(47)
Payments for capital projects in progress	(527,272)	(446,460)
Payments to employees capitalized to capital projects in progress	(43,042)	(35,360)
Payments for bond principal	(33,250)	(46,882)
Payments for bond issue costs	-	(784)
(Payments) recovery of OCIP premiums	(16,292)	441
Cash paid for interest	(65,931)	(61,221)
Net cash used by capital and related financing activities	**(549,113)**	**(469,105)**
Cash flows from investing activities		
Purchases of investments	(153,005)	(325,026)
Proceeds from sales or maturities of investments	215,545	339,394
Investment income	10,361	12,092
Net cash provided by investing activities	**72,901**	**26,460**
Net increase in cash and cash equivalents	**12,844**	**4,347**
Cash and cash equivalents		
Beginning of year	142,755	138,408
End of year	**$ 155,599**	**$ 142,755**
Cash and cash equivalents (note 3)		
Unrestricted	$ 93,313	$ 71,832
Current restricted	1,159	1,018
Non-current restricted	61,127	69,905
	$ 155,599	**$ 142,755**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS, continued

(in thousands)	December 31 2013	December 31 2012
Loss from operations	**$ (280,391)**	**$ (275,898)**
Adjustments to reconcile loss from operations to net cash used by operating activities		
Depreciation, amortization and accretion	118,833	117,495
Bad debt expense	15	(13)
Materials allowance	(31)	166
Equipment expense	(344)	(7)
Changes in operating assets and liabilities		
Increase in taxes and other receivables	(4,156)	(1,289)
Decrease (increase) in inventory	767	(112)
Decrease (increase) in prepaid expenses	22	(794)
Decrease in restricted assets	-	75
Decrease in accounts payable and accrued liabilities	(2,171)	(3,295)
Increase in unearned revenue	624	885
Decrease in other current liabilities	(2,278)	(1,091)
Net cash used by operating activities	**$ (169,110)**	**$ (163,878)**

(in thousands)	December 31 2013	December 31 2012
Supplemental disclosures of non-cash operating, investing and financing activities		
Capital contributions to other governments	$ (66,052)	$ (70,426)
Capital contributions from Land Bank	12,150	-
Construction in progress in current liabilities	121,105	86,416
Interest income from investments held to pay capital leases, net	4,405	4,310
Interest expense on capital leases	(4,405)	(4,310)
(Decrease) increase in fair value of investments	(12,908)	3,101
Like-kind land exchange	4,580	173
Capitalization of airspace access rights	12,150	11,899
Capitalization of rotable parts	11	1,901
Spare parts previously capitalized	(207)	-
Advanced bond refunding	-	313,710

See accompanying notes to financial statements.

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 and Use tax, Motor Vehicle Excise tax and Rental Car Sales tax assessed in Sound Transit's operating jurisdiction (the District). In addition, Sound Transit receives capital funding from federal, state and local agencies.
Sound Transit is governed by an eighteen-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board includes an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting— The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with GAAP. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues are recognized in the period earned and consist of passenger fares, fees earned from the provision of various services to regional transit agencies, and income from noncapital grants.

Operating expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Statements of Net Position. Depreciation and amortization of capital assets and amortization of unearned revenue, asset retirement obligations and unearned rent is recognized in the Statements of Revenues, Expenses and Changes in Net Position.

Capital Assets— Capital assets are stated at cost, except for capital assets contributed to Sound Transit, which are stated at the fair value on the date of contribution. Expenditures and contributions for additions and improvements with a value in excess of $5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operations as incurred. Depreciation and amortization of capital assets is recorded using the straight-line method applied to each asset over its estimated useful life and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

	Estimated useful life
Access rights	5 – 100 years
Buildings and leasehold improvements	5– 30 years
Furniture, equipment and vehicles	3 – 8 years
Revenue vehicles	12 – 40 years
Software	3 – 5 years
Transit facilities, rail and heavy equipment	6 – 150 years

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

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

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

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

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

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

Compensated Absences— Vacation leave that has been earned but not paid is accrued. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% of accrued hours up to 120 days upon resignation for employees hired before January 1, 2004 or up to 240 days for employees hired thereafter. Regardless of hire date, sick leave is paid at 50% of the accumulated leave balance upon retirement or death.

