SOUNDTRANSIT

Central Puget Sound Regional Transit Authority

Financial Statements and Independent Auditors' Report for the Years Ended December 31, 2016 and 2015

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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 2016 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	Brian McCartan	Kelly A. Priestley
Chief Executive Officer	*Chief Financial Officer*	*Director - Accounting*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2016 and 2015

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, 2016 and 2015. 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. Then 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. The final elements of Sound Move were completed this year with the opening of University and South 200th (Angle Lake) light rail extensions.

In November of 2016, the region's voters authorized additional tax collections, including a property tax, for a third phase of system expansion. *ST3* – a 25-year program, funds 62 new miles of light rail, bus rapid transit, expanded capacity and service on Sounder south line, ST Express bus service and improved access to stations. The additional collections will commence in 2017.

Sound Transit's financial statements reflect a growth in net position of $747.7 million in 2016 and $690.8 million in 2015 as the agency continued 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. In 2016 Sound Transit opened its University and South 200th (Angle Lake) light rail extensions, adding three additional stations and a parking garage, significantly increasing capacity and ridership. Net loss from operations, also referred to as an operating subsidy, increased 23.2% from 2015, with ridership increasing 23.6%. The capital program and operating subsidy are funded through sales and use, rental car, motor vehicle excise taxes and federal grants.

Financial Highlights

- With the opening of the University Link and South 200th light rail extensions, total operating revenues were $86.5 million for 2016 while loss from operations was $321.8 million, an increase of 20.1% and 23.2% respectively.
    - Passenger fare revenues grew by $15.2 million on system-wide ridership growth of 8.1 million, or 23.1%.
    - Link light rail ridership grew by 7.5 million to 20.0 million riders in 2016, surpassing for the first time ST Express ridership of 18.5 million
    - Three light rail stations and a parking garage were added and service was extended by 4.7 miles.
    - Operating expenses and depreciation expenses increased by 22.5% with the light rail expansion, as well as increased service capacity on ST Express and Sounder.
- Non-operating revenues, net of expenses, were $866.8 million, a 6.2% increase from 2015, most significantly related to tax revenues which grew by 7.3% or $56.8 million.

- Capital contributions from federal, state and local funding arrangements were $202.7 million, an increase from 2015 of 48.9%, reflecting utilization of Washington State Department of Transportation (WSDOT) landbank credits for temporary construction easements on the I-90 Bridge East Link extension.
- Total net position at December 31, 2016 was $7.3 billion, an increase of $747.7 million or 11.4% from 2015 and reflecting the continued progress on the agency's capital program.
- The agency issued $400.0 million in parity bonds, its second green bond issuance, for net cash proceeds of $478.8 million.

Overview of the Financial Statements

Sound Transit's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). The 2016 and 2015 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, 2016 was $7.3 billion, an increase of $747.7 million or 11.4% from 2015. Total assets increased $1.3 billion or 14.3% and total liabilities increased by $495.6 million or 21.6%. The increase in total assets reflects capital program spending, as well as an increase in cash and investments and long-term debt following the issuance of additional parity green bonds. See the following table for a summary of Sound Transit's net position.

Statement of Net Position

(in millions)	December 31			% Change	
	2016	2015	2014	2016-2015	2015-2014
Assets					
Current assets, excluding restricted assets	$ 1,603.7	$ 1,085.6	$ 560.7	47.7%	93.6%
Restricted assets	89.7	91.6	91.4	(2.1)	0.2
Capital assets	8,000.7	7,259.1	6,527.0	10.2	11.2
Other non-current assets	395.2	389.0	383.4	1.6	1.5
Total assets	**10,089.3**	**8,825.3**	**7,562.5**	**14.3**	**16.7**
Deferred Outflows of Resources	**41.2**	**45.8**	**26.8**	**(10.0)**	**70.7**
Liabilities					
Current liabilities, excluding interest payable from restricted assets	263.0	205.2	203.4	28.2	0.9
Interest payable from restricted assets	21.8	21.6	19.1	1.1	13.1
Long-term debt	2,441.3	2,005.7	1,419.5	21.7	41.3
Other long-term liabilities	67.4	65.4	65.0	3.0	0.6
Total liabilities	**2,793.5**	**2,297.9**	**1,707.0**	**21.6**	**34.6**
Net Position					
Net investment in capital assets	5,567.4	5,268.7	5,099.4	5.7	3.3
Restricted net position	66.0	68.2	70.6	(3.2)	(3.5)
Unrestricted net position	1,687.4	1,236.2	712.3	36.5	73.6
Total net position	**$ 7,320.8**	**$ 6,573.1**	**$ 5,882.3**	**11.4%**	**11.7%**

Current assets, excluding restricted assets, increased from the prior year by 47.7% in 2016 and 93.6% in 2015 due to higher cash and investments following the issuance of additional parity green bonds in both years. Restricted and other non-current assets remain comparable between 2016, 2015 and 2014.

Capital assets increased 10.2% from 2015 and by 11.2% between 2015 and 2014 as planning and construction spending continued for the expansion projects as well as rehabilitation and replacement fleet activities. Total capital project spending for 2016 was $892.3 million (2015 was $854.6 million) reflecting increased spending as construction ramps up on the East Link extension, design on the Lynwood Link extension, construction of the Point Defiance Bypass project for WSDOT and the Tacoma Trestle Track and Signal replacement project. In 2015 significant construction spending occurred for the University and S 200th light rail extensions which opened in 2016, as well as on the North and East Link extensions, including stage three of the I-90 Two-Way Transit and HOV lane project.

In all, total capital spending for light rail was $665.5 million or 74.3% of total capital spending ($677.1 million or 79.3% in 2015). Capital spending on Sounder and ST Express projects combined, as a percentage of total capital spending, was 13.9% and 10.9% respectively (7.5% and 9.4% in 2015).

Transfers out of capital projects in progress were $1.8 billion ($147.3 million in 2015) as the University Link and Angle Lake extensions were completed and costs transferred to property, transit facilities, and vehicles or expensed as indicated in the following table. In 2015, 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 was completed in 2015. Given the nature of Sound Transit's capital program, transfers out of capital projects in progress can vary significantly from year to year.

Transfers Out of Capital Projects in Progress

(in millions)	For the Year Ended December 31		
	2016	**2015**	**2014**
Transferred to property, vehicles and equipment	$ 1,786.4	$ 134.3	$ 53.7
Contributions to other governments	6.5	13.0	27.9
Total	**$ 1,792.9**	**$ 147.3**	**$ 81.6**

Deferred outflows of resources includes the excess of the price paid on debt refunding and the net carrying amount of the old debt, which is amortized over the remaining life of the old debt or the new debt, whichever is shorter. The decrease of 10.0% from 2015 reflects amortization. In 2015, deferred outflows of resources increased 70.7% from 2014 as the agency refunded the 2007A parity bonds as part of the 2015 debt issuance.

Total liabilities increased in 2016 by 21.6% and between 2015 and 2014 by 34.6% most significantly due to the issuance of parity green bonds in each of those years ($400.0 million in 2016 and $509.9 million in 2015 net of refunding the outstanding 2007A bonds). Current liabilities also increased 28.2% or $57.8 million in 2016 and were comparable between 2015 and 2014. While some of the increase is attributable to the increased service, 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						
(in millions)		**December 31**			**% Total Net Position**	
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Net investment in capital assets	$ 5,567.4	$ 5,268.7	$ 5,099.4	76.1%	80.2%	86.7%
Restricted net position	66.0	68.2	70.6	0.9	1.0	1.2
Unrestricted net position	1,687.4	1,236.2	712.3	23.0	18.8	12.1
Total	**$ 7,320.8**	**$ 6,573.1**	**$ 5,882.3**	**100.0%**	**100.0%**	**100.0%**

Net investment in capital assets increased 5.7% from 2015 and 3.3% between 2015 and 2014 as capital program spending continues, net of debt issuances. Restricted net position is comparable between the yeas presented. Unrestricted net position increased by 36.5% in 2016 and 73.6% in 2015 and reflects the increase in cash and investments from the bond issuances in each of those years.

