



Financial Report
of the
Operations of the System of Eligible Toll Facilities
Fiscal Year 2014

November 26, 2014

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Introduction

This Financial Report on the Results of the Operations of the Washington State System of Eligible Toll Facilities for Fiscal Year 2014 has been produced in accordance with the State Finance Committee Master Bond Resolution No. 1117 that provides for the issuance of bonds to pay and reimburse state expenditures for eligible toll facilities. Under the Toll Facilities Act (Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011) the Washington State Legislature designated the SR 520 Corridor as an eligible toll facility and authorized the imposition of tolls for travel on only the floating bridge portion of the SR 520 Corridor.

In Master Bond Resolution No. 1117 the State covenants that as soon as practicable, but in no event more than one hundred fifty (150) days after the last day of each fiscal year, beginning with the fiscal year ending June 30, 2012, it will prepare or cause to be prepared a financial report of the results of operations of the System for that fiscal year in accordance with accounting principles promulgated by the Governmental Accounting Standards Board, containing independently audited financial statements and the independent auditor's report on the financial statements for the end of that fiscal year.

Master Bond Resolution No. 1117 also includes:

Rate Covenants requiring the Tolling Authority to establish, and WSDOT to charge and collect, tolls for the privilege of traveling on the system of eligible toll facilities at rates sufficient to meet the operating and maintenance expenses and to satisfy coverage requirements on debt service in each fiscal year in which bonds are outstanding.

Sum Sufficient Covenant requiring that tolls be collected to provide funds for all required expenditures in every fiscal year in which any Bonds are outstanding.

Accordingly, this report includes:

- Audited Financial Statements
- Net Toll Revenues and Covenant Ratios
- Summary of Actual and Projected Gross and Net Toll Revenues
- Debt Service on Outstanding Bonds of the System

Definitional and reporting differences between the audited financial statements and those prepared in accordance with Master Bond Resolution No. 1117 are noted.

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Assistant Secretary/CFO, Financial Administration
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Exhibit I

Audited Financial Statements

**WASHINGTON STATE SYSTEM OF
ELIGIBLE TOLL FACILITIES
Olympia, Washington**

**FINANCIAL STATEMENTS
June 30, 2014**



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INTRODUCTORY SECTION

Letter of Transmittal

October 24, 2014

Lynn Peterson, Secretary
Washington State Department of Transportation
Olympia, WA 98504

The Accounting and Financial Services Division is pleased to present to you the financial statements for the Washington State System of Eligible Toll Facilities ("System") for the fiscal year ended June 30, 2014.

Responsibility for the accuracy, completeness and reliability of the information contained in this report, including all disclosures, rests with the management of the Washington State Department of Transportation (WSDOT). To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a fair representation of the financial position of the System.

CliftonLarsonAllen LLP, Certified Public Accounts, has issued an unqualified opinion on the System's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is located at the front of the Financial Section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the financial statements and the notes to the financial statements.

System Description and History

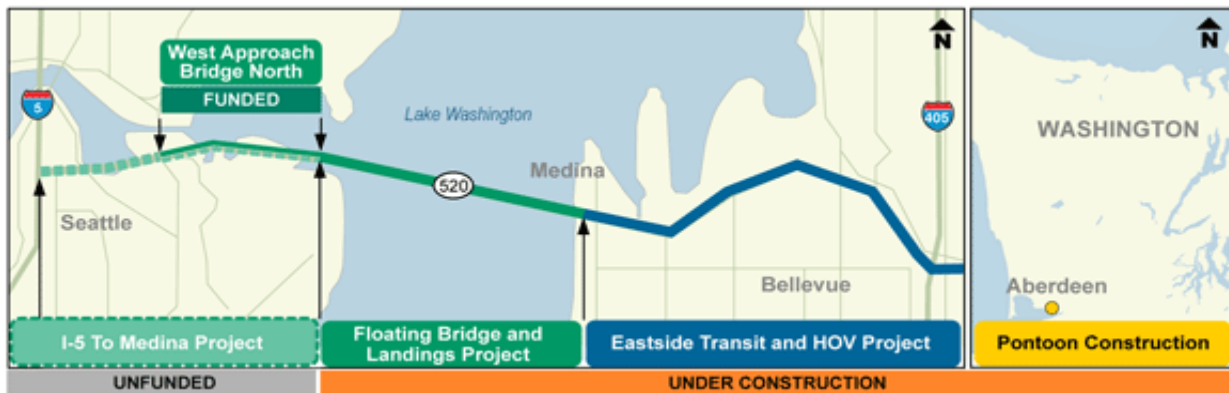
As of June 30, 2014, the System included in this report is that portion of the SR 520 Corridor Program financed by bonds issued under State Finance Committee Master Resolution Numbers 1117 and 1125, as represented in the State Route Number 520 Corridor Account and the Toll Facility Bond Retirement Account. The entire SR 520 Corridor Program authorized by the Legislature also includes funding from the Transportation Partnership Account, Transportation 2003 Account (Nickel Account) and Motor Vehicle Account.