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

Inventory— Inventory includes land held for sale and spare parts and is recorded at the lower of purchased cost or net realizable value. Allowances for excess and obsolete parts are provided for over the estimated useful lives of the related assets for parts expected to be on hand at the date the assets are retired and for spare parts currently identified as excess and obsolete. Allowances are reflected as a charge to operations and are based on management's estimate that is subject to change. As of December 31, 2013 and 2012 inventory reflects an allowance of $135 thousand and $166 thousand, respectively.

Investment Valuation— Investments are stated at fair value.

New Accounting Pronouncements— As of January 1, 2013, Sound Transit adopted the following GASB statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No.14 and No. 34 (GASB No. 61),* effective for years beginning after June 1, 2012. GASB No. 61 modifies requirements for including and reporting component units in the financial reporting entity and primary government, and clarifies the reporting of equity interests in legally separate organizations. GASB No. 61 was implemented with no material effect to the financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities (GASB No. 65),* effective for years beginning after December 15, 2012. GASB No. 65 reclassifies as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. A deferred outflow (inflow) is a consumption (acquisition) of net position applicable to future reporting periods. In compliance with GASB No. 65, the financial statements have been restated for all years presented in the 2013 comparative financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62 (GASB No. 66)*, effective for years beginning after December 15, 2012. GASB No. 66 resolves conflicting guidance presented in Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB No. 66 was implemented with no material effect to the financial statements.

Restatement— With the adoption of GASB No. 65, net position was restated at January 1, 2012, the deferred loss on debt refunding is reported as a deferred outflow of resources instead of as long-term debt and bond issuance costs are expensed instead of amortized. Below is a reconciliation of total net position as previously reported at January 1, 2012, to the restated net position.

(in thousands)		
Net position at January 1, 2012, as previously reported	$	4,434,912
Adoption of GASB No. 65		(9,302)
Net position at January 1, 2012, as restated	**$**	**4,425,610**

Reclassifications— Certain reclassifications have been made to the 2012 Financial Statements to conform to the current year's presentation.

Restricted Net Position— Restricted net position consists of cash, cash equivalents and investments that contain externally imposed legal and contractual obligations. Assets comprising restricted net position are used in accordance with their requirements, and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

Reserves— Sound Transit has internally designated an operating reserve, consisting of two months of average annual operating expenses for the years ended December 31, 2013 and 2012. In 2007, the Sound Transit Board of Directors established an investment fund for capital replacement. In 2013, an emergency loss fund was established to cover retention, deductible or excess loss due to uninsured loss or portion of loss. As these cash and investment reserves are derived from internal restrictions, they are included in unrestricted net position.

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

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

Use of Estimates— The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased. 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. Funds in the LGIP are invested in a manner generally consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940 as it currently stands. All LGIP investments consist of high quality, liquid securities, with a weighted average maturity of 60 days or less, a weighted average life of 120 days or less, and 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 Treasurers of the United States and Canada. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper, general obligation municipal bonds and repurchase agreements. Sound Transit's 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.

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

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 0.66 and for the capital replacement fund was 3.10. For the Prior and Parity Bond Debt Service funds and the University Link OCIP fund, interest rate risk is managed by using the specific identification method.

Concentration of Credit Risk— Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single U.S. 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. U.S. Agency securities (combined) may comprise up to 75% of the portfolio. Participation in the KCIP is limited to 50% of the overall 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, 2013, all Treasury and U.S. Agency securities are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization and all general obligation bonds are rated with one of the three highest credit ratings of a nationally recognized statistical rating organization. After a bond has been purchased, if it is downgraded below one of the three highest ratings, a case-by-case review is conducted to determine the reason for the downgrade and to evaluate whether or not to continue to hold the bond. The LGIP and KCIP are unrated.