Changes in Net Position

Changes in net position reflect the excess of revenue over expenses for a year. In 2016, revenues exceeded expenses by $747.7 million, an increase from the prior year of 8.2% while in 2015 they exceeded expense by $690.8 million or an 11.9% increase from 2014. Tax revenues increased in both years while loss for operations increased in 2016 and capital contributions to other governments were lower in 2015. Sound Transit's Statement of Revenue, Expenses and Changes in Net Position is summarized in the table below.

	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
Operating revenues					
Passenger fares	$ 80.6	$ 65.4	$ 60.1	23.1%	8.8%
Other	5.9	6.6	6.0	(9.8)	10.6
Total operating revenues	**86.5**	**72.0**	**66.1**	**20.1**	**8.9**
Operating expenses					
Total operating expenses, before depreciation	271.6	228.2	240.8	19.0	(5.2)
Depreciation	136.7	105.1	100.8	30.1	4.3
Total operating expenses	**408.3**	**333.3**	**341.6**	**22.5**	**(2.4)**
Loss from operations	**(321.8)**	**(261.3)**	**(275.5)**	**23.2**	**(5.1)**
Non-operating revenues, net of expenses	866.8	816.0	699.0	6.2	16.7
Income before capital contributions	**545.0**	**554.7**	**423.5**	**(1.8)**	**31.0**
Capital contributions	202.7	136.1	194.1	48.9	(29.9)
Change in net position	**747.7**	**690.8**	**617.6**	**8.2**	**11.9**
Total net position, beginning	6,573.1	5,882.3	5,264.7	11.7	11.7
Total net position, ending	**$ 7,320.8**	**$ 6,573.1**	**$ 5,882.3**	**11.4%**	**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 Link light rail 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. With the opening of the U Link and Angle Lake extensions and growth in ridership and average fare per boarding (AFB) on Sounder, Sound Transit experienced a 23.1% increase in passenger fare revenue in 2016. In 2015, ridership growth and strengthening of the AFB on Link light rail resulted in an increase in fare revenue from 2014 of 8.9%. ST Express continues to be the largest revenue-generating mode providing 44.9% of total passenger fare revenue, while Link contributed 38.2% and Sounder commuter rail 16.9% of total passenger fare revenue, respectively.

Passenger fare revenue by mode are as follows:

Passenger Fare Revenue *(in millions)*				% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
ST Express	$ 36.2	$ 35.3	$ 33.8	2.5%	4.4%
Link	30.8	18.2	15.9	69.1	14.7
Sounder	13.6	11.9	10.4	14.1	14.8
Total	**$ 80.6**	**$ 65.4**	**$ 60.1**	**23.1%**	**8.9%**

Ridership

Sound Transit provided 42.8 million rides in 2016, an increase of 23.6% from 2015 primarily due to light rail ridership on Link with the opening of the U Link and Angle Lake extensions. Continued economic growth and increased congestion contributed to increased ridership on all modes. Changes in ridership by mode were as follows:

- ST Express ridership in 2016 was comparable to 2015 and increased 3.6% between 2015 and 2014. Capacity was added in 2016 to address overcrowding and to connect to the new light rail service from the University of Washington and the additional mid-day trip on Sounder South. While ridership did grow on the new routes, the impact was offset by riders choosing to use Sounder, a service not impacted by traffic congestion. In 2015, the agency aligned bus service on routes and times that had the highest ridership and continued to increase the number of high capacity buses deployed.

- Link ridership increased 60.4% from 2015 and 5.1% between 2015 and 2014. In 2016, it marks the first year that Link ridership eclipsed ST Express ridership. The growth in 2016 reflects the opening of the University extension in March, servicing the high density area of Capitol Hill and the opening of the Angle Lake extension in September, together with the addition of a parking garage at the Angle Lake station, adding capacity to the southernmost terminus. In 2015, regional growth, service promotion efforts, and changes in the fourth quarter of 2015 that increased light rail service to 6-minute headways, provided additional train trips. Growth was also observed in 2015 for trips to and from SeaTac Airport and during special events.

- Sounder commuter rail ridership increased 11.9% from 2015 and by 14.6% from 2014, reflecting job growth in the local economy, increased congestion, and increased capacity from the addition of an additional mid-day round trip in September 2016 on the South Line between Lakewood and Seattle.

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

Ridership *(in millions)*				% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
ST Express	18.5	18.3	17.7	0.9%	3.6%
Link	20.0	12.5	11.9	60.4	5.1
Sounder	4.3	3.9	3.4	11.9	14.6
Total	**42.8**	**34.7**	**33.0**	**23.6%**	**5.2%**

Average Fare per Boarding

The combined AFB was comparable between 2016 and 2015 reflecting the increased ridership on the lower fare service Link light rail, offset by a higher AFB and ridership on the higher fare Sounder service. In 2015, the AFB increased by 3.3% from 2014 primarily as a result of fare changes implemented March 1, 2015 when Link light rail base fares were increased by $0.25 in conjunction with the implementation of a low income adult fare

Average Fare per Boarding				% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
ST Express	$ 1.96	$ 1.93	$ 1.92	1.5%	0.6%
Link	1.61	1.58	1.45	2.0	8.6
Sounder	3.15	3.09	3.11	1.9	(0.7)
Combined average fare per boarding	**$ 1.92**	**$ 1.94**	**$ 1.88**	**(1.0)%**	**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, King County DOT Rail Division, which operates Link light rail and associated paratransit services and to BNSF, which operates Sounder commuter rail. Purchased transportation services accounts for 58.3% of this category in 2016 (59.2% in 2015). 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 19.7% in 2016 (19.0% in 2015) 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 costs. Vehicle operations expense consists of costs to dispatch and operate vehicles while in revenue service, including security and fare collection. Vehicle maintenance expense includes costs associated with ensuring the revenue vehicles are operational, fueled, inspected and repaired. Non-vehicle maintenance expense includes costs necessary to ensure buildings, equipment, and transit structures and systems are operational.

Operations and maintenance expenses increased $38.2 million or 17.9% in 2016 reflecting the opening of the U Link and Angle Lake extension, which included three stations and a parking garage, as well as increased ST Express purchased transportation costs, insurance and related overhead. In 2015, costs increased by $5.6 million or 2.7% due to the impact of the changes to the agency's cost allocation plan that updated 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. Excluding the impact of this change, 2015 operations and maintenance costs were comparable to 2014.

See the following table for the operating and maintenance expense impact by function.

Operations and Maintenance Expenses by Function

(in millions)	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
Vehicle operations	$ 148.4	$ 126.7	$ 123.7	17.1%	2.4%
Vehicle maintenance	55.7	49.1	48.0	13.5	2.2
Non-vehicle maintenance	47.1	37.2	35.7	26.5	4.4
Total	**$ 251.2**	**$ 213.0**	**$ 207.4**	**17.9%**	**2.7%**

All functional categories increased with the opening of the U Link and Angle Lake services, stations and garage, as well as higher cost for purchased transportation on ST Express. In 2015, the increases 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. Major impacts by functional category in 2016 are as follows:

- Vehicle operations expenses increased by $21.7 million and reflect higher purchased transportation and utility costs as additional operators and traction power are required for the expansion of Link light rail and increased bus hours on ST Express adding capacity to alleviate overcrowding, offset the negative impacts of traffic congestion to maintain schedule and create new bus connections to U Link and new Sounder trains as well as mitigating impact from East Link construction.

