Building connections

SOUND TRANSIT ANNUAL REPORT

Photography by Scott Areman

2015

SOUNDTRANSIT

2015 in review

At the start of every year, Sound Transit releases its major milestones as a way for the public to track the agency's progress.

Highlights include:

Double deckers

Sound Transit's first five double-deck buses joined the ST Express fleet. The agency also started new bus Route 580 in Pierce County.

Tunnel boring

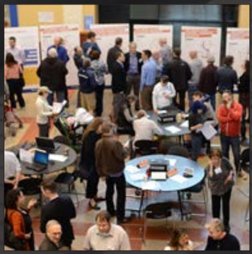
The Northgate Link tunnel boring machines made progress between Northgate and the University of Washington Station.

Sounder turns 15

Sounder commuter trains celebrated 15 years of service to customers. And, in 2015, Sounder weekday boardings increased 15 percent.

New leadership

The Sound Transit Board hired Peter Rogoff as CEO. Mr. Rogoff comes to Sound Transit as former Under Secretary of Transportation for Policy in the U.S. Department of Transportation.



Sound Transit 3

The Sound Transit Board and staff made significant progress towards bringing a Sound Transit 3 ballot measure to voters in November, 2016.

University of Washington bike/pedestrian bridge opened in 2015.

" It was a landmark year of progress on our promise to connect the Puget Sound region with fast, dependable transit."

– Dow Constantine, *Sound Transit Board Chair*

Table of contents

ONLINE VERSION AVAILABLE

To view this report online go to: **soundtransit.org/stannualreport2015**

To download a PDF version of this printed report go to: soundtransit.org/About-Sound-Transit/Accountability/Financial-documents.

Photography by Don Wilson

Sound Transit 2015

MAJOR CONSTRUCTION AND RECORD RIDERSHIP WERE PART OF SOUND TRANSIT'S 2015 ACCOMPLISHMENTS.

The agency had 41 miles of Link light rail extensions in planning or construction. In particular, Sound Transit made significant progress on its U Link and South 200th Link extensions, which are on track to open in 2016. The two tunnel boring machines worked on the Northgate Link tunnels. The Sound Transit Board selected the route and stations for the Tacoma Link expansion. And, the agency reached out to its riders by launching a mobile website that makes it easier to access transit information from phones.

> " We were firing on all cylinders with record ridership and major light rail construction up and down the region."
>
> Peter Rogoff, *Sound Transit CEO*

Sound Transit CEO Peter Rogoff, left and Dow Constantine, King County Exeutive and Sound Transit Board Chair, center, tour the Roosevelt Station site.

The Angle Lake Station, below, located a mile south of Sea-Tac Airport, is scheduled to open in September 2016. The University of Washington Station, above, will open in March 2016.

Photography by Don Wilson

Accountability

ACCOUNTABILITY IS DELIVERED IN MANY WAYS. In 2015, Sound Transit safely carried nearly 35 million riders. It was in the dependable planning, construction and delivery of major capital projects such as the University of Washington, Capitol Hill and Angle Lake light rail stations that are on target to open in 2016.

Accountability was also found in seeing the need and launching the ORCA LIFT reduced fare for low-income Link riders.

> "We are committed to connecting our vast and diverse region with reliable trains and buses that help meet community needs."
>
> Marilyn Strickland, Tacoma Mayor and Sound Transit Vice Chair

Leadership

SOUND TRANSIT WAS A LEADER IN 2015 with strong management of its train and bus services as well as a number of ongoing capital projects.

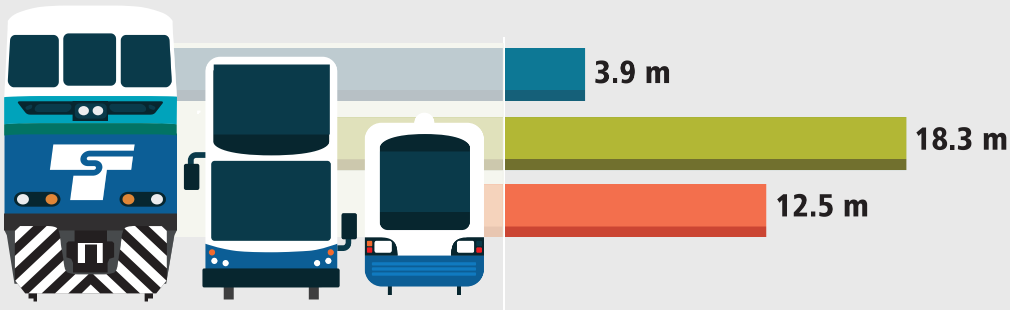
During the year, the operation of Sounder and Link trains and ST Express buses ran smoothly in response to record demand for services. The Sound Transit Board also led the way in setting the stage for an important high-capacity transit expansion vote in 2016.

Passengers at the Mulkiteo Sounder station.

Gov. Jay Inslee is joined by leaders of the region at a transportation bill signing ceremony at the future University of Washington Station.

Sound Transit at a glance

Ridership



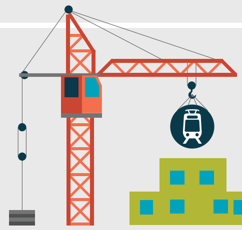
↑14.6% Sounder commuter rail

↑3.6% ST Express

↑5.1% Link light rail

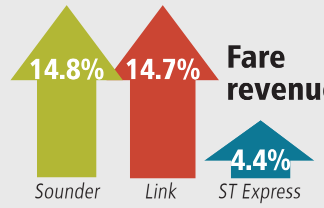
Percents reflect increase from prior year

Finance



$8.16B ST district

Capital projects investment since 1996

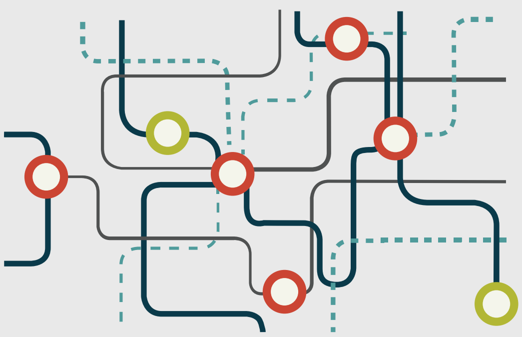


Fare revenue

Percents reflect increase from prior year

Sound Transit service area

Stops served



12 Sounder commuter rail

375 ST Express

13 Link light rail

Source: Sound Transit Service Planning

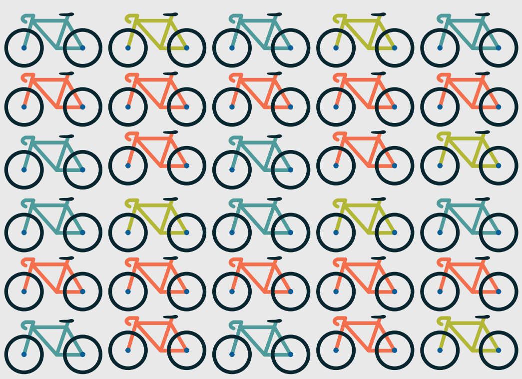
Cities served within the RTA boundary

Algona
Auburn
Beaux Arts
Bellevue
Bonney Lake
Bothell
Brier
Burien
Clyde Hill
Des Moines
Dupont
Edgewood
Edmonds
Everett
Federal Way
Fife
Fircrest
Hunts Point
Issaquah
Kenmore
Kent
Kirkland
Lake Forest Park
Lakewood
Lynnwood
Medina
Mercer Island
Mill Creek
Milton
Mountlake Terrace
Mukilteo
Newcastle
Normandy Park
Orting
Pacific
Puyallup
Redmond
Renton
Ruston
Sammamish
SeaTac
Seattle
Shoreline
Steilacoom
Sumner
Tacoma
Tukwila
University Place
Woodinville
Woodway

51

Connecting with riders

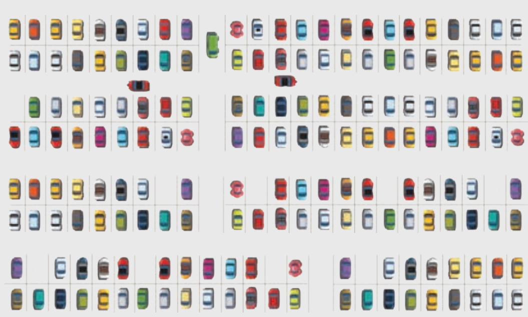
Bike parking



1,500 total bike spaces

Source: Sound Transit Bicycle Program

Car parking



14,105 total parking spots

Source: Sound Transit Operations December 2015 Service Performance Report

Social

↑8K new followers

↑13K new followers

↑20K new rider alert subscribers

Source: Sound Transit Communication and External Affairs. Percents reflect increase from prior year

Light rail over the Duwamish River.

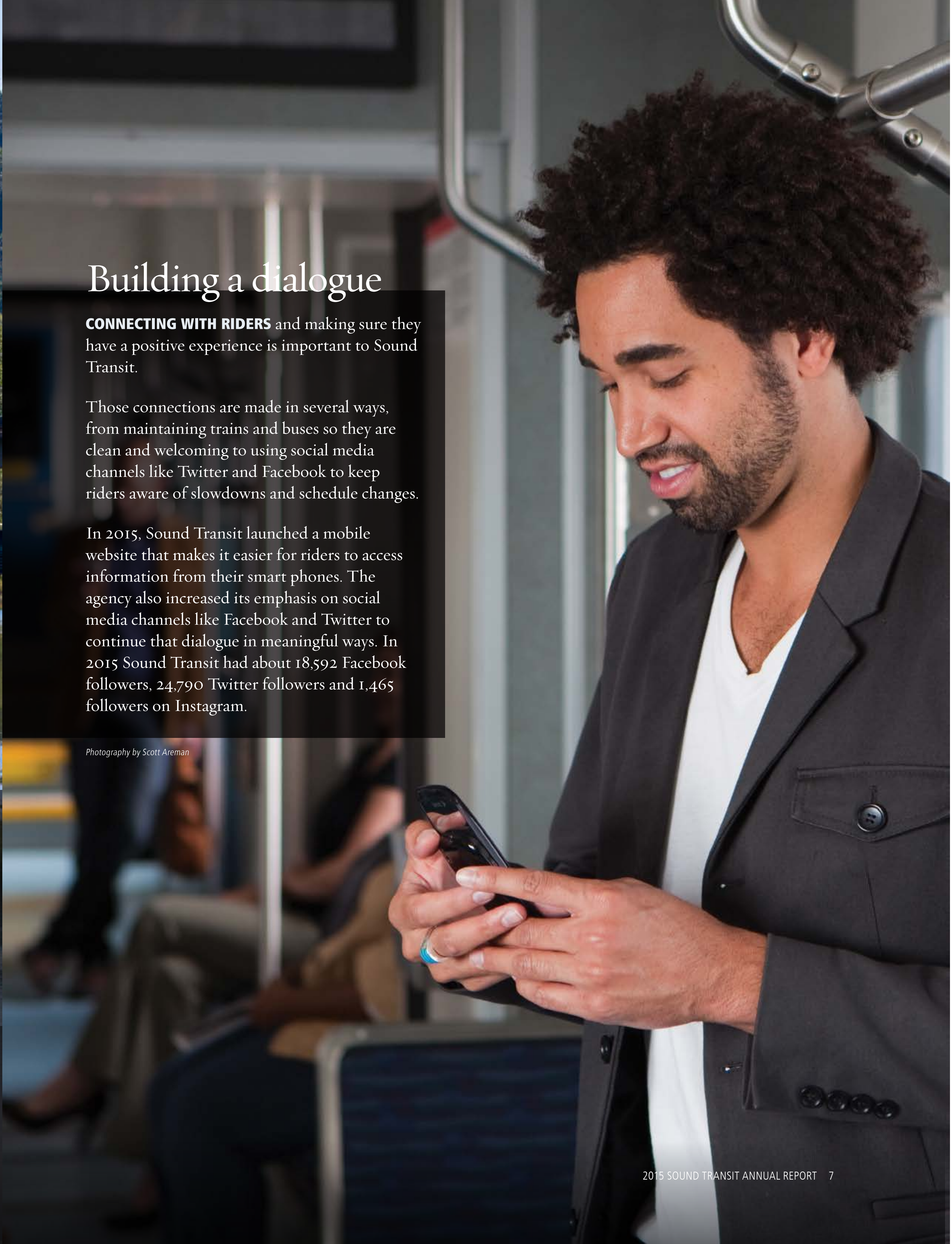
Living the mission

SOUND TRANSIT CONTINUALLY SEARCHES FOR WAYS TO IMPROVE its financial and environmental sustainability. In 2015, Sound Transit issued nearly $1 billion in Green Bonds, the world's largest municipal sale of such bonds. The sale was a great success, with participation from green investors exceeding underwriters' expectations. Proceeds are being used to finance or refinance projects that include designing and building greener projects and operating fleets and facilities more efficiently.

SIGNATORY AMERICAN PUBLIC TRANSPORTATION ASSOCIATION SUSTAINABILITY COMMITMENT PLATINUM

Sound Transit became one of only two transit agencies in the nation to earn Platinum level recognition for sustainability leadership from the American Public Transportation Association.

Sound Transit plants vegatation near Tukwila, left.