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

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

(in thousands)	December 31	
	2013	**2012**
Cash and cash equivalents		
Washington State Local Government Investment Pool	$ 91,018	$ 66,427
FDIC or PDPC insured bank deposits	130	2,238
Cash on hand	2,165	3,167
	93,313	**71,832**
Restricted assets - current		
Deductible liability protection policy	1,002	1,133
Cash equivalent		
King County Investment Pool	1,019	1,018
Health reimbursement account	140	-
	1,159	**1,018**
	2,161	**2,151**
Investments		
Undesignated	441,769	562,903
Capital replacement	252,851	207,475
	694,620	**770,378**
Restricted assets - non-current		
Cash and cash equivalents		
Washington State Local Government Investment Pool	53,118	51,849
FDIC or PDPC insured bank deposits	-	10,052
Escrow funds	8,009	8,004
	61,127	**69,905**
Investments - Debt service and OCIP reserve	22,962	24,550
Investments - Other	68	-
Interest receivable on restricted investments	164	164
	84,321	**94,619**
Total cash, cash equivalents, investments and restricted assets	**$ 874,415**	**$ 938,980**

Unrestricted investments consist of the following:

(in thousands)	2013			2012		
	Fair value	Modified duration	Percentage of portfolio	Fair value	Modified duration	Percentage of portfolio
Investments – Undesignated						
King County Investment Pool	$ 257,779	1.230	58.34%	$ 272,764	1.360	48.46%
U.S. Agency securities:						
Federal Farm Credit Bank	90,070	0.897	20.39	115,155	1.679	20.46
Federal Home Loan Mortgage Corporation	34,989	1.247	7.92	40,031	1.138	7.11
Federal Home Loan Bank	33,918	1.061	7.68	37,992	1.250	6.75
Federal National Mortgage Association	10,013	1.419	2.27	25,158	0.408	4.47
U.S. Treasury securities	15,000	1.535	3.40	37,223	1.334	6.61
Certificate of deposit	-	-	-	20,235	0.480	3.59
Municipal bonds	-	-	-	14,345	0.303	2.55
	$ 441,769	**1.165**	**100.00%**	**$ 562,903**	**1.299**	**100.00%**
Investments – Capital Replacement						
U.S. Agency securities:						
Federal National Mortgage Association	$ 84,601	3.196	33.45%	$ 66,822	4.114	32.21%
Federal Home Loan Mortgage Corporation	65,150	3.998	25.77	65,159	5.035	31.41
Federal Home Loan Bank	26,191	4.132	10.36	9,622	5.576	4.64
Federal Farm Credit Bank	8,841	7.624	3.50	6,923	7.098	3.33
Municipal bonds	55,607	4.640	21.99	51,747	5.572	24.94
U.S. Treasury securities	12,461	1.626	4.93	7,202	1.032	3.47
	$ 252,851	**3.894**	**100.00%**	**$ 207,475**	**4.827**	**100.00%**

Notes to Financial Statements, continued

Non-current restricted investments consist of the following:

(in thousands)	2013			2012		
	Fair value	Maturity	Call date	Fair value	Maturity	Call date
Debt Service Reserve						
Municipal bonds:						
Georgia State GO Unlimited	$ 8,598	4/1/2026	4/1/2017*	$ 9,310	4/1/2026	4/1/2017*
Florida State Public Education BAB	5,204	6/1/2030	6/1/2019*	5,737	6/1/2030	6/1/2019*
Georgia State GO Unlimited BAB	4,313	11/1/2027	11/24/09*	4,982	11/1/2027	11/24/09*
Hawaii State GO Unlimited BAB	2,959	2/1/2024	2/18/10*	3,287	2/1/2024	2/18/10*
	21,074			**23,316**		
OCIP Reserve						
U.S. Agency securities:						
Federal National Mortgage Association	1,148	7/15/2022	-	1,234	7/15/2022	-
Federal Home Loan Mortgage Corporation	740	3/15/2023	-	-	-	-
	1,888			**1,234**		
	$ 22,962			**$ 24,550**		
Other						
Mutual fund:						
T.Rowe Price Retirement 2010 Fund	$ 68	-	-	$ -	-	-
	$ 68			**$ -**		