- Vehicle maintenance expenses increased by $6.6 million, reflecting the expanded service on Link light rail and the 32,000 of additional service hours added on ST Express.

- Non-vehicle maintenance expenses increased $9.9 million, most significantly due to additional facilities to be maintained and a higher share of the King County Metro costs for use in the Downtown Seattle Transit Tunnel as a result of the light rail service expansion, as well as a maintenance project at the Lakewood garage.

Operations and Maintenance Expenses by Mode

The following table presents operating and maintenance expenses by mode:

Operations and Maintenance Expenses by Mode

(in millions)	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
ST Express	$ 117.6	$ 108.1	$ 107.9	8.8%	0.1%
Link	88.8	64.3	60.6	37.9	6.2
Sounder	44.8	40.6	38.9	10.4	4.4
Total	**$ 251.2**	**$ 213.0**	**$ 207.4**	**17.9%**	**2.7%**

ST Express operations and maintenance expenses increased in 2016, primarily due to higher purchased transportation costs. Starting in March 2016, 32,000 annual express bus hours were added to mitigate increasingly crowded conditions on the commuter bus service and to maintain the schedule amidst worsening traffic congestion. Major service changes included a new route 541 connecting Overlake Village Park-and-Ride/Overlake Transit Center with the University of Washington Link Station over State Route 520 bridge and mid-day service was added on State Route 542. Overall 44 weekday or mid-day trips were added, as well as the addition of double decker buses providing more capacity. In 2015, expenses were comparable to 2014.

Link operations and maintenance expenses include both Link and Tacoma Link light rail and increased $24.5 million or 37.9% in 2016. This increase reflects the opening of the U Link and Angle Lake extensions, which included extending service by 4.7 miles, adding three stations and a parking garage at Angle Lake. With these extensions, two of the Northwest's most densely populated areas, Capitol Hill and the University of Washington, are now connected by light rail, as well as the South King County communities of Kent, Normandy Park, Federal Way and Des Moines through the Angle Lake Station in SeaTac. Ridership far exceeded initial expectations, requiring an increase in the number of three car trains from two car trains during peak hours. The 2015 Link operations and maintenance expenses reflects the change to direct charge rail operation insurance.

Sounder operations and maintenance expenses increased by $4.2 million or 10.4% in 2016 and reflect an additional mid-day round trip on the South Line between Lakewood and Seattle added in September of 2016 as well as cost increases in insurance, contracted maintenance and structural contracts. In 2015, Sounder operations and maintenance expenses increased by $1.7 million or 4.4%, also related to the change in method of charging rail operation insurance costs.

Agency Administration

Agency administration expenses are comprised of costs not allocated to capital projects or operations and in 2016 and 2015 includes only costs attributable to the general cost of government, such as the costs of the Chief Executive Office, public relations and agency costs over or under allocated. In 2015 more administrative costs were allocated to capital projects or operations, otherwise the costs were comparable between 2016 and 2015. Agency administration expenses decreased in 2015 by $18.5 million or 78.4% from 2014 due to 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.

Agency Administration Expenses

(in millions)				% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
Salaries	$ 3.7	$ 2.4	$ 11.0	50.9%	(77.6)%
Benefits	2.4	1.6	6.6	54.9	(76.3)
Services and professional fees	1.2	0.7	3.8	71.7	(81.7)
Other	0.8	0.4	2.2	64.1	(81.8)
Total	**$ 8.1**	**$ 5.1**	**$ 23.6**	**56.2%**	**(78.4)%**

Fare and Regional Planning

Fare and regional planning expense of $12.2 million ($10.0 million in 2015), 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 increased by $2.2 million due to election expenses incurred in 2016 for the ST3 ballot measure. In 2015 fare and regional planning expenses were comparable to 2014.

Depreciation and Amortization

Depreciation and amortization comprises non-cash expenses that reflect the reduction in the value of capital assets over time. In 2016, depreciation and amortization increased $31.6 million or 30.1% reflecting the increase in capital assets put into service in 2016, which included the U Link (March 2016) and Angle Lake (September 2016) extensions, three stations and a parking garage. In 2015, depreciation and amortization increased $4.3 million or 4.3% reflecting the increase in capital assets put into service in 2014.

Non-Operating Revenues (Expenses)

Net non-operating revenues increased by $50.8 million or 6.2% in 2016 and by $117.0 million or 16.7% between 2015 and 2014, as follows:

(in millions)				% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
Non-operating revenues					
Sales and use tax	$ 749.7	$ 699.1	$ 639.9	7.2%	9.3%
Motor vehicle excise tax	85.5	79.5	74.2	7.5	7.1
Rental car tax	3.5	3.3	3.1	6.4	6.6
Investment income	12.6	5.1	14.7	146.4	(65.3)
Other revenues	29.8	51.4	6.6	(42.1)	678.7
Total	**881.1**	**838.4**	**738.5**	**5.1**	**13.5**
Non-operating expenses					
Interest expense	1.7	1.8	2.6	(1.8)	(30.1)
Contributions to other governments	4.7	18.0	30.9	(73.8)	(41.8)
Other expenses	9.9	2.6	6.0	272.7	(55.5)
Gain on disposal of assets	(2.0)	-	-	200.0	-
Total	**14.3**	**22.4**	**39.5**	**(36.1)**	**(43.2)**
Non-operating revenues, net	**$ 866.8**	**$ 816.0**	**$ 699.0**	**6.2%**	**16.7%**

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 revenue, increased by $50.6 million (7.2%) in 2016 and by $59.2 million (9.3%) in 2015, while Motor Vehicle Excise Tax (MVET) increased by $6.0 million in 2016 and $5.3 million in 2015, for an increase of 7.5% in 2016 and 7.1% in 2015. In positive economic conditions, consumers are more likely to replace existing or purchase additional vehicles. As the Motor Vehicle Excise Tax is computed on the depreciated vehicle value, this results in a higher average collected tax, as newer vehicles tend to have greater taxable values.

In 2016, non-operating revenues, other revenues was $29.8 million while they were $51.4 million in 2015 and $6.6 million in 2014. In both 2016 and 2015, the agency received federal operating grants for preventative maintenance on Link light rail and ST Express. Other revenues in 2015 also included $28.7 million related to an insurance recovery related to Central Link and Federal Way projects completed in prior years. Investment income, net of unrealized changes in fair market value, fluctuates as a result of the annual adjustment of the agency's investments to fair market value at year-end and reflects higher cash balances on hand in 2016 throughout the year.

The decrease in non-operating expenses in 2016 and 2015 reflects lower contributions to other governments. 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 is comparable between 2016, 2015 and 2014. In 2016, interest incurred was $84.2 million, and $82.5 million capitalized, and in 2015 interest incurred was $73.0 million and $71.2 million capitalized.

In 2016 other expenses includes $6.8 million in start-up costs for U Link and Angle Lake light rail extensions.

Capital Contributions

Capital contributions include federal grant funding and state and local contributions to Sound Transit. Capital contributions increased in 2016 by $66.6 million or 48.9% with the utilization of WSDOT Landbank credits, while in 2015 they decreased in by $58.0 million or 29.9% from 2014. The following table summarizes capital contributions by major category.