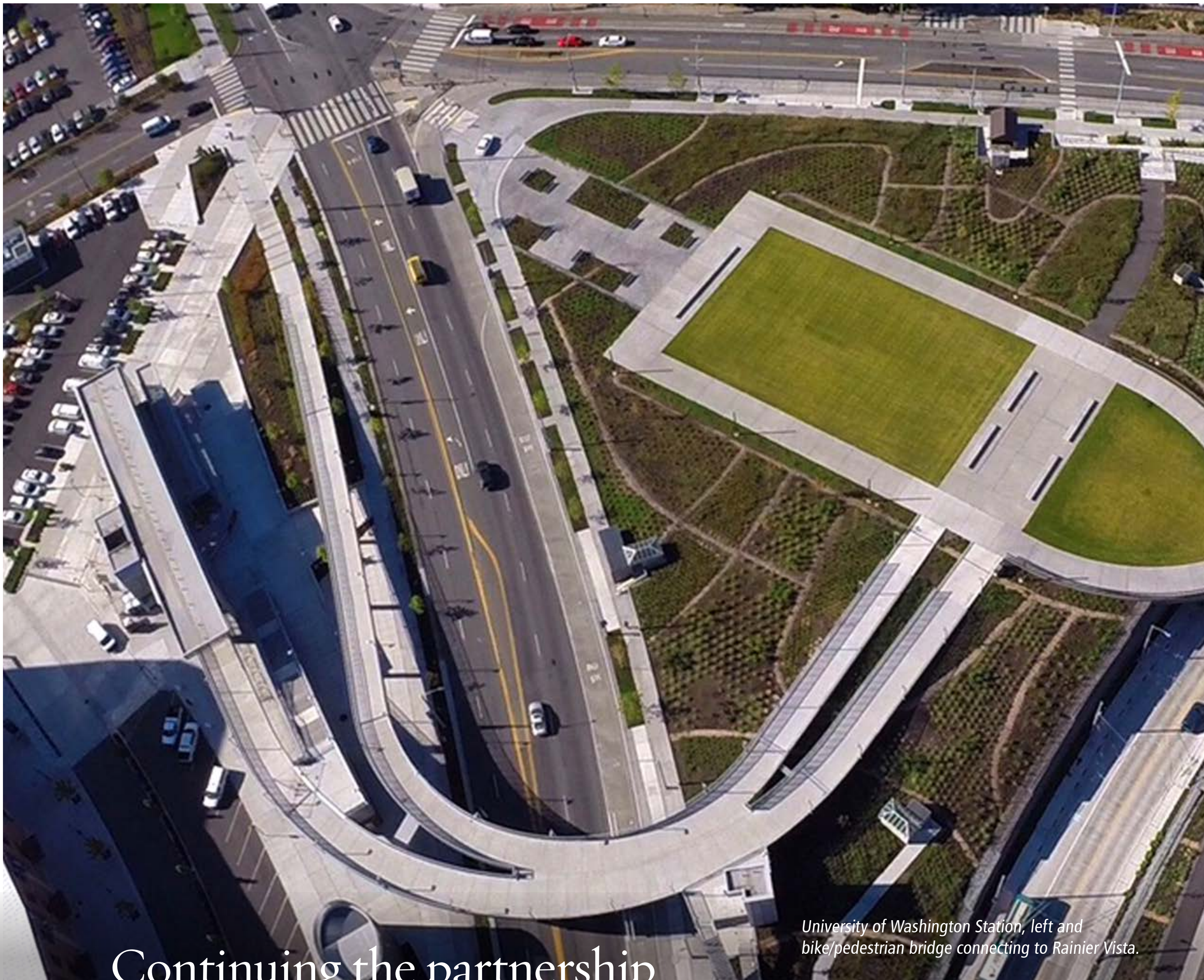
Building a dialogue

CONNECTING WITH RIDERS and making sure they have a positive experience is important to Sound Transit.

Those connections are made in several ways, from maintaining trains and buses so they are clean and welcoming to using social media channels like Twitter and Facebook to keep riders aware of slowdowns and schedule changes.

In 2015, Sound Transit launched a mobile website that makes it easier for riders to access information from their smart phones. The agency also increased its emphasis on social media channels like Facebook and Twitter to continue that dialogue in meaningful ways. In 2015 Sound Transit had about 18,592 Facebook followers, 24,790 Twitter followers and 1,465 followers on Instagram.

Photography by Scott Areman



University of Washington Station, left and bike/pedestrian bridge connecting to Rainier Vista.

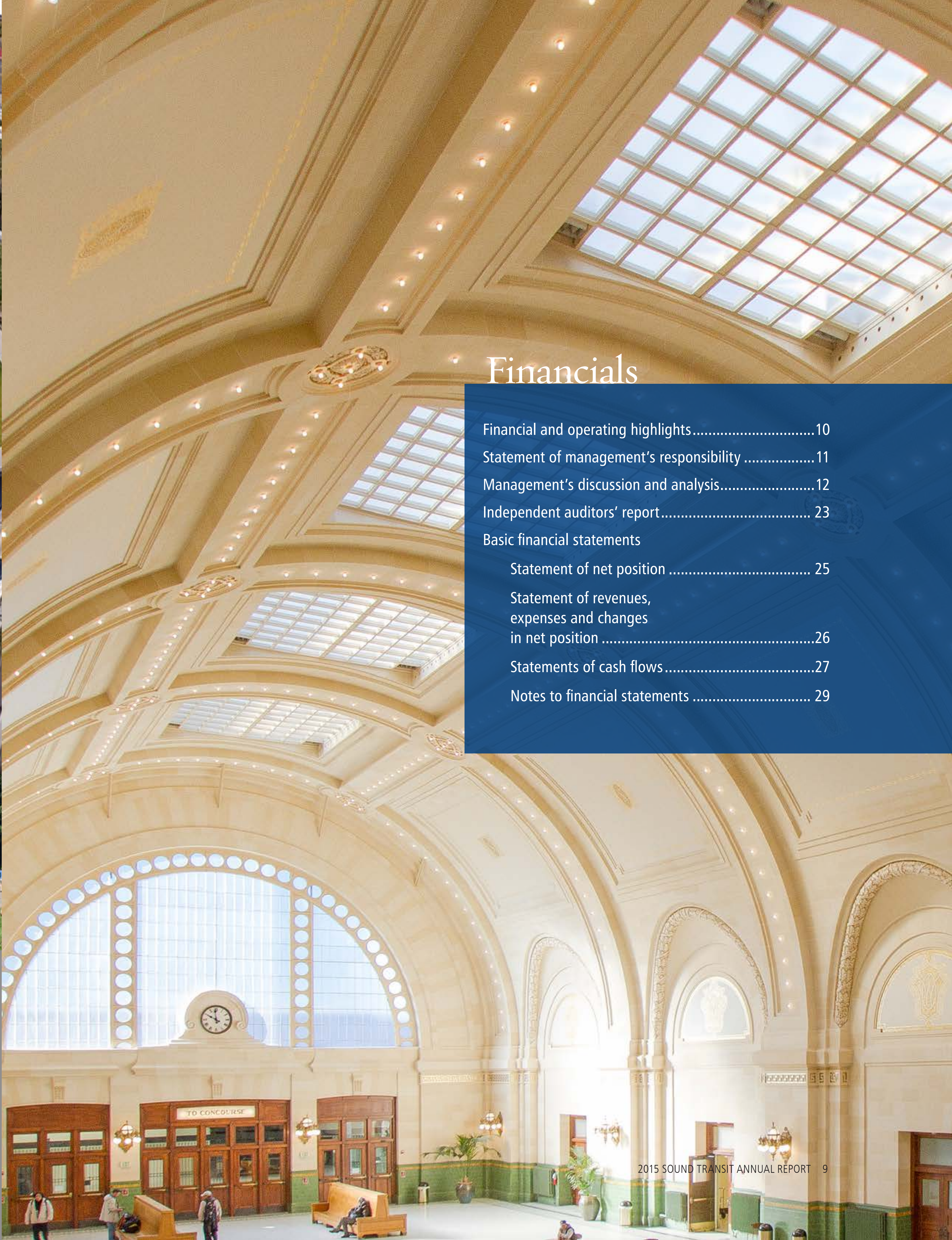
Continuing the partnership

SOUND TRANSIT WORKS CLOSELY WITH OTHER AGENCIES to provide effective, coordinated service throughout central Puget Sound.

Sound Transit, the University of Washington and King County Metro teamed up to ensure that the University of Washington light rail station opens seamlessly in 2016. As part of that comittment, Sound Transit and the UW opened a new bicycle/pedestrian bridge in 2015 that gives students, pedestrians and bike riders a car-free safe connection between the campus and light rail station.

In addition, Sound Transit and Metro together spent countless hours developing a plan for riders to easily transfer from bus to train when the new University of Washington Station opens.

By working together, transit agencies including King County Metro, Pierce Transit and Community Transit create efficiencies to better serve the growing region.



Financials

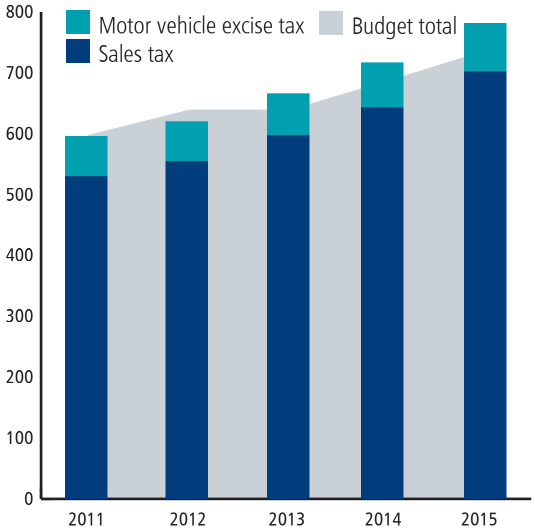
Financial and operating highlights

STRONG REGIONAL GROWTH AND CONTINUED PROGRESS ON THE ST2 EXPANSION PROGRAM CONTRIBUTED POSITIVELY TO 2015.

- Fueled by economic and population growth, tax revenues grew 9 percent or $65 million.
- As congestion increases throughout the region, ridership grew by 5.2 percent for an additional 1.7 million trips on Sound Transit services. Fare revenue grew by $5.3 million.
- Operation and maintenance expenses increased 2.7 percent. More costs were capitalized to the agency's capital program in 2015.
- Total capital spending was $855 million on the highest level of planning, land acquisition and construction activity to date. University Link and S. 200th projects are approaching completion with significant activity on East, North and Lynnwood Link extensions.

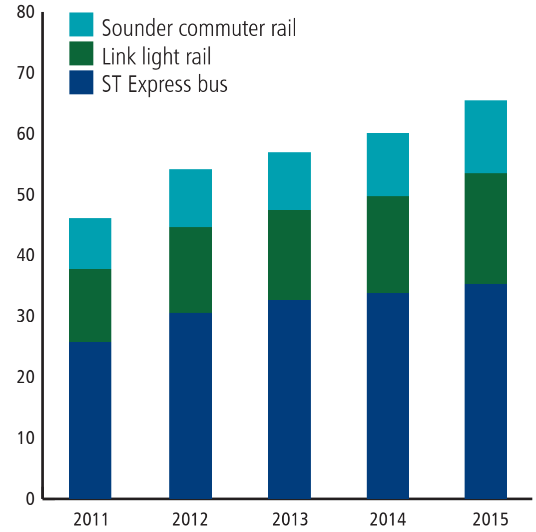
Tax Revenue Collection History

in millions



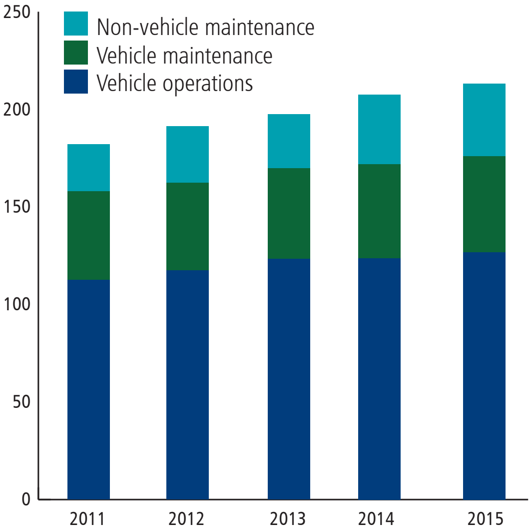
Fare Revenue

in millions



Operating and Maintenance Expenses

in millions



Capital Expense By Line of Business

in millions

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit or the agency) 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 2015 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.

Peter M. Rogoff
Chief Executive Officer

Brian McCartan
Chief Financial Officer

Kelly A. Priestley
Director of Accounting

The first five double-deck buses joined the Sound Transit fleet in 2015 and began running on routes between Everett and Seattle.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2015 and 2014

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, 2015 and 2014. 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 operating a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties including commuter rail (Sounder), light rail (Link) and a regional express bus system (ST Express). Established by the legislature in 1993, in 1996 voters approved the initial phase of its System Plan, Sound Move – a 10-year regional transit system plan, which authorized tax collections for funding of its operations and the first set of regional transit projects. The final elements of Sound Move will be completed with the opening of University Link and South 200th Extension. In 2008, the region's voters approved a second phase of the System Plan, ST2 – a 15-year program authorizing additional tax collections to fund additional bus and commuter rail service, as well as 36 miles of new Link light rail service. Sound Transit is currently planning for a third phase of the regional high-capacity transit system, which voters could consider as early as November 2016.

Sound Transit's financial statements reflect a growth in net position of $690.8 million in 2015 and $617.6 million in 2014 as the agency continues to build out its capital program approved in the Sound Move and ST2 voter-approved plans. System expansion continues in all corridors (North, South and East) and across all modes, most significantly light rail. Net loss from operations, also referred to as an operating subsidy, decreased 5.1% from 2014, while ridership increased 5.2%. The capital program and operating subsidy are funded through sales and use, rental car and motor vehicle excise taxes.