The SR 520 floating bridge provides a major east-west link across Lake Washington. It is 12.8 miles from I-5 in Seattle to the west and crossing Lake Washington to SR 202 in Redmond. Built in the 1960s, the bridge currently is vulnerable to failure in severe windstorms and earthquakes. The SR 520 Floating Bridge and the Eastside plus West Approach Bridge Project (a portion of the SR 520 Corridor Program) is underway and includes construction of a pontoon facility and pontoons for the new floating bridge, completion and reconfiguration of the HOV lane system on SR 520 to the east of Lake Washington, and construction of a new floating bridge to replace the Evergreen Point floating bridge that includes the construction of the permanent north half of the west approach bridge.

The Legislature has authorized funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project and preliminary design and selected right-of-way acquisition for the Westside Project.

The State issued \$518.8 million in Triple Pledge Bonds in October 2011, \$500.4 million in GARVEE bonds in June 2012, a \$300 million TIFIA Bond in October 2012 and \$285.915 million in GARVEE bonds in September 2013, and expects to fund the remaining costs with additional bond proceeds, federal funds, toll revenue and excise taxes on motor vehicle and special fuels. It is expected that the total net proceeds of the various bond issues for the project will be approximately \$1.9 billion.

WSDOT began pre-construction tolling of the existing SR 520 Bridge across Lake Washington on December 29, 2011. All electronic tolling and time of day variable tolling is used to manage congestion on the corridor.



The SR 520 Corridor improvements authorized by the State Legislature represent \$2.89 billion of investments. The improvements include:

- Building a new floating bridge, the east approach and a portion of the west approach that provides six lanes from Medina to Montlake;
- Widening the corridor to six lanes (two general-purpose and one HOV lane in each direction) between the west landing of the new floating bridge and I-405 in the east;
- Adding a pedestrian/bike lane in the widened corridor; and
- Making a series of other investments for safety, reliability, and transit and HOV operations.

This \$2.89 billion package of investments is referred to as the “SR 520 Floating Bridge and Eastside plus West Approach Bridge Project.” The project represents the funded portion of the larger SR 520 Corridor Program that will ultimately widen and/or improve the entire SR 520 corridor between I-5 and SR 202. It has been identified by the Legislature in the Toll Facilities Act for \$4.65 billion, but is currently estimated to cost \$4.3 billion.

For more information about the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project or the SR 520 Corridor Program, the reader is referred to the SR 520 Bridge Replacement and HOV Program website at: <http://www.wsdot.wa.gov/Projects/SR520Bridge/>.

Economic Factors That Will Affect the Future

WSDOT and The Electronic Transaction Consultants Corporation (ETCC) entered into a Settlement Agreement to settle certain claims associated with a delay in the start of establishing and operating a Statewide Tolling System for Washington State, and the commencement of tolling of State Route 520. These claims impacted multiple WSDOT toll facilities, including the SR 520 Bridge. The agreement modifies the original December 22, 2009 contract between the two parties along with its subsequent changes orders. The Settlement Agreement was executed June 30, 2012. The total settlement value attributable for all toll facilities was:

- \$2.4 million in operational payment reductions (\$400,000 per year x 6 years)
- \$4.0 million royalty free, non-exclusive, perpetual, irrevocable and non-transferable license to use the ETCC RITE system source code and related software and background documents necessary to operate the WSDOT Statewide Tolling Customer Service Center. The value of this intellectual property was established by an independent consultant.