Capital Contributions

(in millions)	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
Federal	$ 142.6	$ 132.2	$ 184.6	7.8%	(28.4)%
State and local governments	60.1	3.9	9.5	1,448.3	(59.1)
Total	**$ 202.7**	**$ 136.1**	**$ 194.1**	**48.9%**	**(29.9)%**

Federal capital contributions of $142.6 million in 2016 were 7.8% higher than 2015, primarily due to an increase in funding received for the Point Defiance Bypass project, reflective of higher spending in 2016. Federal capital contributions decreased by $52.4 million between 2015 and 2014 as University Link and the Angle Lake spending decreased as those projects approached construction completion, as well as higher 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).

Projects receiving significant funding in 2016 and 2015 included: University Link; Northgate Link; Federal Way Link Extension; Sounder Commuter Rail Easements; Tacoma Point Defiance Bypass; and Tacoma Trestle Track and Signal.

State and local government contributions increased $56.2 million from 2015 due to Landbank credits from WSDOT utilized for temporary construction easements on the I-90 Bridge for East Link (see also note 12).

Capital Assets

As of December 31, 2016, Sound Transit had invested $8.0 billion in capital assets, net of accumulated depreciation and amortization, of which $4.6 billion are depreciable assets in service. This represents a $741.6 million or 10.2% increase over 2015. The largest increase was in transit facilities, which increased $1.6 billion or 68.3%, while non-depreciable assets, which includes capital projects in progress, decreased $782.1 million or 18.9%, reflecting U Link and Angle Lake light rail extensions that went into service in 2016.

Management's Discussion and Analysis, continued

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

Capital Assets, net

(in millions)	December 31			% Change	
	2016	**2015**	**2014**	**2016-2015**	**2015-2014**
Land	$ 631.7	$ 543.8	$ 485.2	16.1%	12.1%
Permanent easements	520.1	489.4	488.2	6.3	0.3
Capital projects in progress	2,210.1	3,110.8	2,403.4	(29.0)	29.4
Total non-depreciable assets	**3,361.9**	**4,144.0**	**3,376.8**	**(18.9)**	**22.7**
Buildings, transit facilities & heavy equipment	3,826.4	2,274.0	2,295.1	68.3	(0.9)
Access rights	367.8	380.7	393.4	(3.4)	(3.2)
Revenue vehicles	438.3	453.3	456.6	(3.3)	(0.7)
Software, furniture, equipment & vehicles	6.3	7.1	5.1	(10.1)	36.9
Total depreciable assets	**4,638.8**	**3,115.1**	**3,150.2**	**48.9**	**(1.1)**
Total capital assets, net	**$ 8,000.7**	**$ 7,259.1**	**$ 6,527.0**	**10.2%**	**11.2%**

The decrease in non-depreciable assets and increase in buildings, transit facilities and heavy equipment includes the capitalization from capital projects of $1.6 billion in assets for the U Link and Angle Lake light rail extensions. Land acquisitions in both years were primarily for the East Link project, as well as $12.0 million for Northgate extension in 2015. In 2016, spending on capital projects in progress was $892.3 million while in 2015 it was $854.6 million. Significant activity occurred on the East Link, Northgate and Lynnwood Link extensions, as well as on Sounder Point Defiance and Tacoma Trestle projects. In 2015 capital project activity reflected the University and Angle Lake Link extension projects, which were approaching completion, the Maintenance of Way building, tunneling for the Northgate Extension, and preliminary design completion and pre-construction work starting up for East Link, particularly in the Bellevue to Redmond corridor.

Capital projects that incurred major spending activity in 2016 and 2015 are summarized in the following table.

Year	Sounder	Link	ST Express
2016	Positive Train Control Tacoma Trestle Track Signal Point Defiance By-Pass Sounder South Expanded Service Sounder Vehicle Maintenance Sounder Yard Expansion Sounder ST2 Fleet Expansion	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 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
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

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

Long-Term Debt

In December 2016, Sound Transit issued additional Parity Bonds of $400 million of fixed rate Sales Tax and Motor Vehicle Excise Tax Bonds. These bonds represent the second issuance of Green Bonds financing projects that adhere to Sound Transit's Sustainability Plan. With the addition of the 2016 Parity Bonds, S&P affirmed the Prior Bonds' AAA rating, removed the negative outlook from the Parity Bonds AAA rating and Moody's upgraded Sound Transit's Prior Bonds to Aaa and the Parity Bonds to Aa1.

In addition, in December 2016 Sound Transit entered into a TIFIA Master Credit Agreement with the United States Department of Transportation with a contingent commitment of up to $1.99 billion for a program of four loans for the following projects: the Northgate Link Extension, Lynnwood Link Extension, Federal Way Extension and the Operations and Maintenance Facility East. Concurrent with the execution of the TIFIA Master Credit Agreement, Sound Transit executed the first loan under the

TIFIA Master Credit Agreement for the Northgate Extension for a loan of up to $615.3 million with a fixed rate of 3.13% to fund up to 33% of the project costs for the Northgate Link Extension. This is the second TIFIA loan Sound Transit has entered into, the first being a $1.33 billion loan with a fixed rate of 2.38% executed in January 2015 to fund up to 33% of the project costs for the East Link Extension. To date no TIFIA loans have been drawn on. With the closing of the Master Credit Agreement and the Northgate TIFIA Loan, S&P upgraded Sound Transit's TIFIA loans to A+ and Fitch upgraded the TIFIA loans to AA+.

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 2015 assessed valuations for collection of 2016 taxes, Sound Transit's current non-voter approved remaining debt capacity is $3.3 billion and its additional remaining debt capacity subject to voter approval is $20.9 billion.

Economic Conditions

Sound Transit's 2016 tax revenues increased by 7.3% over prior year, down from the 9.0% increase for the previous period. Regional employment for 2016 is estimated to have increased by 3.0%, on par with 2015, while the projected unemployment rate of 4.8% is slightly lower than last year's rate of 4.9%. Inflation for the region has risen to 2.2%, up from 1.4% last year.

Sales taxes were 89% of total tax revenues and grew by 7.2% over prior year. Retail trade is the largest industry sector generating 39% of sales taxes, followed by the construction sector at 20% and accommodation & food services sector at 11%. Together, these three industries generated 70% of all sales taxes within the Sound Transit district. Strong growth was exhibited by the professional, scientific and technical services sector and the construction sector, up 23% and 13% respectively over prior year. Retail trade, the largest sector, grew by 4%.

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

Audit and Reporting Committee
Central Puget Sound Regional Transit Authority

We have audited the accompanying financial statements of the Central Puget Sound Regional Transit Authority (a public corporation acting under the service name of Sound Transit) as of and for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