FINANCIAL HIGHLIGHTS

- Total operating revenues were $72.0 million for 2015, an increase of 8.9% from the prior year, as passenger fare revenues grew by $5.3 million on system-wide ridership growth of 1.7 million, or 5.2%.
- Loss from operations was $261.3 million for 2015, which was 5.1% lower than in 2014. The agency's cost allocation plan was updated to improve the alignment of costs between capital, operating and agency administration commensurate with updated activity measures, resulting in $14.8 million in additional costs allocated to the capital program in 2015.
- Non-operating revenues, net of expenses, were $816.0 million, a 16.7% increase from 2014, most significantly related to tax revenues which grew by 9.0% or $64.8 million. Also impacting non-operating revenues in 2015 were insurance recoveries on completed projects and operating grants for preventative maintenance that cumulatively contributed $44.5 million in additional revenue.
- Capital contributions from federal, state and local funding arrangements were $136.1 million, a decrease of 29.9% from 2014. Lower contributions were received for University Link and the South 200th Extension projects as those projects approach completion of construction. Additionally 2014 included funding related to the D to M street project completed in 2012 and East Link Extension project.

Total net position at December 31, 2015 was $6.6 billion, an increase of $690.8 million or 11.7% from 2014 and reflecting the continued progress on the agency's capital program.

- The agency issued $942.8 million in parity green bonds, advanced refunding its 2007A parity bonds for net cash proceeds of $600 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

Sound Transit's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). The 2015 and 2014 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

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

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

FINANCIAL ANALYSIS

Net Position

Sound Transit's total net position at December 31, 2015 was $6.6 billion, an increase of $690.8 million or 11.7% from 2014. Total assets increased $1.3 billion or 16.7% and total liabilities increased 34.6%. The increase in total assets reflects capital program spending, as well as an increase in cash and investments following the issuance of additional parity bonds. See the following table for a summary of Sound Transit's net position.

Statement of Net Position

	December 31			% Change	
(in millions)	2015	2014	2013	2015-2014	2014-2013
Assets					
Current assets, excluding restricted assets	$ 1,085.6	$ 560.7	$ 726.3	93.6%	(22.8)%
Restricted assets	91.6	91.4	86.3	0.2	5.9
Capital assets	7,259.1	6,527.0	5,851.2	11.2	11.6
Other non-current assets	389.0	383.4	326.9	1.5	17.3
Total assets	**8,825.3**	**7,562.5**	**6,990.7**	**16.7**	**8.2**
Deferred Outflows of Resources	**45.8**	**26.8**	**30.3**	**70.7**	**(11.6)**
Liabilities					
Current liabilities, excluding interest payable from restricted assets	205.2	203.4	210.7	0.9	(3.4)
Interest payable from restricted assets	21.6	19.1	19.6	13.1	(2.5)
Long-term debt	2,005.7	1,419.5	1,461.8	41.3	(2.9)
Other long-term liabilities	65.4	65.0	64.3	0.6	1.1
Total liabilities	**2,297.9**	**1,707.0**	**1,756.4**	**34.6**	**(2.8)**
Net Position					
Net investment in capital assets	5,268.7	5,099.4	4,384.9	3.3	16.3
Restricted net position	68.2	70.6	68.2	(3.5)	3.6
Unrestricted net position	1,236.2	712.3	811.6	73.6	(12.2)
Total net position	**$ 6,573.1**	**$ 5,882.3**	**$ 5,264.7**	**11.7%**	**11.7%**

Current assets, excluding restricted assets, increased 93.6% from 2014, due to higher cash and investments following issuance of additional parity bonds. Between 2014 and 2013 currents assets, excluding restricted assets, decreased by 22.8% as the agency funded its design and construction activities. Restricted and other non-current assets remain comparable between 2015 and 2014 however increased between 2013 and 2014 due to additional funding of the capital replacement fund, contractual obligations increased and a benefit trust for employees was established.

Capital assets increased 11.2% from 2014 and by 11.6% between 2014 and 2013 as planning and construction spending continued on ST2 light rail expansion projects as well as on Sounder and ST Express capital programs, and rehabilitation and replacement fleet activities. Total capital project spending for 2015 was $854.6 million (2014 was $806.1 million) reflecting the increased activity of the agency which included stage three of the I-90 Two-Way Transit and HOV lane project necessary for East Link.

In all, total capital spending for light rail was $677.1 million or 79.3% of total capital spending ($702.4 million or 87.1% in 2014). Capital spending on Sounder and ST Express projects combined, as a percentage of total capital spending, was 7.5% and 9.4% respectively (7.7% and 4.4% in 2014).

Transfers out of capital projects in progress were $147.3 million ($81.6 million in 2014) as projects were completed and transferred to property, transit facilities, and vehicles or expensed as indicated in the following table. In 2015 and 2014, transfers from capital projects in progress primarily included the land acquired for East Link and North Link extensions and contributions paid to the City of Seattle for the First Hill Street Car project as well as the Tukwila Sounder Station project which completed in 2015. Given the nature of Sound Transit's capital program, transfers out of capital project in progress can vary significantly from year to year.

Transfers Out of Capital Projects in Progress

	For the Year Ended December 31		
(in millions)	2015	2014	2013
Transferred to property, vehicles and equipment	$ 134.3	$ 53.7	$ 144.2
Contributions to other governments	13.0	27.9	66.1
Total	**$ 147.3**	**$ 81.6**	**$ 210.3**

Other non-current assets are comparable to prior years. Deferred outflows of resources increased 70.7% from 2014 as the agency issued new parity bonds and refunded the 2007A parity bonds during the year. Amounts related to the advance refunding of the 2005A bonds decreased 11.6% between 2014 and 2013, reflecting annual amortization.

Total liabilities increased in 2015 by 34.6% with the issuance of the 2015 parity bonds, a green bond issuance. Between 2014 and 2013, total liabilities decreased by 2.8% and reflect principal repayments and lower current liabilities at year-end. Given the nature of the large capital program, fluctuations are expected depending upon the timing of work.

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

Net Position

	December 31			% Total Net Position		
(in millions)	2015	2014	2013	2015	2014	2013
Net investment in capital assets	$ 5,268.7	$ 5,099.4	$ 4,384.9	80.2%	86.7%	83.3%
Restricted net position	68.2	70.6	68.2	1.0	1.2	1.3
Unrestricted net position	1,236.2	712.3	811.6	18.8	12.1	15.4
Total	**$ 6,573.1**	**$ 5,882.3**	**$ 5,264.7**	**100.0%**	**100.0%**	**100.0%**

Net investment in capital assets increased 3.3% from 2014 and 16.3% between 2014 and 2013 as capital program spending continues. The increase was lower in 2015 as bonds were issued in 2015, funding the capital program and thereby reducing our investment. Restricted net position decreased slightly in 2015 as the remaining 2005A bonds were repaid and related reserve amounts are no longer required. Unrestricted net position increased in 2015 and reflects the increase in cash and investments from the bond issuance, while unrestricted net position decreased between 2014 and 2013 as Sound Transit continued to make investments in its capital program.

CHANGES IN NET POSITION

Changes in net position reflect the excess of revenue over expenses for a year. In 2015, revenues exceeded expenses by $690.8 million, or 11.9% while in 2014 they exceeded expense by $617.6 million or 11.7%, most significantly impacted by higher tax revenues and reductions in capital contributions to other governments in both years. Sound Transit's Statement of Revenue, Expenses and Changes in Net Position is summarized in the table below.

Changes in Net Position

	For the Year Ended December 31			% Change	
(in millions)	2015	2014	2013	2015-2014	2014-2013
Operating revenues					
Passenger fares	$ 65.4	$ 60.1	$ 56.9	8.8%	5.5%
Other	6.6	6.0	7.1	10.6	(15.6)
Total operating revenues	**72.0**	**66.1**	**64.0**	**8.9**	**3.3**
Operating expenses					
Total operating expenses, before depreciation and loss on disposal of assets	228.2	240.8	225.6	(5.2)	6.8
Depreciation and loss on disposal of assets	105.1	100.8	118.8	4.3	(15.2)
Total operating expenses	**333.3**	**341.6**	**344.4**	**(2.4)**	**(0.8)**
Loss from operations	**(261.3)**	**(275.5)**	**(280.4)**	**(5.1)**	**(1.8)**
Non-operating revenues, net of expenses	816.0	699.0	569.4	16.7	22.8
Income before capital contributions	**554.7**	**423.5**	**289.0**	**31.0**	**46.6**
Capital contributions	136.1	194.1	159.8	(29.9)	21.4
Change in net position	**690.8**	**617.6**	**448.8**	**11.9**	**37.6**
Total net position, beginning	5,882.3	5,264.7	4,815.9	11.7	9.3
Total net position, ending	**$ 6,573.1**	**$ 5,882.3**	**$ 5,264.7**	**11.7%**	**11.7%**

OPERATING REVENUES

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

Passenger Fare Revenue

Passenger fares are derived from the sale of Sounder commuter rail and Central Link tickets at ticket vending machines (TVMs), fare box receipts on ST Express, and use of One Regional Card for All (ORCA) products on all modes. Fares are charged on each service, except Tacoma Link. Sound Transit experienced growth in passenger fare revenue of 8.9% and 5.5% in 2015 and 2014, respectively, due to ridership growth in both years and a strengthening of the average fare per boarding (AFB) on Link light rail.

ST Express is the largest revenue-generating mode providing 54.0% of total passenger fare revenue compared to Link and Sounder commuter rail providing 27.8% and 18.2% of total passenger fare revenue, respectively.

Passenger fare revenue by mode are as follows:

Passenger Fare Revenue

				% Change	
(in millions)	2015	2014	2013	2015-2014	2014-2013
ST Express	$ 35.3	$ 33.8	$ 32.6	4.4%	3.8%
Link	18.2	15.9	14.9	14.7	6.9
Sounder	11.9	10.4	9.4	14.8	10.4
Total	**$ 65.4**	**$ 60.1**	**$ 56.9**	**8.9%**	**5.5%**

Ridership

Sound Transit provided 34.7 million rides in 2015, an increase of 5.2% from 2014 as continued economic growth and increased congestion contributed to increased ridership on all modes. Changes in ridership by mode were as follows:

- ST Express ridership increased 3.6% from 2014 and 6.4% between 2014 and 2013. ST Express service is at or near capacity on several routes during peak period. As a result, the agency continues to focus bus service on those routes and times that have highest ridership and has continued to increase the number of high capacity buses deployed.
- Link ridership increased 5.1% from 2014 and 11.4% between 2014 and 2013 as Central Link continues to mature and attract riders, regional growth spurs demand and service promotion efforts led to changes in commute patterns converting riders from other service providers as changes occur in the light rail corridor. In the fourth quarter of 2015, light rail service increased to 6-minute headways, which provided additional train trips, and growth was observed in trips to and from SeaTac Airport and during special events.
- Sounder commuter rail ridership increased 14.6% from 2014 and by 11.9% from 2013, reflecting job growth in the local economy, increased congestion and increased capacity from an additional round trip added on the Seattle-Tacoma corridor in October 2013. There were also fewer mudslides in 2015 than in 2014, reducing closures on the North Line.

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

Ridership

				% Change	
(in millions)	2015	2014	2013	2015-2014	2014-2013
ST Express	18.3	17.7	16.6	3.6%	6.4%
Link	12.5	11.9	10.7	5.1	11.4
Sounder	3.9	3.4	3.0	14.6	11.9
Total	**34.7**	**33.0**	**30.3**	**5.2%**	**8.7%**

Average Fare per Boarding

The combined average fare per boarding (AFB) increased $0.06 or 3.3% from 2014 and decreased by $0.06 or 3.3% from 2013. Increases in the AFB in 2015 are primarily a result of fare changes implemented March 1, 2015 when Central Link Light rail base fares were increased by $0.25 in conjunction with the implementation of a low income adult fare. Revenues received in 2015 on base fare Central Link ridership exceeded ridership utilizing the discounted low income adult fare. In 2014, decreases in the AFB from 2013 were a result of increased usage of monthly and annual fixed rate passes for all modes, although less significantly on Sounder where ridership pattern are less variable, as well as increased day pass usage on Central Link.

Average Fare per Boarding

				% Change	
	2015	2014	2013	2015-2014	2014-2013
ST Express	$ 1.93	$ 1.92	$ 1.96	0.6%	(2.7)%
Link	1.58	1.45	1.53	8.6	(5.5)
Sounder	3.09	3.11	3.12	(0.7)	(1.4)
Combined average fare per boarding	**$ 1.94**	**$ 1.88**	**$ 1.94**	**3.3%**	**(3.3)%**

Other Operating Revenues

Other operating revenues consist of vehicle advertising, insurance recoveries, rental of facilities, operating grants and other miscellaneous revenue.

OPERATING EXPENSES

Operating expenses are comprised of operations and maintenance costs, agency administration, fare and regional planning, and depreciation and amortization. Major operations and maintenance expense categories consist of services, materials, utilities, insurance, taxes, and purchased transportation, allocated overhead from general and agency administration divisions and operating leases and rentals. Purchased transportation includes amounts paid to Community Transit, King County Department of Transportation (DOT) and Pierce Transit who operate Sound Transit's express bus service and King County DOT Rail Division, which operates the Central Link light rail and associated paratransit services and to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 59.2% of this category in 2015 (61.0% in 2014). 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's owned and shared facilities. Services were 19.0% in 2015 (19.4% in 2014) of total operating and maintenance expenses.

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

Operations and Maintenance Expenses by Function

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

Operations and maintenance expenses increased $5.6 million or 2.7% in 2015 due to the impact of the changes to the agency's overhead cost allocation plan. As part of this change, the agency updated its activity measures and drivers as well as the classification of certain costs, which are now directly charged to operations by mode, most significantly property insurance., As a result of this change for 2015, $2.7 million in salaries, benefits and specific divisional costs, previously allocated to agency Administration, were allocated to operations and maintenance, as well as $2.5 million of property insurance costs. Excluding the impact of this change, operations and maintenance costs were comparable to 2014, while in 2014 operations and maintenance costs increased by $10.0 million or 5.1% from 2013.