As total amounts included in the settlement related to various claims, the above amounts are attributable to the entire tolling program. Provided below are the amounts of the total settlement that are attributable to the System:

- \$849,039 – operational payment reductions
- \$2,548,000 – RITE System License

Pontoon Repairs and Floating Bridge Construction: Issues with spalling and end-wall cracking found in the first cycle of pontoons have resulted in a number of change orders that are the responsibility of WSDOT. On January 8, 2014, WSDOT announced that change orders resulting from a WSDOT design error have consumed much of the project's risk reserve and contingency. In March 2014, WSDOT executed a \$77.5 million change order with its floating bridge contractor to address time-related impacts of WSDOT-caused delay from late delivery of pontoons. As of April 2014, executed changes resulting from this error totaled nearly \$208 million. Based on this issue, the execution of other project changes, and the need for an ongoing risk reserve, WSDOT determined that approximately \$170 million in additional project funding is required. In April 2014, the Legislature authorized the additional funding for the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project using existing State resources and previously authorized bonds.

Eastside Transit and HOV Potential Scope and Schedule Impacts: WSDOT continues to work with its design-builder to resolve a geo-technical dispute. Recently WSDOT and the contractor have agreed to the terms of the settlement and are working to finalize a change order in Fiscal Year 2015 to address both time and money.

Eastside Right of Way Litigation: Fisher, et al v. WSDOT: The Fisher lawsuit is a consolidation of inverse condemnation actions by six property owners, based upon the taking of non-possessory restrictive covenants. Trial was held on two of the six properties in June 2012. In September 2012, WSDOT and all six property owners executed a settlement agreement under which WSDOT has dismissed its appeal and paid judgments in the amount of \$2,130,281 (plus some post-judgment interest) in November 2012. Claims regarding liability for future dredging fees were dismissed without prejudice and may be re-asserted at a later date. The amount of potential liability for dredging costs is indeterminate at this time. We have reached settlement with 10 of the remaining 12 owners for a total cost of \$1,611,300. Settlement with two remaining owners and the issue of future dredging costs is still pending.

Tolling Subsidiary Accounting System: Repeat independent audits have determined that the tolling subsidiary accounting system for WSDOT, which is managed by a contracted service organization, contains weaknesses in internal controls. The results of the independent audits provide concern to WSDOT, and the toll division is working with our service organization to remediate the deficiencies. WSDOT is committed to the highest standard of transactional and financial accountability for the citizens of Washington State.

ETCC Critical Accounting Reports and Backlogged Reconciliations: During the fiscal year and shortly thereafter, ETCC successfully remediated most of the critical accounting report defects and resubmitted all reconciliations since the inception of electronic tolling in December 2011 through the most recent fiscal year. WSDOT is reviewing the reconciliation support and is working collaboratively with ETCC to bring the reconciliations current, ensure all defects are remediated, and achieve system acceptance.

Accounting System and Internal Control

This report has been prepared to conform to the principles of accounting and reporting established by the Government Accounting Standards Board (GASB). The financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Specific accounting treatments are detailed in the Notes to the Financial Statements.

WSDOT’s management is responsible for establishing and maintaining an effective internal control structure designed to ensure the assets of the System are protected from loss, theft or misuse. WSDOT’s management is also responsible for ensuring that the financial statements are prepared in conformity with generally accepted accounting principles (GAAP). WSDOT’s internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the expected benefits, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Acknowledgments

This report was made possible through a partnership between the employees of WSDOT’s Toll Division and WSDOT’s Accounting and Financial Services. I appreciate the assistance of all employees involved.

This report is intended to provide complete and reliable information that can be used to make management decisions and demonstrate responsible stewardship of the assets of the System.