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

KPMG LLP

Seattle, Washington
May 19, 2017

STATEMENTS OF NET POSITION

(in thousands)	December 31 2016	December 31 2015
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 313,993	$ 173,493
Restricted assets (note 3)	58,461	60,641
Investments (note 3)	1,051,907	692,258
Taxes and other receivables (note 4)	190,116	196,801
Inventory, land for resale and prepaid expenses	31,392	22,942
Total current assets	**1,645,869**	**1,146,135**
Non-current assets		
Restricted assets (note 3)	31,237	30,956
Investments (note 3)	320,494	315,309
Prepaid expenses and deposits	12,835	12,669
Investment held to pay capital lease obligation (note 6)	61,916	61,063
Capital assets, net (note 5)	8,000,743	7,259,128
Total non-current assets	**8,427,225**	**7,679,125**
Total assets	**10,073,094**	**8,825,260**
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	41,190	45,765
Total deferred outflows of resources	**41,190**	**45,765**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	213,926	168,151
Unearned revenue	9,652	6,154
Interest payable from restricted assets	21,793	21,566
Current portion, long-term debt (note 8)	33,235	30,430
Other claims and short-term obligations	6,202	450
Total current liabilities	**284,808**	**226,751**
Non-current liabilities		
Long-term debt (note 8)	2,441,340	2,005,746
Capital lease obligations (note 6)	61,916	61,063
Other long-term obligations (note 9)	5,462	4,366
Total non-current liabilities	**2,508,718**	**2,071,175**
Total liabilities	**2,793,526**	**2,297,926**
Commitments and contingencies (notes 6, 9, 11 and 12)		
NET POSITION		
Net investment in capital assets	5,567,358	5,268,716
Restricted (note 10)	66,035	68,194
Unrestricted	1,687,365	1,236,189
Total net position	**$ 7,320,758**	**$ 6,573,099**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)	December 31 2016	December 31 2015
Operating revenues		
Passenger fares	$ 80,563	$ 65,426
Other operating revenue	5,934	6,574
Total operating revenues	**86,497**	**72,000**
Operating expenses		
Vehicle operations	148,386	126,721
Vehicle maintenance	55,669	49,066
Non-vehicle maintenance	47,114	37,255
Agency administration	8,180	5,120
Fare and regional planning	12,210	10,048
Depreciation, amortization and accretion	136,748	105,100
Total operating expenses	**408,307**	**333,310**
Loss from operations	**(321,810)**	**(261,310)**
Non-operating revenues (expenses)		
Sales tax	749,735	699,114
Motor vehicle excise tax	85,515	79,564
Rental car tax	3,506	3,297
Investment income	12,630	5,125
Other revenues	29,762	51,360
Contributions to other governments	(4,722)	(18,001)
Interest expense	(1,772)	(1,805)
Other expenses	(9,864)	(2,647)
Gain on disposal of assets	2,011	4
Total non-operating revenues, net	**866,801**	**816,011**
Income before capital contributions	**544,991**	**554,701**
Federal capital contributions	142,616	132,237
State and local capital contributions	60,052	3,879
Total capital contributions	**202,668**	**136,116**
Change in net position	**747,659**	**690,817**
Total net position, beginning of year	**6,573,099**	**5,882,282**
Total net position, end of year	**$ 7,320,758**	**$ 6,573,099**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

(in thousands)	December 31	
	2016	**2015**
Cash flows from operating activities		
Cash receipts from fares	$ 81,584	$ 65,534
Cash receipts from other operating revenue	5,686	5,511
Payments to employees for wages and benefits	(21,725)	(18,659)
Payments to suppliers	(103,244)	(83,727)
Payments to transportation service providers	(138,809)	(127,177)
Net cash used by operating activities	**(176,508)**	**(158,518)**
Cash flows from non-capital financing activities		
Preventative maintenance grants received	26,962	12,010
Taxes received	834,485	769,194
Cash overdraft position funded	-	(3,045)
Tax collection fees paid	(3,036)	(3,136)
Net cash provided by non-capital financing activities	**858,411**	**775,023**
Cash flows from capital and related financing activities		
Capital contributions from grants	152,751	159,484
Proceeds from insurance recoveries and sale of assets	7,128	28,770
Proceeds from issuance of bonds	478,791	600,000
Proceeds (payments) for betterments and recoverable costs	1,242	(1,046)
Payments for bond principal	(30,430)	(34,985)
Payments for insurance premiums, net	(4,072)	(3,356)
Payments for interest and bond related costs	(82,821)	(65,597)
Payments to employees capitalized to projects	(67,780)	(66,017)
Payments to suppliers for capital activities	(557,529)	(648,379)
Purchase of property	(87,827)	(63,201)
Net cash used by capital and related financing activities	**(190,547)**	**(94,327)**
Cash flows from investing activities		
Investment income	14,755	9,123
Proceeds from sales or maturities of investments	433,622	292,870
Purchases of investments	(747,787)	(819,682)
Net cash used by investing activities	**(299,410)**	**(517,689)**
Net increase in cash and cash equivalents	**191,946**	**4,489**
Cash and cash equivalents		
Beginning of year	189,300	184,811
End of year	**$ 381,246**	**$ 189,300**
Cash and cash equivalents (note 3)		
Unrestricted	$ 313,993	$ 173,493
Current restricted	57,878	7,120
Non-current restricted	9,375	8,687
	$ 381,246	**$ 189,300**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS, continued

(in thousands)	December 31 2016	December 31 2015
Loss from operations	**$ (321,810)**	**$ (261,310)**
Adjustments to reconcile loss from operations to net cash used by operating activities		
Bad debt expense	87	12
Depreciation, amortization and accretion	136,748	105,100
Changes in operating assets and liabilities		
Decrease (increase) in other receivables	1,064	(4,639)
(Increase) in inventory, prepaid and deposits	(1,270)	(499)
Increase in accounts payable and accrued liabilities	5,275	1,842
Increase in unearned revenue	2,758	818
Increase in other current liabilities	640	158
Net cash used by operating activities	**$ (176,508)**	**$ (158,518)**

(in thousands)	December 31 2016	December 31 2015
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	278	(13,001)
Capital contribution from Land Bank	55,400	25
Capitalization of rotable parts	15	-
Construction in progress in current liabilities	163,523	117,423
(Decrease) in fair value of investments	(2,492)	(3,346)
Interest expense on capital leases	(4,571)	(4,511)
Interest income from investments held to pay capital leases, net	4,571	4,511
Spare parts previously capitalized	(3,124)	-
Start-up costs previously capitalized	(6,802)	-

See accompanying notes to financial statements.

1. ORGANIZATION AND REPORTING ENTITY

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

Reporting Entity—Sound Transit is a special purpose government supported primarily through sales and use, 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 (GAAP) require 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. On November 2, 2016, voters approved an increase in the sales tax of 0.5%, an additional motor vehicle excise tax of 0.8% and a property tax in the amount of $0.25 per $1,000 of assessed property value. These additional taxes will be implemented in 2017.

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

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

All costs directly and indirectly attributable to capital projects are capitalized. Construction In Progress (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 earned at the rate of 0.046 for each hour worked and is accrued at the rate of 50% up to 120 days for employees hired before January 1, 2004 or 25% 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.

Inventory— Inventory includes 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, 2016 and 2015, inventory reflects an allowance of $115 thousand and $135 thousand, respectively.

Investment Valuation— Investments are stated at fair value.

Land Held for Resale— Properties determined to be excess to Sound Transit's use, authorized by the Board for disposition and the intention is to dispose of the property within one year. Such properties are valued at the lower of purchase cost or net realizable value.

New Accounting Pronouncements — In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for reporting periods beginning after June 15, 2015. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. There was no impact to the fair value measurements presented in the Statements of Net Position or the Statements of Revenues, Expenses and Changes in Net Position as a result of implementing this statement. Sound Transit's disclosures related to fair value measurement have been updated where necessary (Note 3).

The following statements of the GASB have been evaluated and have no impact or have been implemented with no impact to Sound Transit's financial statements and disclosures:

- Statement No. 73 issued June 2015, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statements 67 and 68*, effective for reporting periods beginning after June 15, 2015, and June 2016 for entities not within the scope of Statement 68.
- Statement No. 74 issued June 2015, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for reporting periods beginning after June 15, 2016.
- Statement No. 76 issued June 2015, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for reporting periods beginning after June 15, 2015.
- Statement No. 77 issued August 2015, *Tax Abatement Disclosures*, effective for reporting periods beginning after December 15, 2015.
- Statement No. 78 issued December 2015, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for reporting periods beginning after December 15, 2015.
- Statement No. 79 issued December 2015, *Certain External Investment Pools and Pool Participants*, effective for reporting periods beginning after June 15, 2015.
- Statement No. 80 issued January 2016, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, effective for reporting periods beginning after June 15, 2016, with option of early adoption.
- Statement No. 81 issued March 2016, *Irrevocable Split-Interest Agreements*, effective for reporting periods beginning after December 15, 2016, with option of early adoption.
- Statement No. 82 issued March 2016, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for reporting periods beginning after June 15, 2016, with option of early application.