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

Operations and Maintenance Expenses by Function

(in millions)	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
Vehicle operations	$ 126.7	$ 123.7	$ 123.3	2.4%	0.3%
Vehicle maintenance	49.1	48.0	46.5	2.2	3.2
Non-vehicle maintenance	37.2	35.7	27.6	4.4	29.6
Total	**$ 213.0**	**$ 207.4**	**$ 197.4**	**2.7%**	**5.1%**

For 2015, the increases in expense by functional category for operations and maintenance reflect the change to the agency's cost allocation plan, with non-vehicle maintenance increasing most significantly as property insurance costs are no longer charged to agency administration. Other impacts by functional category are as follows:

- Vehicle operations expenses were consistent between 2014 and 2013. While purchased transportation rates did increase in each year from the prior year, lower costs in other areas such as fuel, offset those increased costs in 2015.
- In 2014, vehicle maintenance expenses increased by $1.5 million or 3.2% from 2013 reflecting higher maintenance costs for the bus fleet as the average age increases, the use of high capacity buses that have a higher cost to maintain, the full year impact of the additional round-trip of Sounder service in the South corridor and increased costs related to use of the Amtrak Holgate facility.
- Non-vehicle maintenance expenses increased $1.5 million or 4.4% from 2014, due in large part to a number of mid-life refurbishment projects at stations. In 2014, non-vehicle maintenance expenses increased $8.1 million or 29.6% from 2013 also due to a number of mid-life refurbishment projects at stations.

Operations and Maintenance Expenses by Mode

The following table presents operating and maintenance expenses by mode:

Operations and Maintenance Expenses by Mode

(in millions)	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
ST Express	$ 108.1	$ 107.9	$ 104.1	0.1%	3.7%
Link	64.3	60.6	56.3	6.2	7.7
Sounder	40.6	38.9	37.0	4.4	5.1
Total	**$ 213.0**	**$ 207.4**	**$ 197.4**	**2.7%**	**5.1%**

ST Express operations and maintenance expenses were comparable to 2014, however 2014 expenses increased $3.8 million or 3.7% from 2013 as purchased transportation contract costs for operations and vehicle maintenance increased across all operators and due to mid-life station refurbishments. The 2014 modal expenses for ST Express also reflect the full year impact of the extension of Route 592 from DuPont to Olympia in partnership with Intercity Transit and establishment of new routes in Pierce County.

Link operations and maintenance expenses include both Central Link and Tacoma Link light rail and increased $3.7

million or 6.2% in 2015. The increase in costs reflects the change to direct charge rail operation insurance. The 2014 Link operations and maintenance expenses increased $4.3 million or 7.7% reflecting increased purchased transportation rates and fare collection costs on Central Link related to ridership increases.

Sounder operations and maintenance expenses increased by $1.7 million or 4.4% in 2015, also related to the change in method of charging rail operation insurance costs. In 2014, Sounder commuter rail operations and maintenance costs increased $1.9 million or 5.1% due to the full year effect of providing additional service under the fourth and final additional BNSF easement in the South corridor, maintaining three additional locomotives added to provide service to Lakewood and additional facility costs at the Amtrak Holgate yard.

Agency Administration

Agency administration expenses are comprised of costs not allocated to capital projects or operations and in 2015 includes only costs attributable to the general cost of government, such as the costs of the Chief Executive Office and public relations. Agency administration expenses decreased in 2015 by $18.5 million or 78.4% reflecting the change to the agency's cost allocation plan, of which $2.7 million of those costs were allocated to operations and maintenance, $1.0 million were allocated to fare and regional planning and $14.8 million were allocated to construction in progress. In 2014, agency administration expenses increased by $1.5 million or 6.7%, due to an increase in leased office and managed property costs and higher information technology administrative costs.

Agency Administration Expenses

				% Change	
(in millions)	2015	2014	2013	2015-2014	2014-2013
Salaries	$ 2.4	$ 11.0	$ 10.6	(77.6)%	3.5%
Benefits	1.6	6.6	6.0	(76.3)	9.5
Services and professional fees	0.7	3.8	3.2	(81.7)	18.8
Other	0.4	2.2	2.3	(81.8)	(5.9)
Total	**$ 5.1**	**$ 23.6**	**$ 22.1**	**(78.4)%**	**6.7%**

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. Fare and regional planning expense were comparable to 2014, although increased $3.8 million from 2013 reflecting increased ST3 planning efforts for future expansion of the regional transit system along high capacity transit corridors.

Depreciation and Amortization

Depreciation and amortization comprises non-cash expenses that reflect the reduction in the value of capital assets over time. In 2015, depreciation and amortization increased $4.3 million or 4.3% reflecting the increase in capital assets put into service in 2014. In 2014 certain asset rights were determined to benefit beyond the original anticipated agreement life and the cost related to those assets were depreciated over a longer period, resulting in a decrease in that year of $18.0 million, or 15.2% from 2013.

Non-Operating Revenues (Expenses)

Net non-operating revenues increased by $117.0 million or 16.7% in 2015 and by $129.6 million or 22.8% between 2014 and 2013, as follows:

Non-Operating Revenues (Expenses)

(in millions)	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
Non-operating revenues					
Sales and use tax	$ 699.1	$ 639.9	$ 594.1	9.3%	7.7%
Motor vehicle excise tax	79.5	74.2	69.1	7.1	7.3
Rental car tax	3.3	3.1	2.8	6.6	12.0
Investment income (loss)	5.1	14.7	(4.9)	(65.3)	(401.2)
Other revenues	51.4	6.6	6.8	678.7	(3.7)
Total	**838.4**	**738.5**	**667.9**	**13.5**	**10.6**
Non-operating expenses					
Interest expense	1.8	2.6	25.0	(30.1)	(89.7)
Contributions to other governments	18.0	30.9	71.1	(41.8)	(56.5)
Other expenses	2.6	6.0	2.6	(55.5)	130.8
Gain (loss) on disposal of assets	-	-	(0.2)	-	(98.6)
Total	**22.4**	**39.5**	**98.5**	**(43.2)**	**(59.9)**
Non-operating revenues, net	**$ 816.0**	**$ 699.0**	**$ 569.4**	**16.7%**	**22.8%**

Tax revenues are the largest component of non-operating revenues (expenses), increasing significantly in both years and impacted by strong regional economic growth. Sales and Use Tax revenues, increased by $59.2 million (9.3%) in 2015 and by $45.8 million (7.7%) in 2014, while Motor Vehicle Excise Tax (MVET) increased by $5.3 million in 2015 and $5.1 million in 2014, for an increase of 7.1% in 2015 and 7.3% in 2014. In positive economic conditions consumers will purchase new or license additional vehicles. As the Motor Vehicle Excise Tax is computed on the depreciated vehicle value, the purchasing of new cars results in a higher collected motor vehicle excise tax, which has been observed in a slightly higher average collected value per vehicle licensed.

Also impacting non-operating revenues, other revenues increased $28.7 million in 2015 related to an insurance recovery related to Central Link and Federal Way projects completed in prior years and the receipt of $16.0 million related to federal operating grants for preventative maintenance on Link light rail and ST Express in 2015.

Investment income, net of unrealized changes in fair market value, decreased by $9.6 million as a result of the annual adjustment of the agency's investments to fair market value at year-end. In 2014, the agency recorded a positive adjustment of $19.6 million.

The decrease in non-operating expenses reflects lower contributions to other governments in 2015. Contributions to other governments are pursuant to capital improvement or funding agreements and are dependent upon the timing and scope of project activities. As such, they may experience significant fluctuations from year to year. Capital contributions in all three years primarily relate to funding the construction of the City of Seattle's First Hill Street Car project. Interest expense, while comparable between 2015 and 2014, decreased between 2014 and 2013, as the amount of interest capitalized increased in line with increased capital spending on light rail expansion projects. In 2015, interest incurred was $73.0 million, and $71.2 million capitalized, and in 2014 interest incurred was $67.7 million and $65.1 million capitalized.

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions decreased in 2015 by $58.0 million or 29.9% while in 2014 they increased in by $34.3 million or 21.4% from 2013. The following table summarizes capital contributions by major category.

Capital Contributions

(in millions)	2015	2014	2013	% Change 2015-2014	% Change 2014-2013
Federal	$ 132.2	$ 184.6	$ 146.7	(28.4)%	25.8%
State and local governments	3.9	9.5	13.1	(59.1)	(27.6)
Total	**$ 136.1**	**$ 194.1**	**$ 159.8**	**(29.9)%**	**21.4%**

Federal capital contributions decreased $52.4 million in 2015 and increased by $37.9 million in 2014 reflective of lower project spending on University Link and the South 200th Extension projects as those projects approach construction completion, as well as amounts received in 2014 for East Link Extension, the D to M Street project and bus replacements. Credit assistance has been secured through the Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program for the East Link Extension, providing access to lower interest rates in lieu of federal capital contributions (see note 8). Other projects receiving significant federal contributions in 2015 included Point Defiance Track and Trestle, I-90 Two-way Transit and HOV Phase 3, Sounder Commuter Rail Easements and Northgate Link Extension.

State and local government contributions decreased $5.6 million from 2014, which was $3.6 million lower than 2013. In 2014 state and local government contributions included $5.0 million in funding from the Regional Mobility Grant Program for clean green fleet bus replacements and in 2013 the agency received access rights from WSDOT for the Northgate Extension, acquired on a non-cash basis through the Land Bank Agreement (see also note 12).

Capital Assets

As of December 31, 2015, Sound Transit had invested $7.3 billion in capital assets, net of accumulated depreciation and amortization, of which $3.1 billion are depreciable assets in service. This represents a $732.1 million or 11.2% increase over 2014. The largest increase was in capital projects in progress (CIP), which increased $707.4 million or 29.4%, while other non-depreciable assets increased $59.8 million or 6.1% and depreciable assets decreased $35.1 million or 1.1%. As no major projects were completed during the year, the change in depreciable assets reflects annual depreciation.

A summary of Sound Transit's capital assets are presented in the following table.

Capital Assets, net

(in millions)	December 31 2015	December 31 2014	December 31 2013	% Change 2015-2014	% Change 2014-2013
Land	$ 543.8	$ 485.2	$ 455.1	12.1%	6.6%
Permanent easements	489.4	488.2	485.1	0.3	0.6
Capital projects in progress	3,110.8	2,403.4	1,678.9	29.4	43.2
Total non-depreciable assets	**4,144.0**	**3,376.8**	**2,619.1**	**22.7**	**28.9**
Buildings, transit facilities & heavy equipment	2,274.0	2,295.1	2,334.8	(0.9)	(1.7)
Access rights	380.7	393.4	414.1	(3.2)	(5.0)
Revenue vehicles	453.3	456.6	480.2	(0.7)	(4.9)
Software, furniture, equipment & vehicles	7.1	5.1	3.0	36.9	68.9
Total depreciable assets	**3,115.1**	**3,150.2**	**3,232.1**	**(1.1)**	**(2.5)**
Total capital assets, net	**$ 7,259.1**	**$ 6,527.0**	**$ 5,851.2**	**11.2%**	**11.6%**

Non-depreciable assets increased by $767.2 from 2014, with capital projects in progress increasing by $707.4 million ($724.5 million in 2014) and land increasing by $58.6 million ($30.1 million in 2014). Major activity occurred on all light rail extension projects as University and South 200th Link extension projects approach completion, work gets underway on the Maintenance of Way building, tunneling continues for the Northgate Extension, preliminary design completes for East Link and pre-construction work commences, particularly in the Bellevue to Redmond corridor. Land acquisitions in both years were primarily for the East Link project, as well as $12.0 million for Northgate extension in 2015. On Sounder and ST Express projects, construction commenced on the Point Defiance Bypass and on the I-90 Two-Way Transit and HOV Lanes Stage 3 while the Tacoma Trestle Track and Signal project entered final design.

Capital projects that incurred major spending activity in 2015 and 2014 are summarized in the following table.

Year	Sounder	Link	ST Express
2015	■ Positive Train Control ■ Tacoma Trestle Track Signal ■ Point Defiance By-Pass ■ Sounder South Expanded Service ■ Sounder Vehicle Maintenance	■ East Link (Downtown to Bellevue) ■ East Link (I-90 Ramps) ■ Lynnwood Link Extension (Northgate to Lynnwood) ■ Northgate Link Extension (UW Station to Northgate) ■ Northgate Link Extension (Tunnel Operations) ■ South 200th Link Extension ■ Federal Way Link Extension ■ First Hill Street Car ■ University Link (Maintenance Of Way Building) ■ University Link (Tunnel Operations) ■ University Link (Stations)	■ I-90 Two-Way Transit and HOV Lanes Stage 3 ■ ST Express Fleet Replacement
2014	■ Sounder South Expanded service ■ Sounder ST2 Fleet Expansion ■ Tukwila Station	■ East Link (Downtown to Bellevue) ■ First Hill Streetcar ■ Link Operations & Maintenance Satellite Facility ■ Noise Abatement ■ Lynnwood Link Extension (Northgate to Lynnwood) ■ Northgate Extension (UW Station to Northgate) ■ South 200th Extension (176th to 200th) ■ University Link (PSTT to UW Station) ■ University Link Stations (UW and Capitol Hill)	■ Rainier Avenue Arterial Improvements ■ I-90 2-Way Transit & HOV Operations Stage 3

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

Long-Term Debt

In January 2015, Sound Transit entered into a TIFIA loan agreement for $1,330.0 million with a fixed rate of 2.38% to fund up to 33% of the project costs for the East Link Extension. This loan is subordinate to both the Prior and Parity bonds and has not yet been drawn on. In September 2015, Sound Transit issued additional Parity Bonds of $792.8 million of fixed rate Sales Tax Improvement and Refunding Bonds and $150.0 million in variable rate Sales Tax Improvement Bonds for a total debt issuance of $942.8 million. These bonds have been designated as Green Bonds, financing projects that adhere to Sound Transit's Sustainability Plan. A portion of the proceeds was used to refinance the Series 2007A bonds, reducing aggregate debt service payments by $43.9 million through 2036, for a net present value savings of $30.8 million. All remaining proceeds have been spent down.