Respectfully submitted,



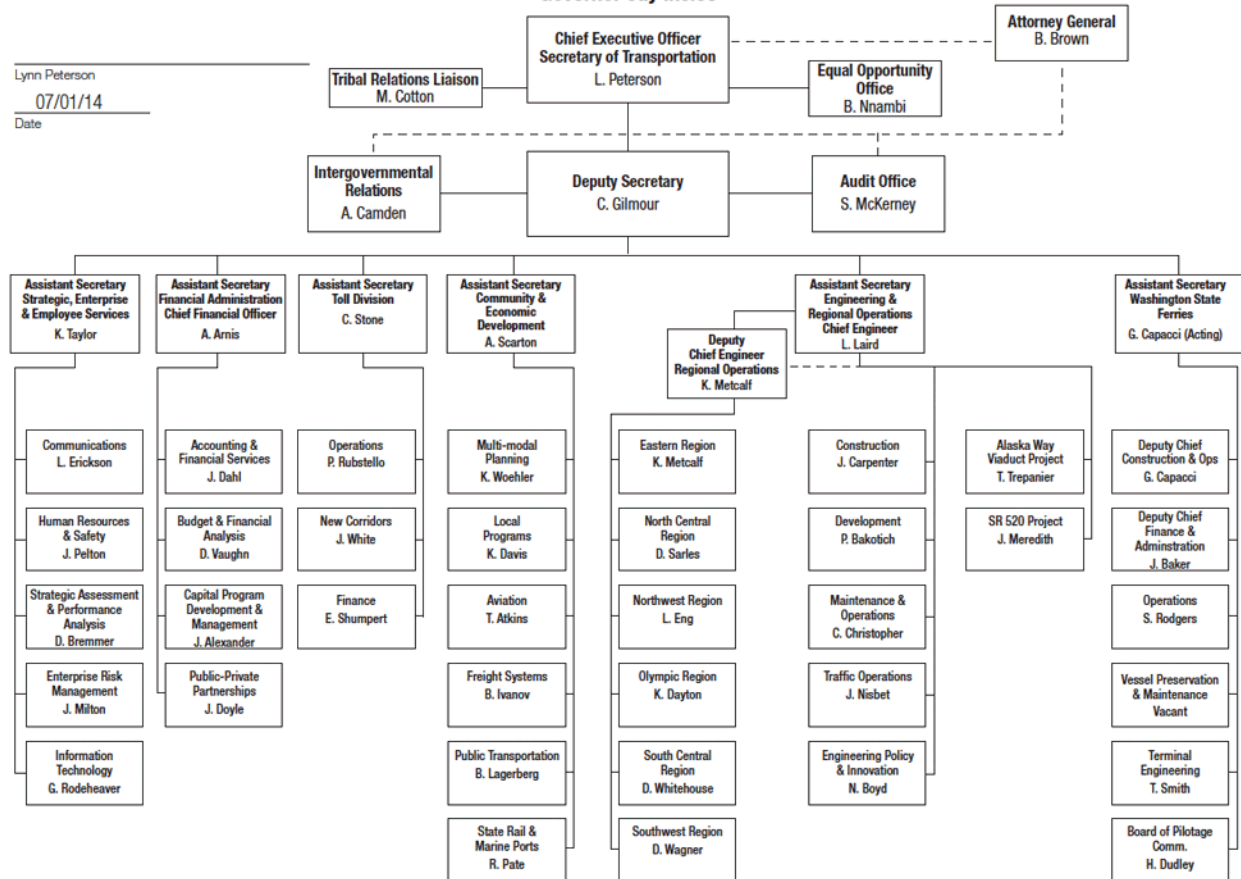
Jennifer Dahl
Director, Accounting and Financial Services

Washington State Department of Transportation's Organization



Citizens of the State of Washington
Governor Jay Inslee

Lynn Peterson
07/01/14
Date



Toll System Roles and Responsibilities

The Washington State Department of Transportation (WSDOT) is responsible for operating toll facilities in Washington State. WSDOT is committed to financial transparency and accountability in fulfilling our tolling fiduciary responsibilities. Several organizations are involved in the operation and oversight of the System.