The following statements of the GASB are currently being evaluated for the effect of adopting:

- Statement No. 75 issued June 2015, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statements establish new accounting and financial reporting requirements around other postemployment benefits (OPEB), effective for years beginning after June 15, 2017.
- Statement No. 84 issued January 2017, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities and how those activities should be reported, effective for reporting periods beginning after December 15, 2018.

- Statement No. 85 issued March 2017, *Omnibus 2017*. This statement is to address issues that have been identified during implementation of certain GASB statements, effective for reporting periods beginning after June 15, 2017.

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, and managed to meet the portfolio maturity, quality, diversification and liquidity requirements set forth in GASB 79 for external investment pools who wish to measure investments at amortized costs. 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.

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

(in thousands)	December 31	
	2016	**2015**
Cash and cash equivalents - current		
Washington State Local Government Investment Pool *	$ 297,638	$ 156,861
FDIC or PDPC insured bank deposits	11,472	12,870
Cash on hand	4,883	3,762
	313,993	**173,493**
Restricted assets - current		
Cash and cash equivalent		
Health reimbursement trust	2,549	2,345
Washington State Local Government Investment Pool	55,329	4,775
	57,878	**7,120**
Investment - King County Investment Pool	578	53,323
Other	5	198
	583	**53,521**
	58,461	**60,641**
Investments - current	**1,051,907**	**692,258**
Restricted assets - non-current		
Cash and cash equivalents		
Washington State Local Government Investment Pool	1,371	683
Escrow funds	8,004	8,004
	9,375	**8,687**
Investments - Debt service and OCIP reserve	21,755	22,162
Other	107	107
	31,237	**30,956**
Investments - non-current		
Capital replacement	320,494	315,309
	320,494	**315,309**
Total cash, cash equivalents, investments and restricted assets	**$ 1,776,092**	**$ 1,272,657**

* The 12/31/2016 balance includes amounts set aside in satisfaction of Sound Transit's financial policies for an operating expense reserve and an emergency loss fund. In 2015, balances for these reserves were held in the King County Investment Pool and classified as Investments.

All surplus cash is invested in accordance with Washington State statute and an asset liability management policy approved by Sound Transit's Board. 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.

Notes to Financial Statements, continued

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.

Sound Transit holds a significant amount of investments that are measured at fair value on a recurring basis, within the following hierarchy:

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly
- Level 3 – inputs are unobservable inputs for an asset or liability

Unrestricted investments consist of the following:

(in thousands)	2016			2015		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Investments – Undesignated						
Commercial Paper	$ 75,016	$ -	$ 75,016	$ -	$ -	$ -
King County Investment Pool *	189,195	-	-	212,930	-	-
U.S. Agency Securities	272,985	-	272,985	74,867	-	74,867
U.S. Treasury Securities	514,711	514,711	-	339,554	339,554	-
	$ 1,051,907	**$ 514,711**	**$ 348,001**	**$ 627,351**	**$ 339,554**	**$ 74,867**
Investments – KCIP						
Emergency Loss Reserve	$ -	$ -	$ -	$ 11,949	$ -	$ 11,949
Operating and Contingency Reserve	-	-	-	52,958	-	52,958
	$ -	**$ -**	**$ -**	**$ 64,907**	**$ -**	**$ 64,907**
Total Investments - current	**$ 1,051,907**	**$ 514,711**	**$ 348,001**	**$ 692,258**	**$ 339,554**	**$ 139,774**
Investments – Capital Replacement						
Municipal Bonds	$ 26,437	$ -	$ 26,437	$ 38,041	$ -	$ 38,041
U.S. Agency Securities	235,020	-	235,020	230,607	-	230,607
U.S. Treasury Securities	59,037	59,037	-	46,661	46,661	-
Total Investments – non-current	**$ 320,494**	**$ 59,037**	**$ 261,457**	**$ 315,309**	**$ 46,661**	**$ 268,648**

* The KCIP is valued using net asset value and is not included in the fair value hierarchy.

Restricted investments consist of the following:

(in thousands)	2016			2015		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Restricted Assets - Current						
King County Investment Pool: *						
Debt Service Deposits	$ -	$ -	$ -	$ 52,293	$ -	$ -
Link Risk Fund	578	-	-	1,030	-	-
	$ 578	**$ -**	**$ -**	**$ 53,323**	**$ -**	**$ -**
Restricted Assets - Non-current						
Municipal bonds	**$ 19,514**	**$ -**	**$ 19,514**	**$ 19,977**	**$ -**	**$ 19,977**
OCIP Reserve						
U.S. Agency securities	**2,241**	**-**	**2,241**	**2,185**	**-**	**2,185**
	$ 21,755	**$ -**	**$ 21,755**	**$ 22,162**	**$ -**	**$ 22,162**

* The KCIP is valued using net asset value and is not included in the fair value hierarchy.

U.S Treasury securities are classified as Level 1 and are valued using prices in active markets for identical assets. Commercial paper, U.S. Agency securities, and municipal bonds are classified as Level 2 and are valued using inputs that are observable but not active using the market approach.

The KCIP is valued using net asset value. The objective of the KCIP investment policy is to invest public funds in a manner which will preserve the safety and liquidity of all investments while obtaining a reasonable rate of return. The redemption period for the KCIP is one to ten days, depending on the dollar amount redeemed.

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 0.56 and for the capital replacement fund was 2.68. Investments in the KCIP are reported using effective duration. Duration estimates the sensitivity of a bond’s price to interest rate changes. For the Debt Service Reserve funds and the Link Risk funds, interest rate risk is managed by using the specific identification method.

Modified duration

(in thousands)	2016			2015		
	Total	**Duration**	**Percent of total**	**Total**	**Duration**	**Percent of total**
Investments – Undesignated						
Commercial Paper	$ 75,016	0.25	7.1%	$ -	-	0.0%
King County Investment Pool	189,195	1.10	18.0%	212,930	0.93	33.9%
U.S. Agency Securities	272,985	1.06	26.0%	74,867	1.24	12.0%
U.S. Treasury Securities	514,711	1.01	48.9%	339,554	1.03	54.1%
	$ 1,051,907	**0.98**	**100.0%**	**$ 627,351**	**1.02**	**100.0%**
Investments – KCIP						
Emergency Loss Reserve	$ -	-	0.0%	$ 11,949	0.93	18.4%
Operating and Contingency Reserve	-	-	0.0%	52,958	0.93	81.6%
	$ -	**-**	**0.0%**	**$ 64,907**	**0.93**	**100.0%**
Total Investments - current	**$ 1,051,907**			**$ 692,258**		
Investments – Capital Replacement						
Municipal Bonds	$ 26,437	2.86	8.2%	$ 38,041	5.60	12.1%
U.S. Agency Securities	235,020	2.90	73.4%	230,607	2.50	73.1%
U.S. Treasury Securities	59,037	1.69	18.4%	46,661	2.00	14.8%
Total Investments – non-current	**$ 320,494**	**2.67**	**100.0%**	**$ 315,309**	**2.80**	**100.0%**

Specific identification

(in thousands)	December 31			
	2016	**2015**	**Maturity**	**Call Date**
Restricted Assets - Non-current				
Debt Service Reserve				
Municipal bonds:				
Florida State Public Education BAB	$ 5,371	$ 5,411	6/1/2030	6/1/2019*
Georgia State GO Unlimited	9,534	9,899	4/1/2026	4/1/2017*
Georgia State GO Unlimited BAB	4,609	4,667	11/1/2027	11/24/2009*
	$ 19,514	**$ 19,977**		
OCIP Reserve				
U.S. Agency securities:				
Federal Home Loan Mortgage Corporation	$ 885	$ 853	3/15/2023	
Federal National Mortgage Association	1,356	1,332	7/15/2022	
	$ 2,241	**$ 2,185**		

** Continuously callable from this date forward*

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 Per Investment Policy	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, 2016, all Treasury, U.S. Agency, general obligation bonds, and commercial paper securities 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.