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 2014 assessed valuations for collection of 2015 taxes, Sound Transit's current non-voter approved remaining debt capacity is $3.8 billion and its additional remaining debt capacity subject to voter approval is $20.1 billion.

Sound Transit's 2015 bond credit ratings remained unchanged from those of 2014. 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 2015 tax revenues increased 9.0% over prior year, up from 7.7 % for the previous period. Regional employment for 2015 is estimated to have increased by 2.9%, while the unemployment rate fell to 4.7%, 0.6% points below the national rate. Inflation for the region has been moderate at around 1.4%.

Taxable retail sales, which generates 89% of total tax revenue, exhibited particularly strong growth in the construction and real estate, rental & leasing sectors, up 22% and 19%, respectively, over prior year. The core retail trade sector, which generates approximately 40% of Sound Transit's taxable retail sales, grew 7.0% over the prior year.

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

Audit and Reporting Committee
Central Puget Sound Regional Transit Authority

We have audited the accompanying financial statements of the Central Puget Sound Regional Transit Authority (a public corporation acting under the service name of Sound Transit) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Sound Transit's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit 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, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 12–22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Seattle, Washington
May 26, 2016

Statement of Net Position

(in thousands)	December 31 2015	2014
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 173,493	$ 120,806
Restricted assets (note 3)	60,641	57,613
Investments (note 3)	692,258	222,897
Taxes and other receivables (note 4)	196,801	197,913
Inventory, land for resale and prepaid expenses	22,942	19,057
Total current assets	**1,146,135**	**618,286**
Non-current assets		
Restricted assets (note 3)	30,956	33,797
Investments (note 3)	315,309	311,640
Prepaid expenses and deposits	12,669	11,482
Investment held to pay capital lease obligation (note 6)	61,063	60,270
Capital assets, net (note 5)	7,259,128	6,527,029
Total non-current assets	**7,679,125**	**6,944,218**
Total assets	**8,825,260**	**7,562,504**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	45,765	26,808
Total deferred outflows of resources	**45,765**	**26,808**
LIABILITIES		
Current liabilities		
Cash overdraft	-	3,046
Accounts payable and accrued liabilities (note 7)	168,151	159,634
Unearned revenue	6,154	5,339
Interest payable from restricted assets	21,566	19,075
Current portion, long-term debt (note 8)	30,430	34,985
Other claims and short-term obligations	450	430
Total current liabilities	**226,751**	**222,509**
Non-current liabilities		
Long-term debt (note 8)	2,005,746	1,419,466
Capital lease obligations (note 6)	61,063	60,270
Other long-term obligations (note 9)	4,366	4,785
Total non-current liabilities	**2,071,175**	**1,484,521**
Total Liabilities	**2,297,926**	**1,707,030**
Commitments and contingencies (notes 6, 9, 11 and 12)		
NET POSITION		
Net investment in capital assets	5,268,716	5,099,386
Restricted (note 10)	68,194	70,638
Unrestricted	1,236,189	712,258
Total net position	**$ 6,573,099**	**$ 5,882,282**

See accompanying notes to financial statements

Statement of Revenues, Expenses and Changes in Net Position

(in thousands)	December 31 2015	2014
Operating revenues		
Passenger fares	$ 65,426	$ 60,180
Other operating revenue	6,574	5,951
Total operating revenues	**72,000**	**66,131**
Operating expenses		
Vehicle operations	126,721	123,740
Vehicle maintenance	49,066	48,006
Non-vehicle maintenance	37,255	35,676
Agency administration	5,120	23,636
Fare and regional planning	10,048	9,771
Depreciation, amortization and accretion	105,100	100,776
Total operating expenses	**333,310**	**341,605**
Loss from operations	**(261,310)**	**(275,474)**
Non-operating revenues (expenses)		
Sales tax	699,114	639,890
Motor vehicle excise tax	79,564	74,166
Rental car tax	3,297	3,092
Investment income	5,125	14,758
Other revenues	51,360	6,593
Contributions to other governments	(18,001)	(30,942)
Interest expense	(1,805)	(2,582)
Other expenses	(2,647)	(5,946)
Gain on disposal of assets	4	2
Impaired projects	-	(27)
Total non-operating revenues, net	**816,011**	**699,004**
Income before capital contributions	**554,701**	**423,530**
Federal capital contributions	132,237	184,595
State and local capital contributions	3,879	9,482
Total capital contributions	**136,116**	**194,077**
Change in net position	**690,817**	**617,607**
Total net position, beginning of year	**5,882,282**	**5,264,675**
Total net position, end of year	**$ 6,573,099**	**$ 5,882,282**

See accompanying notes to financial statements

Statements of Cash Flows

(in thousands)	December 31 2015	December 31 2014
Cash flows from operating activities		
Cash receipts from fares	$ 65,534	$ 60,528
Cash receipts from other operating revenue	5,511	6,003
Payments to employees for wages and benefits	(18,659)	(28,655)
Payments to suppliers	(83,727)	(84,461)
Payments to transportation service providers	(127,177)	(124,103)
Net cash used by operating activities	**(158,518)**	**(170,688)**
Cash flows from non-capital financing activities		
Preventative maintenance grants received	12,010	-
Taxes received	769,194	708,806
Cash overdraft position funded	(3,045)	(2,653)
Tax collection fees paid	(3,136)	(2,713)
Net cash provided by non-capital financing activities	**775,023**	**703,440**
Cash flows from capital and related financing activities		
Capital contributions from grants	159,484	180,097
Proceeds from insurance recoveries and sale of assets	28,770	1,976
Proceeds from issuance of bonds	600,000	-
Payments for betterments and recoverable costs	(1,046)	(993)
Payments for bond principal	(34,985)	(33,545)
Payments for insurance premiums	(3,356)	(5,448)
Payment for interest and arbitrage	(65,597)	(68,761)
Payments to employees capitalized to projects	(66,017)	(44,177)
Payments to suppliers for capital activities	(648,379)	(672,193)
Purchase of property	(63,201)	(32,160)
Net cash used by capital and related financing activities	**(94,327)**	**(675,204)**
Cash flows from investing activities		
Investment income	9,123	9,299
Proceeds from sales or maturities of investments	292,870	237,313
Purchases of investments	(819,682)	(73,789)
Net cash (used) provided by investing activities	**(517,689)**	**172,823**
Net increase in cash and cash equivalents	**4,489**	**30,371**
Cash and cash equivalents		
Beginning of year	184,811	154,440
End of year	**$ 189,300**	**$ 184,811**
Cash and cash equivalents (note 3)		
Unrestricted	$ 173,493	$ 120,806
Current restricted	7,120	55,591
Non-current restricted	8,687	8,414
	$ 189,300	**$ 184,811**

See accompanying notes to financial statements

Statements of Cash Flows, continued

(in thousands)	December 31 2015		December 31 2014	
Loss from operations	**$**	**(261,310)**	**$**	**(275,474)**
Adjustments to reconcile loss f*rom operations to net cash used by operating activities				
Bad debt expense (recovery)		12		(11)
Depreciation, amortization and accretion		105,100		100,776
Changes in operating assets and liabilities				
Increase in other receivables		(4,639)		(1,661)
(Increase) decrease in inventory, prepaid and deposits		(499)		233
Increase in accounts payable and accrued liabilities		1,842		5,076
Increase in unearned revenue		818		780
Increase (decrease) in other current liabilities		158		(407)
Net cash used by operating activities	**$**	**(158,518)**	**$**	**(170,688)**

(in thousands)	December 31 2015		December 31 2014	
Supplemental disclosures of non-cash operating, investing and financing activities				
Bond advanced refunding	$	(36,955)	$	-
Bond issuance proceeds at par		342,840		-
Bond premium received		92,070		-
Bond principal repaid		(397,955)		-
Capital contributions to other governments		(13,001)		(27,852)
Capital contribution from Land Bank		25		4
Capitalization of rotable parts		-		178
Construction in progress in current liabilities		117,423		109,740
(Decrease) increase in fair value of investments		(3,346)		7,014
Interest expense on capital leases		(4,511)		(4,456)
Interest income from investments held to pay capital leases, net		4,511		4,456

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, motor vehicle excise and rental car sales taxes assessed in Sound Transit's operating jurisdiction (the District). In addition, Sound Transit receives capital and operating funding from federal, state and local agencies.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.9% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. 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 are recognized in the Statements of Revenues, Expenses and Changes in Net Position.

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

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

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 and indirectly attributable to capital projects 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 for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in CIP until the asset is substantially completed and accepted, at which time it is charged to contributions to other governments.

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

Compensated Absences – Vacation leave that has been earned but not paid is accrued. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death or in accordance with bi-annual elections within established policy. Sick leave is accrued at the rate of 50% of hours worked up to 120 days for employees hired before January 1, 2004 or 25% of accrued hours up to 240 days for employees hired thereafter. Regardless of hire date, sick leave is paid at 50% of the accumulated leave balance upon termination, retirement or death.

Environmental Remediation Obligations – Environmental remediation activities are reviewed annually 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.

Indirect Cost Allocation – Indirect costs relate to the overall costs of running the agency and include staff time, office space and information technology costs. These indirect costs are allocated to capital projects, operating activities and fare and regional planning using overhead rates that are based on the ratio of total indirect costs of a given activity and the direct cost base of the activity. Overhead rates are designed to allocate all agency overhead costs except for certain executive divisions and marketing costs. In 2015, the agency's cost allocation plan was updated to improve the alignment of costs between capital, operating and agency administration commensurate with updated activity measures, resulting in $14.8 million in additional costs allocated to the capital program.

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, 2015 and 2014, inventory reflects an allowance of $135 thousand.

Investment Valuation – Investments are stated at fair value.

Reclassifications –Prior year reserve amounts deposited to the King County Investment Pool were reclassified from cash and cash equivalents to investments to conform to the current year presentation. Additionally, prior year amounts in the capital replacement fund were reclassified from current investments to non-current investments to conform to the current year presentation and more appropriately reflect the long-term nature of the capital replacement fund.

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

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

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

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

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

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

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

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

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

Other restricted 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 undesignated and capital replacement funds, Sound Transit matches its investments to cash flow requirements and manages its exposure to fair value losses using the modified duration method, whereby the modified duration of fixed income securities held in its investment portfolios is compared to established benchmarks. Modified duration benchmarks for the undesignated fund was 0.58 and for the capital replacement fund was 2.63. Investments in the KCIP are reported using effective duration. Duration estimates the sensitivity of a bond's price to interest rate changes. For the Prior 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.

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

Credit Risk – Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. As of December 31, 2015, all Treasury and U.S. Agency securities are rated in one of the two highest credit rating categories of a nationally recognized statistical rating organization and all general obligation bonds are rated in one of the two highest credit rating categories 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:

	December 31	
(in thousands)	2015	2014
Cash and cash equivalents - current		
Washington State Local Government Investment Pool	$ 156,861	$ 117,157
FDIC or PDPC insured bank deposits	12,870	191
Cash on hand	3,762	3,458
	173,493	**120,806**
Restricted assets - current		
Cash and cash equivalent		
Health reimbursement trust	2,345	1,530
Washington State Local Government Investment Pool	4,775	54,061
	7,120	**55,591**
Investment - King County Investment Pool	53,323	1,026
Other	198	996
	53,521	**2,022**
	60,641	**57,613**
Investments - current	**692,258**	**222,897**
Restricted assets - non-current		
Cash and cash equivalents		
Washington State Local Government Investment Pool	683	410
Escrow funds	8,004	8,004
	8,687	**8,414**
Investments - Debt service and OCIP reserve	22,162	25,085
Other	107	298
	30,956	**33,797**
Investments - non-current		
Capital replacement	315,309	311,640
	315,309	**311,640**
Total cash, cash equivalents, investments and restricted assets	**$ 1,272,657**	**$ 746,753**

Unrestricted investments consist of the following:

(in thousands)	2015 Fair value	2015 Duration	2015 Percent of total	2014 Fair value	2014 Duration	2014 Percent of total
Investments – Undesignated						
King County Investment Pool	$ 212,930	0.93	33.9%	$ 159,412	1.23	71.5%
U.S. Agency securities:						
Federal Home Loan Bank	-	-	-	33,459	0.07	15.0
Federal Home Loan Bank Mortgage Corporation	49,938	1.21	8.0	15,017	0.90	6.7
Federal National Mortgage Association	24,929	1.29	4.0	-	-	-
U.S. Treasury securities	339,554	1.03	54.1	15,009	0.54	6.7
	$627,351	**1.02**	**100.0%**	**$222,897**	**0.99**	**100.0%**
Investments – King County Investment Pool						
Operating and Contingency Reserve	$ 52,958	0.93	81.6%	$ -	-	-%
Emergency Loss Reserve	11,949	0.93	18.4	-	-	-
	$ 64,907	**0.93**	**100.0%**	**$ -**	**-**	**-%**
Total Investments – current	$692,258			$222,897		