** Continuously callable from this date forward*

4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

(in thousands)	December 31	
	2013	**2012**
Taxes receivable	$ 116,499	$ 108,366
Grants receivable	41,243	28,652
Due from other governments	12,241	8,050
Interest receivable	2,140	2,657
Accounts receivable, net	525	110
	$ 172,648	**$ 147,835**

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

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	2013 Beginning balance	Additions	Disposals Reductions	Transfers	2013 Ending balance
Non-depreciable assets					
Land	$ 418,004	$ -	$ -	$ 37,112	$ 455,116
Permanent easements	428,455	-	-	56,651	485,106
Capital projects in progress:					
Sound Transit - tangible	1,215,010	533,281	(1,908)	(93,324)	1,653,059
Sound Transit - intangible	12,488	50,135	-	(50,905)	11,718
Other governments - tangible	3,607	74,715	(64,217)	-	14,105
Total non-depreciable assets	**2,077,564**	**658,131**	**(66,125)**	**(50,466)**	**2,619,104**
Depreciable assets					
Transit facilities, rail and heavy equipment	2,631,924	-	(10)	10,358	2,642,272
Access rights	563,835	3,950	-	9,284	577,069
Buildings and leasehold improvements	28,570	70	-	208	28,848
Revenue vehicles	615,458	-	(6,715)	29,250	637,993
Furniture, equipment and vehicles	9,959	-	(1,061)	873	9,771
Software	14,732	-	(77)	639	15,294
Total depreciable assets	**3,864,478**	**4,020**	**(7,863)**	**50,612**	**3,911,247**
Accumulated depreciation					
Transit facilities, rail and heavy equipment	(263,525)	(59,265)	4	-	(322,786)
Access rights	(133,521)	(29,421)	-	-	(162,942)
Buildings and leasehold improvements	(12,366)	(1,180)	-	-	(13,546)
Revenue vehicles	(136,808)	(27,746)	6,715	-	(157,839)
Furniture, equipment and vehicles	(7,843)	(685)	1,024	-	(7,504)
Software	(14,246)	(353)	75	-	(14,524)
Total accumulated depreciation	**(568,309)**	**(118,650)**	**7,818**	**-**	**(679,141)**
	3,296,169	**(114,630)**	**(45)**	**50,612**	**3,232,106**
Total capital assets, net	**$ 5,373,733**	**$ 543,501**	**$ (66,170)**	**$ 146**	**$ 5,851,210**

Notes to Financial Statements, continued

(in thousands)	2012 Beginning balance	Additions	Disposals Reductions	Transfers	2012 Ending balance
Non-depreciable assets					
Land	$ 386,952	$ -	$ (192)	$ 31,244	$ 418,004
Permanent easements	374,135	-	-	54,320	428,455
Capital projects in progress:					
Sound Transit - tangible	964,228	438,866	(156)	(187,928)	1,215,010
Sound Transit - intangible	3,873	62,288	(481)	(53,192)	12,488
Other governments - tangible	23,455	49,970	(69,818)	-	3,607
Total non-depreciable assets	**1,752,643**	**551,124**	**(70,647)**	**(155,556)**	**2,077,564**
Depreciable assets					
Transit facilities, rail and heavy equipment	2,535,734	-	(4,100)	100,290	2,631,924
Access rights	514,586	-	-	49,249	563,835
Buildings and leasehold improvements	28,518	-	(140)	192	28,570
Revenue vehicles	603,477	-	(6,797)	18,778	615,458
Furniture, equipment and vehicles	9,303	-	-	656	9,959
Software	14,533	-	-	199	14,732
Total depreciable assets	**3,706,151**	**-**	**(11,037)**	**169,364**	**3,864,478**
Accumulated depreciation					
Transit facilities, rail and heavy equipment	(209,146)	(58,479)	4,100	-	(263,525)
Access rights	(105,269)	(28,252)	-	-	(133,521)
Buildings and leasehold improvements	(11,234)	(1,193)	61	-	(12,366)
Revenue vehicles	(116,414)	(26,787)	6,393	-	(136,808)
Furniture, equipment and vehicles	(7,019)	(824)	-	-	(7,843)
Software	(12,890)	(1,356)	-	-	(14,246)
Total accumulated depreciation	**(461,972)**	**(116,891)**	**10,554**	**-**	**(568,309)**
	3,244,179	**(116,891)**	**(483)**	**169,364**	**3,296,169**
Total capital assets, net	**$ 4,996,822**	**$ 434,233**	**$ (71,130)**	**$ 13,808**	**$ 5,373,733**