4. TAXES AND OTHER RECEIVABLES

Taxes and other receivables consist of the following:

(in thousands)	December 31	
	2016	**2015**
Taxes receivable	$ 141,818	$ 137,574
Grants receivable	27,295	36,854
Due from other governments	17,650	19,450
Interest receivable	2,921	2,370
Accounts receivable, net	432	553
	$ 190,116	**$ 196,801**

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)	2016 Beginning balance	Additions	Disposals / reductions	Transfers	2016 Ending balance
Non-depreciable assets					
Land	$ 543,841	$ -	$ (6)	$ 87,826	$ 631,661
Permanent easements	489,443	-	-	30,691	520,134
Capital projects in progress:					
Sound Transit - tangible	3,003,841	800,074	-	(1,790,642)	2,013,273
Sound Transit - intangible	24,633	7,671	-	(2,702)	29,602
Other governments - tangible	82,291	84,575	400	-	167,266
Total non-depreciable assets	**4,144,049**	**892,320**	**394**	**(1,674,827)**	**3,361,936**
Depreciable assets					
Access rights	569,094	-	-	-	569,094
Buildings and leasehold improvements	28,940	-	(252)	449	29,137
Furniture, equipment and vehicles	14,128	-	(151)	1,092	15,069
Revenue vehicles	665,537	-	(9,604)	16,967	672,900
Software	18,461	-	-	2,533	20,994
Transit facilities, rail and heavy equipment	2,689,793	-	(10)	1,639,316	4,329,099
Total depreciable assets	**3,985,953**	**-**	**(10,017)**	**1,660,357**	**5,636,293**
Accumulated depreciation					
Access rights	(188,369)	(12,901)	-	-	(201,270)
Buildings and leasehold improvements	(15,736)	(1,201)	252	-	(16,685)
Furniture, equipment and vehicles	(9,983)	(1,636)	151	-	(11,468)
Revenue vehicles	(212,240)	(31,606)	9,203	-	(234,643)
Software	(15,586)	(2,695)	-	-	(18,281)
Transit facilities, rail and heavy equipment	(428,960)	(86,183)	4	-	(515,139)
Total accumulated depreciation	**(870,874)**	**(136,222)**	**9,610**	**-**	**(997,486)**
Total depreciable assets, net	**3,115,079**	**(136,222)**	**(407)**	**1,660,357**	**4,638,807**
Total capital assets, net	**$7,259,128**	**$756,098**	**$ (13)**	**$ (14,470)**	**$8,000,743**

(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**

During 2016, Sound Transit capitalized $82.5 million of interest costs ($71.2 million in 2015), representing interest costs 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, 2016 and 2015 are $61.9 million and $61.1 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, 2016 was rated "A-" by Standard & Poor's and "Baa1" by Moody's Investment Service. As of December 31, 2016 and 2015, the defeasance accounts were unrated.

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 and temporary waiver of delivery of required items letter 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 the fourth amendment to the waiver agreement fourth temporary waiver of delivery of required items letter with the transaction participants, Sound Transit may request successive six-month extensions of the waiver agreements until September 30, 2018, 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 $14.6 million.

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

(in thousands)	2016	2015
Net sublease, January 1	$ 61,063	$ 60,270
Accrued interest	4,571	4,511
Less payment	(3,718)	(3,718)
Net sublease, December 31	**$ 61,916**	**$ 61,063**

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 2017 and 2036, with some leases containing options to renew. Minimum lease payments through 2036 are as follows (in thousands):

Year ending December 31	
2017	$ 13,135
2018	14,469
2019	12,738
2020	1,770
2021	749
2022-2026	1,047
2027-2031	495
2032-2036	312
	$ 44,715

Total rental expenses for 2016, which include non-cancelable leases as well as other month-to-month rentals, were $13.5 million, of which $1.5 million was capitalized for capital projects in progress. 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.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2016	2015
Accounts payable	$ 17,914	$ 6,985
Accrued liabilities	101,421	99,215
Accrued salaries, wages and benefits	9,178	8,969
Due to other governments	84,917	51,758
Retainage payable	496	1,224
	$ 213,926	**$ 168,151**

8. LONG-TERM DEBT

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

(in thousands)	2016 Beginning balance	Additions	Reductions	2016 Ending balance	Amounts due within one year
Bonds payable					
Series 1999	$ 297,270	$ -	$ (6,860)	$ 290,410	$ 7,220
Series 2009P-1	17,620	-	(17,620)	-	-
Series 2009P-2T	76,845	-	-	76,845	-
Series 2009S-2T	300,000	-	-	300,000	-
Series 2012P-1	178,440	-	(345)	178,095	20,140
Series 2012S-1	97,545	-	(5,605)	91,940	5,875
Series 2015S-1	792,840	-	-	792,840	-
Series 2015S-2A	75,000	-	-	75,000	-
Series 2015S-2B	75,000	-	-	75,000	-
Series 2016S-1	-	400,000	-	400,000	-
	1,910,560	**400,000**	**(30,430)**	**2,280,130**	**33,235**
Plus unamortized premium	129,652	78,791	(10,342)	198,101	-
Less unamortized discount	(4,036)	-	380	(3,656)	-
Total long-term debt	**$ 2,036,176**	**$ 478,791**	**$ (40,392)**	**$ 2,474,575**	**$ 33,235**

(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 long-term debt	**$ 1,454,451**	**$ 1,034,909**	**$ (453,184)**	**$ 2,036,176**	**$ 30,430**

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 three categories of debt: Prior Bonds, Parity Bonds and Second Tier Junior Obligations (the "TIFIA 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 and have claim upon the Sales and Use, Rental Car and Motor Vehicle tax. TIFIA Bonds are subordinate to both Prior Bonds and Parity Bonds and have a claim on the Sales and Use, Rental Car and Motor Vehicle tax, the TIFIA Bonds debt has not been incurred but is deemed incurred when calculating the debt capacity.

In December 2016, Sound Transit issued additional Parity Bonds of $400 million of Series 2016S-1 Sales Tax and Motor Vehicle Excise Tax Bonds. Net proceeds were $478.8 million. Issuance costs were $1.8 million with $477.0 million used to reimburse prior project expenditures deeming all net proceeds spent as of closing. Prior to this year, the last bond issue was in 2015 which advance refunded the 2007A Parity Bonds and reimbursed prior project expenditures.

Sound Transit designated the 2016 Parity Bonds as Green Bonds based on the planned use of the proceeds to finance projects that adhere to Sound Transit's Sustainability Plan. The Series 2016S-1 parity bonds bear an average fixed interest rate of 5.0%, with interest payments on each May 1 and November 1, commencing May 2017. The Series 2016S-1 parity bonds mature between November 1, 2021 and 2046. With the issuance of the Series 2016 Parity Bonds, S&P affirmed the Prior Bonds' AAA rating and removed the negative outlook from the Parity Bonds AAA rating and Moody's upgraded Sound Transit's Prior Bonds to Aaa from Aa1 and the Parity Bonds to Aa1 from Aa2.