(in thousands)	2015 Fair value	2015 Duration	2015 Percent of total	2014 Fair value	2014 Duration	2014 Percent of total
Investments – Capital Replacement						
U.S. Agency securities:						
Federal National Mortgage Association	$105,580	2.09	33.5%	$ 84,410	2.31	27.1%
Federal Home Loan Bank Mortgage Corporation	89,635	2.72	28.4	97,747	3.44	31.4
Federal Home Loan Bank	26,719	2.07	8.5	38,109	2.86	12.2
Federal Farm Credit Bank	8,673	6.67	2.8	8,627	7.49	2.8
Municipal bonds	38,041	5.60	12.1	56,177	4.09	18.0
U.S. Treasury securities	46,661	2.00	14.8	26,570	2.69	8.5
Total Investments – non current	**$315,309**	**2.80**	**100.0%**	**$311,640**	**3.23**	**100.0%**

Restricted investments consist of the following:

(in thousands)	2015 Fair value	2015 Maturity	2015 Call date	2014 Fair value	2014 Maturity	2014 Call date
Restricted Assets - Current						
King County Investment Pool:						
Debt Service Deposits	$ 52,293			$ -		
Link Risk Fund	1,030			1,026		
	$ 53,323			**$ 1,026**		
Restricted Assets - Non-current						
Debt Service Reserve						
Municipal bonds:						
Georgia State GO Unlimited	$ 9,899	4/1/2026	4/1/2017*	$ 9,551	4/1/2026	4/1/2017*
Florida State Public Education BAB	5,411	6/1/2030	6/1/2019*	5,560	6/1/2030	6/1/2019*
Georgia State GO Unlimited BAB	4,667	11/1/2027	11/24/2009*	4,708	11/1/2027	11/24/2009*
Hawaii State GO Unlimited BAB	-	-	-	3,124	2/1/2024	2/18/2010*
	19,977			**22,943**		
OCIP Reserve						
U.S. Agency securities:						
Federal National Mortgage Association	1,332	7/15/2022	-	1,295	7/15/2022	-
Federal Home Loan Mortgage Corporation	853	3/15/2023	-	847	3/15/2023	-
	2,185			**2,142**		
	$ 22,162			**$ 25,085**		

* Continuously callable from this date forward

4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

(in thousands)	December 31 2015	December 31 2014
Taxes receivable	$ 137,574	$ 124,828
Grants receivable	36,854	55,227
Due from other governments	19,450	14,917
Interest receivable	2,370	1,962
Accounts receivable, net	553	979
	$196,801	**$ 197,913**

Amounts due from other governments include amounts due through the regional fare collection system “ORCA” for fare revenues and administration expenses (see also note 12), and 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)	2015 Beginning balance	Additions	Disposals / reductions	Transfers	2015 Ending balance
Non-depreciable assets					
Land	$ 485,228	$ -	$ -	$ 58,613	$ 543,841
Permanent easements	488,168	-	-	1,275	489,443
Capital projects in progress:					
Sound Transit - tangible	2,367,303	765,986	-	(129,448)	3,003,841
Sound Transit - intangible	12,841	16,645	-	(4,853)	24,633
Other governments - tangible	23,282	72,006	(12,997)	-	82,291
Total non-depreciable assets	**3,376,822**	**854,637**	**(12,997)**	**(74,413)**	**4,144,049**
Depreciable assets					
Access rights	568,894	-	-	200	569,094
Buildings and leasehold improvements	28,695	-	-	245	28,940
Furniture, equipment and vehicles	13,198	-	(297)	1,227	14,128
Revenue vehicles	642,939	-	(6,870)	29,468	665,537
Software	15,300	-	(26)	3,187	18,461
Transit facilities, rail and heavy equipment	2,657,963	-	(3,740)	35,570	2,689,793
Total depreciable assets	**3,926,989**	**-**	**(10,933)**	**69,897**	**3,985,953**
Accumulated depreciation					
Access rights	(175,458)	(12,911)	-	-	(188,369)
Buildings and leasehold improvements	(14,518)	(1,218)	-	-	(15,736)
Furniture, equipment and vehicles	(8,857)	(1,423)	297	-	(9,983)
Revenue vehicles	(186,338)	(32,772)	6,870	-	(212,240)
Software	(14,513)	(1,097)	24	-	(15,586)
Transit facilities, rail and heavy equipment	(377,098)	(55,602)	3,740	-	(428,960)
Total accumulated depreciation	**(776,782)**	**(105,023)**	**10,931**	**-**	**(870,874)**
Total depreciable assets, net	**3,150,207**	**(105,023)**	**(2)**	**69,897**	**3,115,079**
Total capital assets, net	**$ 6,527,029**	**$ 749,614**	**$ (12,999)**	**$ (4,517)**	**$ 7,259,128**

(in thousands)	2014 Beginning balance	Additions	Disposals / reductions	Transfers	2014 Ending balance
Non-depreciable assets					
Land	$ 455,116	$ -	$ (1,930)	$ 32,042	$ 485,228
Permanent easements	485,106	-	-	3,062	488,168
Capital projects in progress:					
Sound Transit - tangible	1,654,084	759,075	-	(45,856)	2,367,303
Sound Transit - intangible	10,693	9,990	-	(7,842)	12,841
Other governments - tangible	14,105	37,029	(27,852)	-	23,282
Total non-depreciable assets	**2,619,104**	**806,094**	**(29,782)**	**(18,594)**	**3,376,822**
Depreciable assets					
Access rights	577,069	-	-	(8,175)	568,894
Buildings and leasehold improvements	28,848	-	(227)	74	28,695
Furniture, equipment and vehicles	9,771	-	(401)	3,828	13,198
Revenue vehicles	637,993	-	(1,499)	6,445	642,939
Software	15,294	-	(585)	591	15,300
Transit facilities, rail and heavy equipment	2,642,272	-	(318)	16,008	2,657,963
Total depreciable assets	**3,911,247**	**-**	**(3,030)**	**18,771**	**3,926,989**
Accumulated depreciation					
Access rights	(162,942)	(12,516)	-	-	(175,458)
Buildings and leasehold improvements	(13,546)	(1,199)	227	-	(14,518)
Furniture, equipment and vehicles	(7,504)	(1,754)	401	-	(8,857)
Revenue vehicles	(157,839)	(29,998)	1,499	-	(186,338)
Software	(14,524)	(574)	585	-	(14,513)
Transit facilities, rail and heavy equipment	(322,786)	(54,598)	286	-	(377,098)
Total accumulated depreciation	**(679,141)**	**(100,639)**	**2,998**	-	**(776,782)**
Total depreciable assets, net	**3,232,106**	**(100,639)**	**(32)**	**18,771**	**3,150,207**
Total capital assets, net	**$ 5,851,210**	**$ 705,455**	**$ (29,814)**	**$ 177**	**$ 6,527,029**

During 2015, Sound Transit capitalized $71.2 million of interest costs ($65.1 million in 2014), 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, 2015 and 2014 are $61.1 million and $60.3 million, respectively.

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

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

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

The lease documentation established minimum credit levels by AIG for the equity and debt defeasance accounts. At the time these transactions closed, AIG was rated "AAA" by Standard & Poor's and "Aaa by Moody's Investment Service. However, starting in March 2005, AIG suffered a series of credit rating downgrades and as of December 31, 2015 was rated "A-" by Standard & Poor's and "Baa1" by Moody's Investment Service. As of December 31, 2015 and 2014, the defeasance accounts were unrated, as they were no longer invested in marketable securities.

Because of credit rating downgrades under the lease transaction, Sound Transit is required to replace AIG for its undertaking agreements and credit enhancements provision in the transaction and AIG is required to post collateral for the debt defeasance accounts. However, in January 2009, Sound Transit entered into a waiver agreement with the Owner Participant, Lessor, Lender, and Debt Payment Undertaker waiving any existing default or event of default based on a failure to comply with the ratings downgrade provisions of the Participation Agreement, Loan Agreement, Debt Payment Agreement, and Debt Payment Guarantee until March 1, 2009. Under its agreements with the transaction participants, Sound Transit may request successive six month extensions of the waiver agreement until September 30, 2016, unless extended by agreement of the parties. If the default is not cured and the extension is not granted, the investor could demand a termination payment from Sound Transit of approximately $15.2 million. Extensions of the waiver agreement have been granted through September 30, 2016.

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

(in thousands)	2015	2014
Net sublease, January 1	$ 60,270	$ 59,532
Accrued interest	4,511	4,456
Less payment	(3,718)	(3,718)
Net sublease, December 31	**$ 61,063**	**$ 60,270**

Operating Rentals – Sound Transit has entered into non-cancelable operating leases in excess of one year for the use of the Downtown Seattle Transit Tunnel, ground, office space, parking, land, storage at various locations, and equipment with lease terms expiring between 2016 and 2035, with some leases containing options to renew. Minimum lease payments through 2035 are as follows (in thousands):

Year ending December 31	
2016	$ 11,482
2017	11,114
2018	11,060
2019	8,621
2020	463
2021-2025	429
2026-2030	495
2031-2035	412
	$ 44,076

Total rental expenses for 2015, which include non-cancelable leases as well as other month to month rentals, were $10.1 million, of which $866.9 thousand was capitalized for capital projects in progress. Total rental expenses for 2014, which include non-cancelable leases as well as other month to month rentals, were $9.5 million, of which $496.9 thousand was capitalized for capital projects in progress.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2015	2014
Accounts payable	$ 6,985	$ 2,184
Accrued liabilities	99,215	95,539
Accrued salaries, wages and benefits	8,969	9,458
Due to other governments	51,758	51,582
Retainage payable	1,224	871
	$ 168,151	**$ 159,634**

8. LONG-TERM DEBT

In the ordinary course of financing its activities, Sound Transit has issued debt as follows:

(in thousands)	2015 Beginning balance	Additions	Reductions	2015 Ending balance	Amounts due within one year
Bonds payable					
Series 1999	$ 303,790	$ -	$ (6,520)	$ 297,270	$ 6,860
Series 2005A	12,470	-	(12,470)	-	-
Series 2007A	397,955	-	(397,955)	-	-
Series 2009P-1	23,155	-	(5,535)	17,620	17,620
Series 2009P-2T	76,845	-	-	76,845	-
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	188,900	-	(10,460)	178,440	345
Series 2012S-1	97,545	-	-	97,545	5,605
Series 2015S-1	-	792,840	-	792,840	-
Series 2015S-2A	-	75,000	-	75,000	-
Series 2015S-2B	-	75,000	-	75,000	-
	1,400,660	**942,840**	**(432,940)**	**1,910,560**	**30,430**
Plus unamortized premium	57,540	92,729	(20,617)	129,652	-
Less unamortized discount	(3,749)	(660)	373	(4,036)	-
Total bonds payable	**1,454,451**	**1,034,909**	**(453,184)**	**2,036,176**	**30,430**
Total long-term debt	**$ 1,454,451**	**$ 1,034,909**	**$ (453,184)**	**$ 2,036,176**	**$ 30,430**

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

Proceeds from bond issues are used for funding Sound Transit's capital program or refunding prior bond issues. Currently Sound Transit's long-term debt is comprised of 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.

In September 2015, Sound Transit issued additional Parity Bonds of $792.8 million of Series 2015S-1 Sales Tax Improvement and Refunding Bonds and $75.0 million each of Series 2015S-2A and Series 2015S-2B Sales Tax Improvement Bonds for a total issuance of debt in 2015 of $942.8 million. The remaining 2007A bonds of $398.0 million were refunded in advance. Net proceeds were $1,033.1 million. Issuance costs were $1.8 million with net proceeds of $433.1 million deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded Series 2007A bonds. As a result, the Series 2007A 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 $43.9 million through 2036 and produced net present value savings of $30.8 million. Net proceeds of $600.0 million was used to reimburse prior project expenditures deeming all non-refunding net proceeds spent as of closing. Prior to this year, the last bond issue was in 2012, advanced refunding substantially all of the 2005A Parity Bonds.

Sound Transit designated the 2015 Parity Bonds as Green Bonds based on the planned use of the proceeds to finance or refinance projects that adhere to Sound Transit's Sustainability Plan. The Series 2015S-1 parity bonds bear an average fixed interest rate between 4.0% and 5.0%, with interest payments on each May 1 and November 1, commencing November 2015. The Series 2015S-2 parity bonds have been issued initially as index floating rate bonds through May 1, 2018, at which time the issuance is subject to prior optional redemption or conversion to a new index floating rate period or to another interest rate mode. Interest is payable on the first business day of each month, commencing October 1, 2015 at the Securities Industry and Financial Markets Association ("SIMFA") index rate plus a spread of 70 basis points. The Series 2015S-1 and S-2 parity bonds mature between November 1, 2018 and 2050.

On January 16, 2015, Sound Transit entered into a TIFIA Loan Agreement for $1,330.0 million with a fixed rate of 2.38% to fund up to 33% of the projects costs for the East Link Extension. The loan is subordinate to both the Parity and Prior bonds. This loan has not been drawn on and therefore there is no debt outstanding related to this loan.

On May 1, 2015 the remaining non-refunded portion of the Series 2005A bonds, $12.5 million was called and fully paid off the Series 2005A bonds.

The following tables set forward average and effective coupon rates, rating agency information, principal payment commencement, fair value and amounts currently restricted for debt service.

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

		Average rate		Ratings		Principal	Fair value*		Principal and interest restricted	
(in millions)	Issue date	Coupon	Effective	Moody's	S&P	Payment begins	2015	2014	2015	2014
Series 1999	Dec 1, 1998	4.88	5.03	Aa1	AAA	Feb 1, 2006	$ 317.2	$ 318.2	$ 12.9	$ 12.7
Series 2009P-1	Sep 29, 2009	4.31	2.52	Aa1	AAA	Feb 1, 2015	17.7	24.0	17.9	6.0
Series 2009P-2T	Sep 29, 2009	5.01	3.31**	Aa1	AAA	Feb 1, 2020	86.1	88.6	1.6	1.6
Series 2012P-1	Aug 22, 2012	4.97	2.62	Aa1	AAA	Feb 1, 2013	205.8	219.2	4.1	14.3

* 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 a common debt service reserve account for all Prior Bonds. The common debt service reserve requirement for these bonds is met by a surety policy in the amount of $31.7 million purchased in 1999, a $7.9 million cash reserve funded, at the time the 2009P bonds were issued, and an $11.5 million cash reserve funded at the time the 2012P-1 bonds were issued (see also note 3).