During 2013, Sound Transit capitalized $45.4 million of interest costs ($37.9 million in 2012), representing interest cost incurred in respect of Sound Transit's capital program for the year, net of premium, discounts and deferred amount on debt refunding, on its outstanding bonds (see note 8).

6. CAPITAL AND OPERATING LEASES

Capital lease obligations at December 31, 2013 and 2012 are $59.5 million and $58.8 million, respectively.

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

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

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

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated “AAA” by 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 of December 31, 2013 and 2012, the defeasance accounts were unrated, as they were no longer invested in marketable securities.

As a result of credit rating downgrades under the lease transaction, Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. However, in January 2009, Sound Transit entered into a waiver agreement with the Owner Participant, Lessor, Lender, and Debt Payment Undertaker waiving any existing default or event of default based on a failure to comply with the ratings downgrade provisions of the Participation Agreement, Loan Agreement, Debt Payment Agreement, and Debt Payment Guarantee until March 1, 2009. Under its agreements with the transaction participants, Sound Transit may request successive six-month extensions of the waiver agreement until September 30, 2014, unless extended by agreement of the parties. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately $15.9 million. Extensions of the waiver agreement have been granted through September 30, 2014.

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

(in thousands)	2013	2012
Net sublease, January 1	58,846	$ 57,578
Accrued interest	4,404	4,310
Less payment	(3,718)	(3,042)
Net sublease, December 31	**$ 59,532**	**$ 58,846**

Amtrak Lease/Sublease— In September 2000, Sound Transit entered into a 40-year agreement, amended May 2013, to lease its locomotives, passenger coaches and cab cars (rolling stock) to the National Railroad Passenger Corporation (Amtrak) for $1. Under the agreement, Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak's maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement, which it had entered into with BNSF in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak's behalf for Sound Transit, Amtrak entered into a 40-year sublease of the rolling stock to BNSF for a nominal rental payment of $1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes; Sound Transit and Amtrak have agreed by a Memorandum of Understanding to place these funds that would otherwise be payable for these taxes in an escrow account and to use the funds for projects that mutually benefit Pacific Northwest intercity rail passenger service. In June 2013, $10.1 million was disbursed from the escrow account after identification of mutually beneficial projects that the money would fund. This obligation was satisfied and thus the escrow account was closed at the time the funds were disbursed. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

Operating Rentals— Sound Transit has entered into non-cancelable operating leases in excess of one year for the use of the DSTT, ground, office space, parking, land, storage at various locations, and equipment with lease terms expiring between 2014 and 2035, with some leases containing options to renew. Minimum lease payments through 2035 are as follows (in thousands):

Year ending December 31	
2014	$ 9,083
2015	8,556
2016	8,668
2017	8,743
2018	8,697
2019-2023	7,419
2024-2028	479
2029-2033	495
2034-3035	99
	$ 52,239

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

Total rental expenses for 2012, which include non-cancelable leases as well as other month-to-month rentals, were $8.8 million, of which $264.4 thousand was capitalized for capital projects in progress.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2013	2012
Accounts payable	$ 9,528	$ 4,206
Accrued liabilities	84,101	56,892
Due to other governments	62,968	66,859
Accrued salaries, wages and benefits	9,210	7,018
Retainage payable	259	74
	$ 166,066	**$ 135,049**

8. LONG-TERM DEBT

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

Prior Bonds— The Prior Bonds comprise the 1999, 2009P-1, 2009P-2T and 2012P-1 issues. These bonds are payable in February and August of each year and are secured by local option taxes.