Organization	Responsibility	Contact Information
CliftonLarsonAllen (CLA)	Conducted the independent audit of the System's annual financial statements.	3000 Northup Way, Suite 200 Bellevue, WA 98004-1446 www.CLAconnect.com
Electronic Transaction Consultants Corporation (ETCC)	Provides the statewide <i>Good to Go!</i> Customer Service Center (CSC) that supports customer service account management, payment processing, and customer service.	1705 N. Plano Road Richardson, TX 75081 www.etcc.com
Montgomery Coscia Greilich LLP	Issued the 2014 Service Organization Controls (SOC 1) Report on ETCC's controls relevant to WSDOT's internal controls over financial reporting. This report is issued in accordance with Statement on Standards for Attestation Engagements (SSAE) 16.	2500 Dallas Parkway, Suite 300 Plano, TX 75093 www.mcgggroup.com
State Auditor's Office	Conducts the Comprehensive Annual Financial Report (CAFR) audit and the Statewide Single Audit (SWSA) for the State of Washington.	302 Sid Snyder Avenue SW Olympia, WA 98504-0021 www.sao.wa.gov
WSDOT Accounting and Financial Services	Provides financial services and consultation to the statewide toll collection system.	PO Box 47420 Olympia, WA 98504-7420 www.wsdot.wa.gov
WSDOT Financial Planning	Provides financial planning and debt management services.	PO Box 47422 Olympia, WA 98504-7422 www.wsdot.wa.gov
WSDOT Audit Office	Provides audit and consulting services to the statewide toll collection system.	PO Box 47320 Olympia, WA 98504-7320 www.wsdot.wa.gov
WSDOT Toll Division	Develops, delivers and oversees the statewide toll collection system.	401 2 nd Avenue S #300 Seattle, WA 98104 www.wsdot.wa.gov
Washington State Transportation Commission	Determines and establishes toll rates for all state toll facilities as the designated State Tolling Authority.	PO Box 47308 Olympia, WA 98504-7308 www.wstc.wa.gov

FINANCIAL SECTION



CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Washington State System of Eligible Toll Facilities
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity'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 accounting principles generally accepted in the United States of America; 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 opinions on these financial statements based on our audit. 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Washington State System of Eligible Toll Facilities and do not purport to, and do not, present fairly the financial position of the Department of Transportation of the state of Washington or the state of Washington as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Washington State System of Eligible Toll Facilities' financial statements. The transmittal letter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Bellevue, Washington
October 24, 2014

Management's Discussion and Analysis

This discussion and analysis provides an overview of financial activities of the Washington State System of Eligible Toll Facilities or "System" for the fiscal year ended June 30, 2014. Please read it in conjunction with the Letter of Transmittal beginning on page 3 and the financial statements which begin on page 17. As required by Governmental Accounting Standards Board Statement No. 34, two years of information will be presented in the management's discussion and analysis.

The financial statements of the System are intended to present information of only that portion of the government-type activities of the state of Washington attributable to the transactions of the System. For financial reporting purposes, the System is a part of the primary government of the state of Washington and is also included in the state's Comprehensive Annual Financial Report (CAFR).

Financial Highlights

The data presented here represents comparisons of tolling on the State Route 520 Bridge for Fiscal Years 2013 and 2014.

Revenues

- Government-wide revenues were \$77,871,093 for Fiscal Year 2013 and \$93,877,467 for Fiscal Year 2014, representing an increase of \$16,006,374.
- Total governmental fund revenues for the SR 520 Corridor Account were \$76,983,799 for Fiscal Year 2013 and \$93,949,760 for Fiscal Year 2014. This included toll revenues in the amount of \$55,441,644 for Fiscal Year 2013 and \$60,495,517 for Fiscal Year 2014.

Expenditures

- Government-wide expenditures were \$9,223,686 for Fiscal Year 2013 and \$53,192,351 for Fiscal Year 2014. A significant portion of this increase is due to interest costs expensed during the fiscal year.
- Total expenditures for the SR 520 Corridor Account were \$414,058,020 for Fiscal Year 2013 and \$354,038,489 for Fiscal Year 2014. This included Capital Outlays of \$403,135,656 for Fiscal Year 2013 and \$341,576,828 for Fiscal Year 2014. The decrease of \$60,019,531 in total expenditures in the State Route 520 Corridor Account during Fiscal Year 2014 is predominantly due to a reduction in Capital Outlay expenditures costs as compared to the prior year.

Construction-In-Progress

- Total cost for Construction-In-Progress in the SR 520 Corridor Account was \$466,666,411 for Fiscal Year 2013 and \$373,610,074 for Fiscal Year 2014. This increased Construction-In-Progress during Fiscal Year 2014 to an ending balance of \$1,471,142,575.