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

		Average Rate		Ratings		Principal	Fair value*		Principal and interest restricted	
(in millions)	Issue date	Coupon	Effective	Moody's	S&P	Payment begins	2015	2014	2015	2014
Series 2005A	Mar 31, 2005	4.95	4.60	Aa2	AAA	Nov 1, 2011	$ -	$ *12.7	$ -	$ 12.6
Series 2007A	Dec 18, 2007	4.99	4.76	Aa2	AAA	Nov 1, 2008	-	435.9	-	3.3
Series 2009S-2T	Sep 29, 2009	5.49	3.62**	Aa2	AAA	Nov 1, 2029	366.0	380.1	2.7	2.7
Series 2012S-1	Aug 22, 2012	4.91	2.73	Aa2	AAA	Nov 1, 2016	114.0	115.4	6.4	0.8
Series 2015S-1	Sep 10, 2015	4.67	3.89	Aa2	AAA	Nov 1, 2018	913.6	-	6.2	-
Series 2015S-2A	Sep 10, 2015	Var	Var	Aa2	AAA	Nov 1, 2041	75.0	-	0.1	-
Series 2015S-2B	Sep 10, 2015	Var	Var	Aa2	AAA	Nov 1, 2041	75.0	-	0.1	-

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

No reserve account was required to be established for the 2009S-2T, 2012S-1, 2015S-1, 2015S-2A and 2015S-2B series bonds.

Sound Transit is also required to maintain certain minimum deposits as defined in the Prior Master Bond Resolution and the Parity Master Bond Resolution to meet debt service requirements. A Prior Bond Account and a Parity Bond Account are funded with monthly deposits so that the balance is sufficient to pay the interest, or principal and interest, next coming due on the bonds (see also note 3). Under the bond covenants, Sound Transit is required to value at market the investments held in debt service reserve accounts annually and to make up any deficiency within six months after the date of the valuation. As of December 31, 2015, the market value of the Prior debt service reserve exceeded the required reserve amount by $1.2 million. 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
2016	$ 30,430	$ 91,591	$ 122,021
2017	33,235	90,053	123,288
2018	35,560	88,340	123,900
2019	39,520	86,408	125,928
2020	42,915	84,322	127,237
2021-2025	293,460	384,236	677,696
2026-2030	323,100	301,814	624,914
2031-2035	339,605	233,041	572,646
2036-2040	377,340	139,985	517,325
2041-2045	233,000	66,369	299,369
2046-2050	162,395	22,917	185,312
	$1,910,560	**$1,589,076**	**$3,499,636**

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

Time Period	Sequestration Rate
March 1, 2013 through September 30, 2013	8.7%
October 1, 2013 through September 30, 2014	7.2%
October 1, 2014 through September 30, 2015	7.3%
October 1, 2015 through September 30, 2016	6.8%

The subsidy received in 2015 and 2014 was reduced by $505 thousand and $515 thousand, respectively, as compared to the amount that would have been received if the rate had not been reduced. The 2009P-2T bonds and the 2009S-2T bonds are Build America Bonds.

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)	2015 Beginning balance	Additions, accretion and changes in estimates	Reductions	2015 Ending balance	Amounts due within one year
Asset retirement obligations					
Sounder station platforms	$ 1,277	$ 63	$ -	$ 1,340	$ -
Tacoma link surface rail	1,850	93	-	1,943	-
Total asset retirement obligations	**3,127**	**156**	**-**	**3,283**	**-**
Uninsured losses					
OCIP	641	(207)	(235)	199	87
Transit operations	486	6	-	492	137
Total uninsured losses	**1,127**	**(201)**	**(235)**	**691**	**224**
Compensated absences	**6,403**	**7,290**	**(6,304)**	**7,389**	**6,773**
Deferred compensation	**135**	**58**	**-**	**193**	**193**
Total other long-term obligations	**$ 10,792**	**$ 7,303**	**$ (6,539)**	**$ 11,556**	**$ 7,190**

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

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, Sound Transit is exposed to various types of risks and exposures of loss including: torts; theft of, damage to and destruction of assets; errors and omissions; job related injuries to persons; natural disasters; and environmental occurrences.

Sound Transit has established a comprehensive risk management and insurance program to mitigate the potential for loss and for the administration of claims through a combination of commercial insurance or coverage under partner agency operating agreements. Sound Transit's agency operations and rail operations insurance policies are written on an occurrence or claims made basis, with a specific deductible or self insured retention, renewing annually. Agency Operation policies renew on May 1st and Rail Operation policies renew on November 1st. Major coverages under these programs are as follows:

Program	Major Coverages	Limit / Deductible or Retention *
Agency Operation	Property (Earthquake) Primary and Excess Liability Commercial Auto / Excess Liability Pollution / Excess Liability Public Officials / Employer Liability Fiduciary Liability	$400M ($100M) / $100K ($2.5M) $100M / $25K $50M / $500 comp or $1K collision $50M / $100K * $25M / $250K $10M / $0
Rail Operation	Light Rail / Excess Liability Heavy Rail / Excess Liability Property – Rolling Stock	$100M / $750K $295M / $2M $25M / $50K or $500K derailment
Bus Operations	Provided through partner agency operating agreements	N/A

For certain of its larger capital projects, Sound Transit utilizes Owner Controlled Insurance Programs (OCIP's) to address general liability, builders risk and contractors' pollution liability claims related to project construction carried out by Sound Transit's third party contractors, as well as professional liability coverage on its first OCIP

Sound Transit's first OCIP was secured in 2001, for construction of the Central Link light rail project, and subsequently amended to include the Airport Link light rail extension. Coverage was provided from January 1, 2001 through December 31, 2009, with three years of completed operations coverage. The only insurance policy that has not expired, is the professional liability and contractor's pollution policy. By endorsement, this policy provides profession liability 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.

Sound Transit secured a second OCIP in October 2008 for the University Link Light rail extension project with coverage provided from October 20, 2008 through March 19, 2016 and includes six years of completed operations coverage, which will expire March 19, 2022.

Sound Transit's 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 and includes six years of completed operations coverage, which will expire December 31, 2027.

Program	Coverage	Limit / Deductible or Retention *
Central Link OCIP	Primary and Excess Liability Professional Liability Pollution Liability Builders Risk	$100M / $500K per occ. $50M / $250K * $50M / $500k Project Value / $1M
University Link OCIP	Primary and Excess Liability Pollution Liability Builders Risk	$100M / $100K $50M / $250K * $400M / $500K
Northgate Link OCIP	Primary and Excess Liability Pollution Liability Builders Risk	$100M / $100K $50M / $250K * $400M / $500K

Sound Transit has deposited $1.0 million for the University Link OCIP and an additional $700 thousand for the North Link 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 resulting from these projects. While Sound Transit is directly responsible for payment of the deductible to the insurers, it has further transferred its risk of loss through its construction contracts, requiring contractors covered by these programs to be responsible for 100% of the deductible on general liability and pollution liability claims ($100 thousand and $250 thousand respectively) and the first $250 thousand of any builders risk loss.

Self-insured liabilities are recorded when probable that a loss has occurred and the amount can be reasonably estimated and includes estimates for claims that have been incurred but not yet reported. As actual liabilities depend on a number of complex factors the process used in estimating the claims liability does not necessarily result in an exact amount. 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 also note 3.

10. RESTRICTED NET POSITION

Restricted net position consists of the following:

(in thousands)	2015	2014
Debt service	$ 49,850	$ 56,801
Contractual arrangements	18,339	12,841
Deductible liability protection policy	5	996
	$ 68,194	**$ 70,638**

11. EMPLOYEE BENEFITS

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

Eligible employees are required to participate in the plan on the first day of employment. Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2015 and 2014 was $64.1 million and $56.2 million, respectively, and total payroll was $64.5 million and $56.4 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2015, 2014, and 2013 are as follows:

	Contribution rate			Contributions (in thousands)		
	2015	2014	2013	2015	2014	2013
Employer	12%	12%	12%	$ 7,697	$ 6,740	$ 6,198
Employee	10	10	10	6,415	5,616	5,165
Total	**22%**	**22%**	**22%**	**$ 14,112**	**$ 12,356**	**$ 11,363**

12. COMMITMENTS AND CONTINGENCIES

In the ordinary course of its operations, Sound Transit enters into a number of agreements with other governmental and quasi-governmental agencies, including: the operation and maintenance of buses and trains that it has purchased; right of way access and use; planning, building and operation of its facilities; and collection of its taxes. With the exception of Tacoma Link light rail, all service is operated by partner agencies. A summary of significant agreements follows:

ST Express – Agreements have been entered into with King County Department of Transportation (DOT), Community Transit and Pierce Transit for the operations and maintenance of its bus service, covering vehicle maintenance, operations, coordination of service planning, revenue processing, customer service, personnel and performance standards, and information and compliance reporting. The agreements sets forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as fuel and other costs provided for, but not included, as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred by no later than March 31st of the year following. The current agreements are for 3 years, expiring December 31, 2017, with an option to extend for two additional 1-year periods, with a minimum of 12 months written notice to exercise an option year.

Link Light Rail – Sound Transit contracts with King County DOT for the operation and maintenance of its light rail service, operating in 2015 between SeaTac Airport and Westlake stations. The agreement sets forth the process for annual financial authorization for service and the basis of compensation, substantially comprised of a baseline cost rate for purchased transportation, as well as other costs provided for, but not included as part of the baseline. Baseline cost rates, including allocated costs, are established by no later than December 15th for the upcoming year and are reconciled to actual incurred by no later than March 31st of the year following. The current agreement was for 5 years and was extended to July 2017. The extension includes extended service to University and Capitol Hill Stations, commencing March 2016.

Sound Transit has also entered into the following agreements related to light rail or station operations:

Downtown Seattle Transit Tunnel (DSTT) Agreement – This agreement with King County and City of Seattle provides for the cost sharing with regard to the maintenance and operation in the Downtown Tunnel in exchange for the right to use the tunnel for light rail operations and to provide for the temporary continued joint-use for light rail and bus. Sound Transit's ongoing obligations include reimbursement of costs and payment of a prescribed share of King County DOT debt service owed for the original tunnel construction and to share costs for future capital repairs or replacements as they arise. Upon extension of light rail service to Northgate Station, Sound Transit shall become responsible for 100% of debt service. 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. If Sound Transit does not use King County as its light rail operator, then Sound Transit may be required by the County to purchase the tunnel in order to continue light rail operations.

Light Rail Agreements – Sound Transit has entered into a variety of agreements to secure the right to operate light rail under, upon and over streets and property owned by the City of Seattle, Tukwila, SeaTac, the Port of Seattle and Bellevue granting permanent light rail access rights to operate its light rail service in the municipalities' right of way. The cost of public right of way improvements have been capitalized to rail access rights and include those costs necessary to operate light rail service, such as costs to acquire real property and relocate existing residents and businesses, as well as certain improvements to city right of way required under those agreements.

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.

Sounder – Agreements have been entered into with the BNSF Railway Company (BNSF) for the operation of its Sounder commuter rail service and the National Railroad Passenger Corporation (Amtrak) for maintenance of the locomotives, cab and coach cars (rolling stock). Service between Everett and Seattle and Seattle and Tacoma is on rail right of way owned and operated by BNSF.

South Line – Service between Seattle and Lakewood are provided by BNSF under a 40-year service agreement for the operation of 18 one-way commuter rail trips that expires in 2040. The agreement establishes the compensation paid to BNSF for train crews, maintenance of way and other expensed incurred in the operation of the Sounder Service and is based on actual cost of crew, dispatch and management, as well as cost for maintenance of way and performance incentives. The agreement was amended to extend BNSF's operations beyond Tacoma to the City of Lakewood and to add up to 8 additional one-way trips were added by way of commuter rail easements purchased by Sound Transit. Currently the agency is operating 11 of 13 round-trips provided under these agreements. Upon expiration of the service agreement, Sound Transit's use of BNSF track will be bound by a dormant Joint Use Agreement for BNSF's Seattle-Tacoma corridor.

North Line – BNSF operates four daily commuter rail round trips for Sound Transit under a service agreement. The service agreement expires in December 2020. At that time Sound Transit's four round trips under commuter rail easements purchased by Sound Transit from BNSF on its Seattle to Everett corridor will be governed by a now dormant joint use agreement.

Rolling Stock – Lease of the initial portion of its fleet of 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, Amtrak subleased this rolling stock to BNSF for operation of Sounder Service. Both lease agreements are for a 40-year term, expiring in 2040.

Maintenance Service Agreement – 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. A negotiated rate is also established for additional service above the baseline operating plan. The agreement expires in 2016.

First Hill Streetcar – 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 was established in the November 2009 funding and cooperative agreement, of which $5.0 million is payable annually through 2023 for annual operations and maintenance expenses. The City will own and operate the First Hill Streetcar facilities and vehicles.

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

Sound Transit has guideways located on WSDOT property governed under multiple twenty year airspace leases issued under the land bank agreement. These airspace leases have options to renew for an additional 20 years, at no additional cost or use of Land Bank Agreement credits. Should Sound Transit and WSDOT not enter into a new agreement at the end of the leases, property ownership transfers to WSDOT. At December 31, 2015, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $294.8 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 2015 and 2014.