(in millions)		Average rate		Ratings		Principal	Fair value*		Principal and interest restricted	
	Issue date	Coupon	Effective	Moody's	S&P	Payment begins	2013	2012	2013	2012
Series 1999	Dec 1, 1998	4.88	5.03	Aa1	AAA	Feb 1, 2006	$ 323.2	$ 336.9	$ 12.5	$ 12.4
Series 2009P-1	Sept 29, 2009	4.31	2.52	Aa1	AAA	Feb 1, 2015	24.8	25.5	0.4	0.4
Series 2009P-2T	Sept 29, 2009	5.01	3.31**	Aa1	AAA	Feb 1, 2020	81.9	91.7	1.6	1.6
Series 2012P-1	Aug 22, 2012	4.97	2.62	Aa1	AAA	Feb 1, 2013	227.5	255.5	18.3	16.8

* Estimated using quoted market prices
**Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

Parity Bonds— The Parity Bonds comprise the 2005A, 2007A, 2009S-2T and 2012S-1 issues. These bonds are payable in May and November each year and are secured by Sales and Use and Rental Car taxes.

(in millions)

	Issue date	Average Rate: Coupon	Average Rate: Effective	Ratings: Moody's	Ratings: S&P	Principal Payment begins	Fair value*: 2013	Fair value*: 2012	Principal and interest restricted: 2013	Principal and interest restricted: 2012
Series 2005A	Mar 31, 2005	4.95	4.60	Aa2	AAA	Nov 1, 2011	$ 26.9	$ 38.1	$ 13.4	$ 10.0
Series 2007A	Dec 18, 2007	4.99	4.76	Aa2	AAA	Nov 1, 2008	414.7	451.8	3.3	7.9
Series 2009S-2T	Sept 29, 2009	5.49	3.62**	Aa2	AAA	Nov 1, 2029	324.1	373.9	2.7	2.7
Series 2012S-1	Aug 22, 2012	4.91	2.73	Aa2	AAA	Nov 1, 2016	110.5	119.3	0.8	0.8

* Estimated using quoted market prices
** Effective rate reduced due to interest subsidy provided by U.S. Government for Build America Bonds

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, 2013, the common debt service reserve account for Prior bonds comprise a surety policy in the amount of $31.7 million purchased in 1999, a $7.9 million cash reserve funded at the time the 2009P bonds were issued and an $11.5 million cash reserve funded at the time the 2012P-1 bonds were issued. For the Parity Bonds, a cash reserve was established in 2005 for the 2005A bonds. The required balance for the Parity debt service reserve account was $3.2 million at the end of 2013.

Under the bond covenants, Sound Transit is required to value at market the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. As of December 31, 2013, the market value of the Prior and Parity debt service reserves is below the required reserve amount by $1.3 million. Sound Transit is monitoring market value changes and has segregated funds in the LGIP to ensure compliance with the covenants. No reserve account was required to be established for the 2007A, 2009S-2T and 2012S-1 series bonds. Reserve account proceeds are invested in municipal bonds.

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

(in thousands)

Year ending December 31	Principal	Interest	Total
2014	$ 33,545	$ 71,962	$ 105,507
2015	34,935	70,346	105,281
2016	30,430	68,666	99,096
2017	33,235	67,133	100,368
2018	36,290	65,387	101,677
2019-2023	233,125	295,016	528,141
2024-2028	335,625	225,913	561,538
2029-2033	216,095	168,151	384,246
2034-2038	392,440	88,826	481,266
2039	88,485	4,859	93,344
	$ 1,434,205	**$ 1,126,259**	**$ 2,560,464**

The American Recovery and Reinvestment Act of 2009 created the Build America Bond (BAB) program, which authorized state and local governments to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt municipal bonds. The issuers receive a direct federal subsidy payment for a portion of their borrowing costs paid to investors of BABs. The direct federal subsidy once earned, is considered a non-exchange transaction separate from the interest payments made and is recorded in other non-operating revenue when Sound Transit makes its interest payment. The direct federal subsidy was reduced from 35% to 26.3% effective March 31, 2013 through September 30, 2013 resulting from a sequestration order issued pursuant to the Balanced Budget and Emergency Deficit Control Act of 2011. The subsidy received in 2013 was reduced by $266.0 thousand as compared to the amount that would have been received if the rate had not been reduced. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