Net Position

- The System reported a total net position of \$86,184,922 for Fiscal Year 2013 and \$126,870,038 for Fiscal Year 2014. The System's governmental funds reported a combined ending fund balance of \$185,478,516 for Fiscal Year 2013 and \$202,443,643 for Fiscal Year 2014.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the System's financial statements, which include the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The System represents a single governmental program, so the financial statements are presented in a combined format that represents both the major individual funds and the System as a whole (government-wide).

- **Balance Sheet / Statement of Net Position** - The first three columns of the combining statement present the Balance Sheet, while the last column presents the Statement of Net Position. The fourth column provides information which reconciles the noted differences. This combined statement can be found on page 17 of this report.
- **Statement of Revenues, Expenditures and Changes in Fund Balances / Statement of Activities** - The first three columns of the combining statement presents the Revenues, Expenditures and Changes in Fund Balance, while the last column presents the Statement of Activities. The fourth column provides information which reconciles the noted differences. This combined statement can be found on page 18 of this report.

Government Fund Financial Statements – The *Balance Sheet* and *Statement of Revenues, Expenditures and Changes in Fund Balance* are designed to provide readers with information on the System's near-term inflows and outflows of spendable resources, as well as fund balances at the end of the fiscal year. This information may be useful in evaluating a government's near-term financing requirements.

Both the State Route 520 Corridor Account and the Toll Facility Bond Retirement Account are categorized as Governmental Funds and use the modified accrual basis of accounting.

Government-Wide Financial Statements – The *Statement of Net Position* and *Statement of Activities* are designed to provide readers with a broad overview of the System's finances, using full accrual accounting in a manner similar to a private sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

Notes to the Financial Statements

The notes to the financial statements, presented on pages 19 through 38 of this report, are an integral part of the financial statements. They provide additional information that is essential to a full understanding of the data provided in the combined government fund and government-wide financial statements.

Financial Analysis

The data presented in the tables below is a comparison of the first full year of tolling operations (Fiscal Year 2013) to the second full year of tolling operations (Fiscal Year 2014).

The condensed table below summarizes the System's Statement of Net Position:

Condensed Statement of Net Position	Fiscal Year 2013	Fiscal Year 2014	% Change
Current and Other Assets	\$ 273,249,850	\$ 286,784,129	5.0%
Capital Assets, Net	\$ 1,127,493,736	\$ 1,506,021,897	33.6%
Total Assets	<u>\$ 1,400,743,586</u>	<u>\$ 1,792,806,026</u>	28.0%
Current and Other Liabilities	\$ 96,540,748	\$ 97,971,524	1.5%
Noncurrent Liabilities	\$ 1,218,017,915	\$ 1,567,964,463	28.7%
Total Liabilities	<u>\$ 1,314,558,663</u>	<u>\$ 1,665,935,987</u>	26.7%
Net Investment in Capital Assets	\$ 57,434,599	\$ 99,307,357	72.9%
Restricted Net Assets	\$ 28,750,323	\$ 27,562,681	-4.1%
Total Net Position	<u>\$ 86,184,922</u>	<u>\$ 126,870,038</u>	47.2%

Net position is one way to measure the financial health of an organization, and may serve, over time, as a useful indicator of financial position. As we complete the second full year of tolling on the System, the Statement of Net Position displays a total net position of \$126,870,038 as of June 30, 2014. Net position increased by \$40,685,116 in 2014 as compared to 2013.

The condensed table below summarizes the System's Statement of Activities:

Condensed Statement of Activities	Fiscal Year 2013	Fiscal Year 2014	% Change
Revenue:			
Tolling Revenue	\$ 55,441,664	\$ 60,495,517	9.1%
Other Revenue	<u>22,429,429</u>	<u>33,381,950</u>	48.8%
Total Revenue	<u>\$ 77,871,093</u>	<u>\$ 93,877,467</u>	20.6%
Expenses:			
Personnel Service Contracts	\$ 713,463	\$ 886,457	24.2%
Goods and Services	7,537,542	10,158,907	34.8%
Other Expenditures	<u>972,681</u>	<u>42,146,987</u>	4233.1%
Total Expenses	<u>\$ 9,223,686</u>	<u>\$ 53,192,351</u>	476.7%
Other Financing Sources/Uses	\$ (58,000)	\$ -	-100.0%
Change in Net Position	\$ 68,589,407	\$ 40,685,116	-40.7%
Net Position, Beginning of the Year	<u>17,595,515</u>	<u>86,184,922</u>	389.8%
Net Position, End of the Year	<u>\$ 86,184,922</u>	<u>\$ 126,870,038</u>	47.2%