The variable rate 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.

On December 22, 2016, Sound Transit entered into a TIFIA Master Credit Agreement with a contingent commitment for $1,990.3 million for TIFIA loans for the Northgate Link Extension, Lynnwood Link Extension, Federal Way Extension, and the Operations and Maintenance Facility East. This loan has not been drawn on.

On December 22, 2016, Sound Transit entered into the first TIFIA Loan Agreement under the TIFIA Master Credit Agreement for up to $615.3 million with a fixed rate of 3.13% to fund up to 33% of the project costs for the Northgate 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. With the closing of the Master Credit Agreement and the Northgate TIFIA Loan, S&P upgraded Sound Transit's TIFIA loans to A+ from A- and Fitch upgraded the TIFIA loans to AA+ from A+.

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.

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.

(in millions)	Issue date	Average rate: Coupon	Average rate: Effective	Ratings: Moody's	Ratings: S&P	Principal Payment begins	Fair value* 2016	Fair value* 2015	Principal and interest restricted 2016	Principal and interest restricted 2015
Series 1999	Dec 1, 1998	4.88	5.03	Aaa	AAA	Feb 1, 2006	$312.4	$317.2	$13.1	$ 12.9
Series 2009P-1	Sep 29, 2009	4.31	2.52	Aaa	AAA	Feb 1, 2015	-	17.7	-	17.9
Series 2009P-2T	Sep 29, 2009	5.01	3.31**	Aaa	AAA	Feb 1, 2020	84.9	86.1	1.6	1.6
Series 2012P-1	Aug 22, 2012	4.97	2.62	Aaa	AAA	Feb 1, 2013	197.1	205.8	23.8	4.1

* 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.

(in millions)	Issue date	Average Rate: Coupon	Average Rate: Effective	Ratings: Moody's	Ratings: S&P	Principal Payment begins	Fair value* 2016	Fair value* 2015	Principal and interest restricted 2016	Principal and interest restricted 2015
Series 2009S-2T	Sep 29, 2009	5.49	3.62**	Aa1	AAA	Nov 1, 2029	$372.9	$366.0	$2.7	$ 2.7
Series 2012S-1	Aug 22, 2012	4.91	2.73	Aa1	AAA	Nov 1, 2016	104.4	114.0	6.5	6.4
Series 2015S-1	Sep 10, 2015	4.67	3.89	Aa1	AAA	Nov 1, 2018	833.1	913.6	6.2	6.2
Series 2015S-2A	Sep 10, 2015	Var	Var	Aa1	AAA	Nov 1, 2041	75.0	75.0	0.1	0.1
Series 2015S-2B	Sep 10, 2015	Var	Var	Aa1	AAA	Nov 1, 2041	75.0	75.0	0.1	0.1
Series 2016S-1	Dec 19, 2016	5.00	3.60	Aa1	AAA	Nov 1, 2021	478.9	-	0.7	-

* 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, 2015S-2B and 2016S-1 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, 2016, the market value of the Prior debt service reserve exceeded the required reserve amount by $1.5 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
2017	$ 33,235	$ 107,386	$ 140,621
2018	35,560	108,340	143,900
2019	39,520	106,408	145,928
2020	42,915	104,322	147,237
2021	54,300	102,058	156,358
2022-2026	369,125	463,130	832,255
2027-2031	365,350	368,437	733,787
2032-2036	433,665	282,338	716,003
2037-2041	433,510	164,888	598,398
2042-2046	340,200	75,476	415,676
2047-2051	132,750	15,501	148,251
	$ 2,280,130	**$ 1,898,284**	**$ 4,178,414**

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%
October 1, 2016 through September 30, 2017	6.9%

The subsidy received in 2016 and 2015 was reduced by $486 thousand and $505 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)	2016 Beginning balance	Additions, accretion and changes in estimates	Reductions	2016 Ending balance	Amounts due within one year
Asset retirement obligations					
Sounder station platforms	$ 1,340	$ 67	$ -	$ 1,407	$ -
Tacoma link surface rail	1,943	97	-	2,040	-
Total asset retirement obligations	**3,283**	**164**	**-**	**3,447**	**-**
Uninsured losses					
OCIP	199	377	(94)	482	206
Transit operations	492	861	(33)	1,320	308
Total uninsured losses	**691**	**1,238**	**(127)**	**1,802**	**514**
Compensated absences	**7,389**	**6,862**	**(6,151)**	**8,100**	**7,373**
Deferred compensation	**193**	**-**	**(193)**	**-**	**-**
Total other long-term obligations	**$ 11,556**	**$ 8,264**	**$ (6,471)**	**$ 13,349**	**$ 7,887**

(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**

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. Worker's compensation is insured through the state.

Major coverages under these programs are as follows:

Program	**Major Coverage**	**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 / $50K $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 $40M / $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 professional 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.

10. RESTRICTED NET POSITION

Restricted net position consists of the following:

(in thousands)	2016	2015
Debt service	$ 52,655	$ 49,850
Contractual arrangements	13,375	18,339
Deductible liability protection policy	5	5
	$ 66,035	**$ 68,194**

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 2016 and 2015 was $67.2 million and $64.1 million, respectively, and total payroll was $67.3 million and $64.5 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2016, 2015, and 2014 are as follows:

	Contribution rate			Contributions *(in thousands)*		
	2016	**2015**	**2014**	**2016**	**2015**	**2014**
Employer	12%	12%	12%	$ 8,066	$ 7,697	$ 6,740
Employee	10	10	10	6,722	6,415	5,616
Total	**22%**	**22%**	**22%**	**$ 14,788**	**$ 14,112**	**$ 12,356**

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 set 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 between Angle Lake and UW stations in 2016 and SeaTac Airport and Westlake stations in 2015. 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***—Sound Transit entered into an umbrella agreement with WSDOT in November 2011 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 agreed to fund Stages 2 and 3 of the I-90 Two Way Transit and HOV projects in exchange for landbank credit which could be used 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. Stage 2 of this work was completed in March of 2012 for a total commitment of $20.2 million. In June of 2014 and February 2017, task orders under construction and professional services umbrella agreements with WSDOT were executed for Stage 3, for an estimated total commitment of $190.9 million. At December 31, 2016, $149.4 million has been incurred with a remaining commitment for Stage 3 of $41.5 million.

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— In 2016 Sound Transit entered into an amended agreement with Amtrak, under which 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 2021.

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, 2016, the value of the unused land bank credits that have not been conveyed by WSDOT to Sound Transit was $341.4 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 2016 and 2015.

(in millions)	2016	2015
Balance in Land Bank, beginning of year	$ 294.8	$ 232.2
Credits (Debits):		
85th Corridor Kirkland	0.8	1.5
East Link 520 TCAL	(55.4)	-
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	101.2	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	**$ 341.4**	**$ 294.8**

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 2016 and 2015 is 20.6% and 19.7%, respectively.

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

(in thousands)	December 31 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents	$ 11,918	$ 8,438
Accounts receivable	10,007	7,660
Total assets	**21,925**	**16,098**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	13,013	9,945
Unearned revenue	8,912	6,153
Total liabilities	**21,925**	**16,098**
Net position	**$ -**	**$ -**
Total operating revenues	**$ 66,047**	**$ 53,408**
Total expenses	**$ 1,603**	**$ 1,516**

Purchases— At December 31, 2016 and 2015, Sound Transit had outstanding construction commitments of approximately $2.0 billion and $0.7 billion, respectively.

Grants— Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016 and 2015 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.