In August 2012, Sound Transit issued $216.2 million of Series 2012P-1 bonds and $97.5 million of Series 2012S-1 bonds to refund in advance $350.6 million of the 2005A bonds with average interest rates between 2.0% and 5.0%. A total of $399.6 million (net proceeds of $371.9 million after payment of $0.4 million in issuance costs plus an additional deposit of $27.7 million from the liquidation of a portion of the 2005A Debt Service Reserve) was deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded portion of 2005A Series bonds. As a result, the refunded portion of the 2005A Series bonds are considered defeased and the liability for those bonds has been removed from the corresponding long-term debt accounts. The advance refunding reduced aggregate debt service payments by $120.4 million through 2030 and produced net present value savings of $50.8 million.

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

Long-term debt consists of the following:

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

(in thousands)	2012 Beginning balance	Additions	Reductions	2012 Ending balance	Amounts due within one year
Bonds payable					
Series 1999	$ 321,470	$ -	$ (5,595)	$ 315,875	$ 5,890
Series 2005A	392,005	-	(356,660)	35,345	9,675
Series 2007A	410,110	-	(7,585)	402,525	4,570
Series 2009P-1	23,155	-	-	23,155	-
Series 2009P-2T	76,845	-	-	76,845	-
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	-	216,165	-	216,165	13,115
Series 2012S-1	-	97,545	-	97,545	-
	1,523,585	**313,710**	**(369,840)**	**1,467,455**	**33,250**
Plus unamortized premium	29,452	59,064	(15,057)	73,459	-
Less unamortized discount	(4,840)	(29)	379	(4,490)	-
Total bonds payable	**1,548,197**	**372,745**	**(384,518)**	**1,536,424**	**33,250**
Total long-term debt	**$ 1,548,197**	**$ 372,745**	**$ (384,518)**	**$ 1,536,424**	**$ 33,250**

9. OTHER LONG-TERM OBLIGATIONS

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

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

(in thousands)	2012 Beginning balance	Additions, accretion and changes in estimates	Reductions	2012 Ending balance	Amounts due within one year
Asset retirement obligations					
Sounder station platforms	$ 1,103	$ 55	$ -	$ 1,158	$ -
Tacoma link surface rail	1,598	80	-	1,678	-
Total asset retirement obligations	**2,701**	**135**	**-**	**2,836**	**-**
Uninsured losses					
OCIP	2,483	(503)	(74)	1,906	587
Transit operations	480	172	-	652	234
Total uninsured losses	**2,963**	**(331)**	**(74)**	**2,558**	**821**
Compensated absences	**4,929**	**4,781**	**(4,337)**	**5,373**	**4,532**
Total other long-term obligations	**$ 10,593**	**$ 4,585**	**$ (4,411)**	**$ 10,767**	**$ 5,353**

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

Risk Management— In the ordinary course of planning, building, and operating its regional transit systems and services to improve mobility for the Central Puget Sound region, which includes construction projects and agency and rail operations, Sound Transit is exposed to various types of risks and exposures of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management and insurance program to mitigate the potential for loss and for the administration of claims.

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

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

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

Sound Transit utilizes 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 project and subsequently amended to include the Airport Link light rail extension project and provided coverage from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only remaining insurance policy under the first OCIP program 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 was secured in October 2008 for the University Link Light rail extension project with coverage provided from October 20, 2008 through September 30, 2016. The University Link project OCIP insurance coverage includes primary and excess commercial general liability (CGL), builder's risk, and contractors' pollution liability policies. The CGL insurance policy includes six years of completed operations coverage, which will expire September 30, 2022.

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

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

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

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

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

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

10. RESTRICTED NET POSITION

Restricted net position consists of the following:

(in thousands)	2013	2012
Debt service	$ 54,783	$ 56,009
Contractual arrangements	11,062	20,308
Deductible liability protection policy	996	1,133
	$ 66,841	**$ 77,450**

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, 2013 there were no employees participating in PERS. At December 31, 2012 and 2011, there was one remaining employee participating in PERS.