(in millions)	2015	2014
Balance in Land Bank, beginning of year	$ 232.2	$ 232.2
Credits:		
85th Corridor Kirkland	1.5	-
Eastgate Transit HOV Direct Access	0.4	-
Federal Way HOV Access/South 317th	1.1	-
I-405 Bellevue Tran Ctr DA	1.6	-
I-90 Two-Way Transit & HOV	33.4	-
I-90 Umbrella Agreement	18.4	-
South Everett Freeway Station	0.8	-
Totem Lake Freeway Station / NE 128th	5.4	-
Balance in Land Bank, end of year	**$ 294.8**	**$ 232.2**

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 2015 and 2014 is 19.7% and 19.4%, respectively.

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

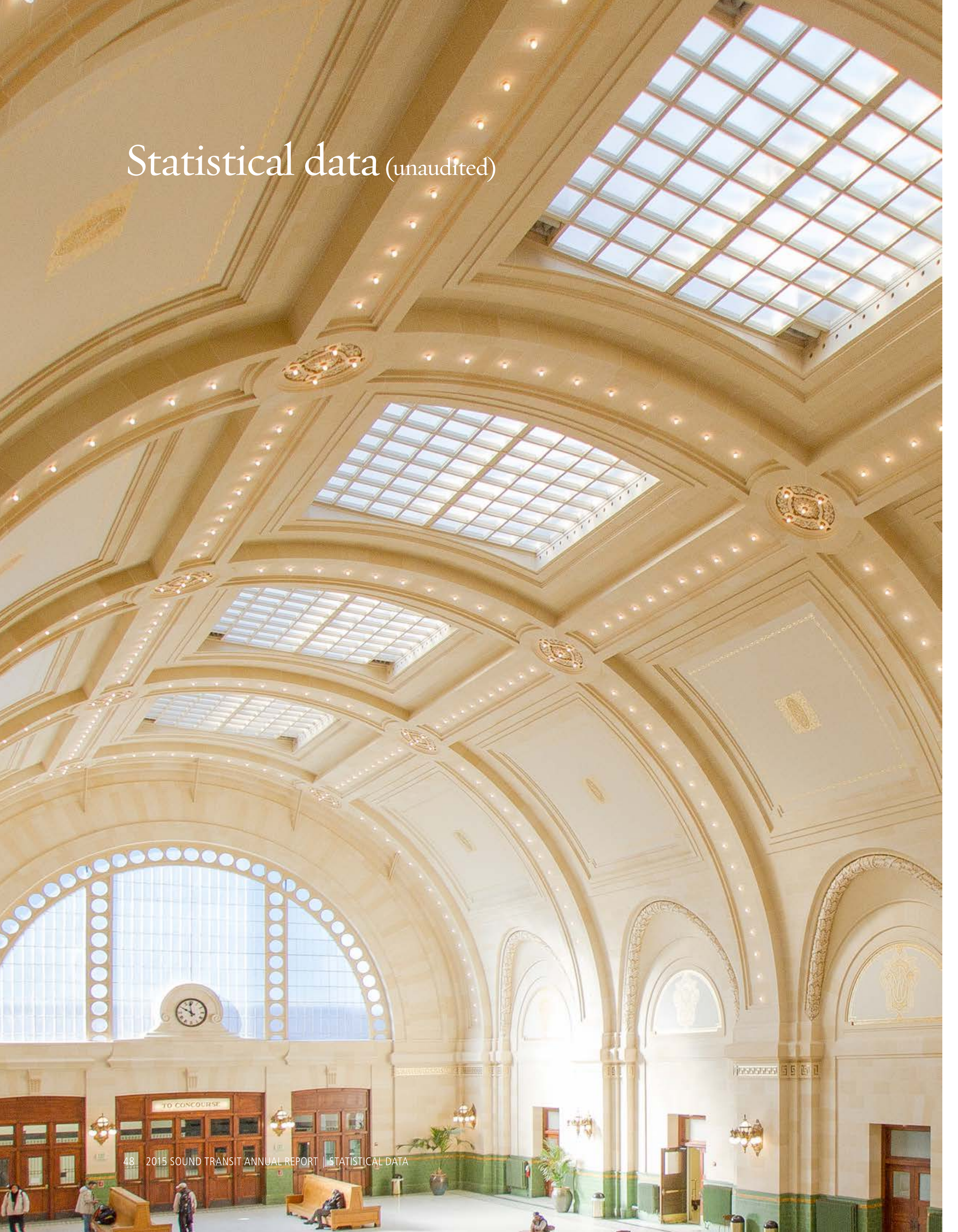
(in thousands)	December 31 2015	 2014
Assets		
Current assets		
Cash and cash equivalents	$ 8,438	$ 7,352
Accounts receivable	7,660	7,066
Total assets	**16,098**	**14,418**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	9,945	9,082
Unearned revenue	6,153	5,336
Total liabilities	**16,098**	**14,418**
Net position	**$ -**	**$ -**
Total operating revenues	**$ 53,408**	**$ 48,826**
Total expenses	**$ 1,516**	**$ 1,551**

Purchases – At December 31, 2015 and 2014, Sound Transit had outstanding construction commitments of approximately $670.9 million and $908.7 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, 2015 and 2014 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.

Statistical data (unaudited)



STATISTICAL DATA (UNAUDITED)

ST Express Operating & Maintenance Expenses

(in thousands)	2015	2014	2013	2012	2011
Salaries & Benefits	$ 692	$ 523	$ 523	$ 386	$ 355
Services & Materials	8,221	8,010	8,010	5,025	4,881
Utilities, Insurance, Taxes, Leases & Misc	3,687	3,248	3,248	3,468	3,334
Purchased Transportation	89,358	90,591	90,591	87,153	82,930
	101,958	**102,372**	**102,372**	**96,032**	**91,500**
Depreciation, Disposals & Recoveries	21,649	22,111	22,111	21,848	23,729
Indirect Expenses	6,105	5,757	5,757	5,456	5,215
Total	**$ 129,712**	**$ 130,240**	**$ 130,240**	**$ 123,336**	**$ 120,444**

Link Operating & Maintenance Expenses

(in thousands)	2015	2014	2013	2012	2011
Salaries & Benefits	$ 3,641	$ 3,240	$ 3,213	$ 3,369	$ 2,917
Services & Materials	18,127	17,924	15,803	17,153	15,559
Utilities, Insurance, Taxes, Leases & Miscellaneous	8,566	7,338	6,026	7,166	7,124
Purchased Transportation	27,413	27,094	25,266	24,233	23,316
	57,747	**55,596**	**50,308**	**51,921**	**48,916**
Depreciation, Disposals & Recoveries	49,826	50,573	70,646	66,726	64,292
Indirect Expenses	6,273	4,816	4,706	4,618	4,414
Total	**$ 113,846**	**$ 110,985**	**$ 125,660**	**$ 123,265**	**$ 117,622**

Sounder Operating & Maintenance Expenses

(in thousands)	2015	2014	2013	2012	2011
Salaries & Benefits	$ 1,824	$ 1,203	$ 850	$ 963	$ 828
Services & Materials	21,046	22,515	20,658	18,487	17,941
Utilities, Insurance, Taxes, Leases & Misc	4,358	2,856	3,472	2,774	2,181
Purchased Transportation	9,277	8,926	8,706	7,839	8,147
	36,505	**35,500**	**33,686**	**30,063**	**29,097**
Depreciation, Disposals & Recoveries	30,024	24,758	24,477	26,406	19,743
Indirect Expenses	4,112	3,385	3,300	3,179	2,965
Total	**$ 70,641**	**$ 63,643**	**$ 61,463**	**$ 59,648**	**$ 51,805**

Revenue by Source (in thousands)

Year	Passenger Fares	Sales & Use Taxes	Motor Vehicle Excise Taxes	Rental Car Taxes	Grant Revenues	Investment Income	Other Revenues	Total
2015	65,426	699,114	79,564	3,297	136,115	5,124	57,932	1,046,572
2014	60,180	639,890	74,166	3,092	194,077	14,758	12,544	998,707
2013	56,944	594,022	69,096	2,761	159,806	(4,900)	13,899	891,627
2012	54,068	551,898	65,844	2,527	131,302	12,176	11,253	829,067
2011	46,117	528,022	65,893	1,958	174,254	20,875	14,490	851,609

KEY OPERATING PERFORMANCE MEASURES (UNAUDITED)

ST Express

	2015	2014	2013	2012	2011
Total ridership	18,312,624	17,669,833	16,604,099	16,012,412	14,534,397
Service hours	584,393	552,895	547,938	552,359	553,147
Boardings per service hour	31.34	31.96	30.30	28.99	26.28
Cost per service hour	$ 186.71	$ 201.63	$ 193.64	$ 185.98	$ 171.55
Cost per boarding	$ 5.96	$ 6.31	$ 6.39	$ 6.42	$ 6.53

Link

	2015	2014	2013	2012	2011
Total ridership	12,503,823	11,901,578	10,681,934	9,725,159	8,831,760
Service hours	155,661	152,750	150,836	145,960	140,658
Boardings per service hour	80.33	77.92	70.82	66.63	62.79
Cost per service hour	$ 422.89	$ 429.68	$ 378.87	$ 380.52	$ 345.45
Cost per boarding	$ 5.26	$ 5.51	$ 5.35	$ 5.71	$ 5.50

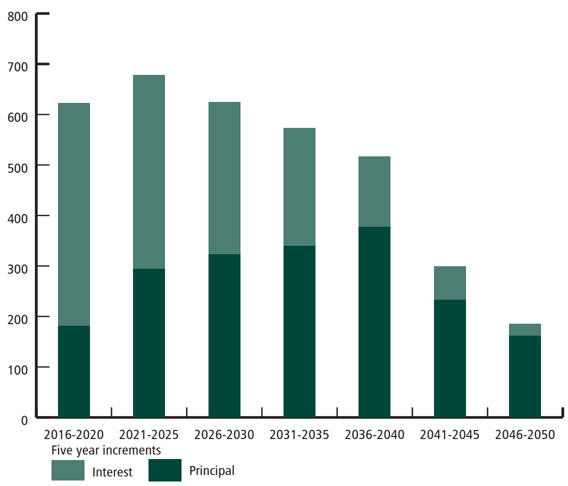
Sounder

	2015	2014	2013	2012	2011
Total ridership	3,851,831	3,361,318	3,035,734	2,803,123	2,626,711
Service hours	58,760	50,375	49,257	38,333	38,588
Boardings per service hour	65.55	66.73	61.63	73.13	68.07
Cost per service hour	$ 689.54	$ 796.82	$ 783.50	$ 959.04	$ 821.03
Cost per boarding	$ 10.52	$ 11.94	$ 12.71	$ 13.11	$ 12.06

Source Data - National Transit Database 1 Service hour = 1 Revenue Vehicle Mile Hour

Debt Service Requirements to Maturity (UNAUDITED)

($ in millions)



2015 Debt Capacity (UNAUDITED)

(in millions)	
Assessed Valuation in 2014 for collection of taxes in 2015	$ 467,256
Maximum nonvoted debt (1.5% of assessed valuation)	$ 7,009
Less: Series 1999, 2009, 2012, 2015 Bonds and Other Long-term debt	(3,256)
Nonvoted debt capacity remaining	**$ 3,753**
Maximum voted debt (5% of assessed valuation)	$ 23,363
Less: Series 1999, 2009, 2012, 2015 Bonds and Other Long-term debt	(3,256)
Voted debt capacity remaining	**$ 20,107**

Debt Service Coverage Ratio (UNAUDITED)

	2015	2014	2013	2012	2011
Prior Bonds DS Coverage	17.81x	14.86x	13.94x	25.03x	24.04x
Parity Bonds DS Coverage	12.92x	12.82x	11.55x	9.83x	8.23x

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

2016 Sound Transit Board of Directors

Dow Constantine
Chair, King County Executive

Paul Roberts
Vice Chair, Everett Councilmember

Marilyn Strickland
Vice Chair, Tacoma Mayor

Nancy Backus
Mayor of Auburn

Claudia Balducci
King County Councilmember

Fred Butler
Issaquah Mayor

Dave Enslow
Sumner Mayor

Dave Earling
Edmonds Mayor

Rob Johnson
Seattle City Councilmember

John Marchione
Redmond Mayor

Pat McCarthy
Pierce County Executive

Joe McDermott
King County Council Chair

Roger Millar
Secretary of Transportation for WSDOT

Mary Moss
Lakewood Councilmember

Ed Murray
Seattle Mayor

Dave Somers
Snohomish County Executive

Dave Upthegrove
King County Councilmember

Pete von Reichbauer
King County Councilmember

Senior Management

Peter M. Rogoff
Chief Executive Officer

Mike Harbour
Deputy Chief Executive Officer

Rhonda Carter
Chief of Staff

Desmond Brown
Executive Director
General Counsel

Craig Davison
Executive Director
Communications & External Affairs

Ahmad Fazel
Executive Director
Design, Engineering & Construction Management

Ric Ilgenfritz
Executive Director
Planning, Environment & Project Development

Brian McCartan
Executive Director
Finance & Information Technology

Bonnie Todd
Executive Director
Operations

For information in alternative formats call 1-800-201-4900 / TTY Relay: 711 or email accessibility@soundtransit.org

For information about Sound Transit projects or services, visit soundtransit.org or call 1-800-201-4900 / TTY Relay: 711

To receive email updates for Sound Transit's bus or rail service, projects or other information, subscribe online at soundtransit.org/subscribe

Printed on recycled paper

SOUNDTRANSIT

Union Station | 401 S. Jackson St., Seattle, WA 98104-2826
1-800-201-4900 | TTY Relay: 711 | soundtransit.org

Sound Transit plans, builds and operates regional transit systems and services to improve mobility for Central Puget Sound.