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

401(a) Plan—Great West Retirement Services is the plan's administrator and trustee. This plan is a fixed employer system, and membership in the system includes all full time Sound Transit employees and members of the Sound Transit Board eligible for compensation. The vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Eligible employees are eligible to participate in the plan on the first day of employment. Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2013 and 2012 was $51.7 million and $47.5 million, respectively, and total payroll was $52.1 million and $48.1 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2013, 2012, and 2011 are as follows:

	Contribution rate			Contributions (in thousands)		
	2013	2012	2011	2013	2012	2011
Employer	12%	12%	12%	$ 6,198	$ 5,697	$ 4,944
Employee	10	10	10	5,165	4,747	4,120
Total	**22%**	**22%**	**22%**	**$ 11,363**	**$ 10,444**	**$ 9,064**

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

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

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

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

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 Tacoma to Lakewood corridor.

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

In January 2010, Sound Transit entered into new service agreements with King County DOT and Pierce Transit for the operation of its ST Express bus service. The agreements expired December 31, 2012 and contained two one-year renewal options at the mutual consent of both parties, of which each one-year renewal option was exercised thus extending the agreements through December 31, 2014. In April 2010, Sound Transit entered into a new three-year service agreement with Community Transit. The agreement with Community Transit contains two one-year renewal options at the mutual consent of both parties, of which each one-year renewal option was executed at the mutual consent of both parties extending the agreement through March 31, 2015. Service is compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

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

Amended and Restated Agreement for Regional Fare Coordination System— In April 2009, Sound Transit entered into an amended agreement to operate and maintain a RFCS that establishes a common, non-cash fare system throughout seven participating transit agencies service areas and commits the agencies to using the RFCS for a minimum of ten years. Each agency shares in operating and maintaining the RFCS in accordance with the agreement. Sound Transit's proportionate share of RFCS operating and maintenance costs for years 2013 and 2012 is 18.9% and 18.1%, respectively.

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

(in thousands)	December 31 2013	December 31 2012
Assets		
Current assets		
Cash and cash equivalents	$ 6,458	$ 6,196
Accounts receivable	6,245	5,694
Total assets	**12,703**	**11,890**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,233	7,958
Unearned revenue	4,470	3,932
Total liabilities	**12,703**	**11,890**
Net position	**$ -**	**$ -**
Total operating revenues	**$ 45,865**	**$ 41,646**
Total expenses	**$ 1,077**	**$ 1,051**

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

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.

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

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

City of Bellevue Binding Umbrella Memorandum of Understanding and Transitway Agreement for East Link Project: In November 2011, Sound Transit and the City of Bellevue (the City) entered into an agreement in which the City will contribute up to $100.0 million for the construction of a tunnel through downtown Bellevue and $60.0 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 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 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, 2013, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $232.2 million. This value is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2013 and 2012.

(in millions)	2013	2012
Balance in Land Bank, beginning of year	$ 244.4	$ 131.3
Credits (Draws):		
Northgate Link	(12.2)	-
Debits (Additions):		
Eastgate Transit HOV Direct Access	-	27.5
South Everett Freeway Station	-	25.2
I-90 Two-Way Transit & HOV Operations, Stage 1	-	23.0
I-90 Two-Way Transit & HOV Operations, Stage 2	-	12.1
SR 522 HOV Enhancements at Kenmore	-	8.3
SR 522 HOV Enhancements at Bothell	-	8.1
85th Corridor Kirkland	-	4.5
I-405 Bellevue Transit Center Direct Access	-	2.7
Federal Way HOV Access/South 317th	-	1.4
I-5 Lynnwood Direct Access Ramp & other highway improvements	-	0.3
Balance in Land Bank, end of year	**$ 232.2**	**$ 244.4**

Purchases— At December 31, 2013 and 2012, Sound Transit had outstanding construction commitments of approximately $1.2 billion and $968.6 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, 2013 and 2012 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, 2013, through May 23, 2014, the date these financial statements were issued.