Total toll revenue, as shown on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities, for Fiscal Year 2014 is \$60,495,517. This represents an increase of \$5,053,853 over Fiscal Year 2013 in which \$55,441,664 was recognized as toll revenue. The large increase in the other expenditures category during Fiscal Year 2014 was due to interest associated with debt service. Total assets, as shown on the Governmental Funds Balance Sheet / Statement of Net Position, exceeded liabilities by \$126,870,038 at June 30, 2014, as reflected in Total Net Position.

The fund balance of the System is restricted to any proper purpose of the System in accordance with Master Resolution 1117 (referred to as “sub-accounts” within the Bond Covenants), and was established as a result of the issuance of bonds for the System. Restrictions for Fiscal Year 2014 are as follows:

- Restricted for Unspent GARVEE Bond Proceeds - \$161,208,906
- Restricted for Operating & Maintenance Reserve - \$7,253,547
- Restricted for Repair & Replacement Reserve - \$3,750,000
- Restricted for Transportation - \$28,033,155
- Restricted for Third Tier Debt Service - \$2,198,035

Capital Assets

Capital Assets of the System are comprised of Land, Equipment, Construction-in-Progress, and a Software-Intangible Asset. The total Construction-in-Progress balance of \$1,471,142,575 is related to activities of the 520 Corridor Program, which is considered an infrastructure asset.

The ETCC Electronic Tolling System includes an IT software intangible asset that is owned by WSDOT tolling facilities. The capitalized portion of ETCCs Electronic Tolling System that was purchased and developed by the SR 520 Corridor Account is included, net of amortization, in the asset balance on the Statement of Net Position.

Long-Term Debt – Bond Information

Under Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 498, Laws of 2009, Section 15; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011 (codified in RCW 47.56.805-.876) (the “Toll Facilities Act”), the Legislature has designated the SR 520 Corridor as an “Eligible Toll Facility” and has authorized the imposition of tolls on the floating bridge portion of the SR 520 Corridor. The Toll Facilities Act provides that “toll revenue” includes all toll receipts, interest income derived from the investment of toll receipts, and any gifts, grants, and other funds received for the benefit of transportation facilities in the state, including eligible toll facilities. The Bond Act provides, for the purposes of any pledge of toll revenue to the payment of particular bonds issued under the Bond Act, that “toll revenue” means and includes only such toll revenue or portion thereof that is pledged to the payment of those bonds in the resolution authorizing the issuance of those bonds.

The Bond Act authorized the State Finance Committee to issue, at the request of WSDOT, \$1.95 billion of general obligation bonds of the state, to which the state’s full faith and credit are pledged and are first payable from toll revenue and motor vehicle fuel taxes (“Triple Pledge Bonds”), to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor Program. The Bond Act also authorized the State Finance Committee to issue the authorized bonds as toll revenue bonds, which are payable solely from and secured solely by toll revenue rather than as general obligation bonds to which the state’s full faith and credit are pledged.

In October 2011, the state of Washington issued \$518.8 million Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program - Toll Revenue). These bonds, referred to as Series 2012C Bonds, are general obligations of the state of Washington to which the state has pledged its full faith, credit and taxing power. The bonds are "Triple Pledge Bonds" first payable from Toll Revenue and Motor Vehicle Fuel Taxes. This series was issued to provide funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, to fund capitalized interest and to pay bond issuance costs. The Series 2012C Bonds received a credit rating of Aa1 from Moody's in October 2011 and AA+ from Fitch, and AA+ from Standard and Poor's in September 2011.

In June 2012, the state of Washington issued \$500.4 million Federal Highway Grant Anticipation Revenue (GARVEE) Bonds. These bonds, referred to as Series 2012F Bonds, finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and pay bond issuance costs. They were issued as limited obligations of the state payable from and secured solely by the Federal-Aid Highway funds received by the state. The Series 2012F Bonds received a credit rating of Aa2 from Moody's and AA from Standard and Poor's in April 2012.

In October 2012, the state of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300 million to be reimbursed from toll revenue. WSDOT received its first disbursement in the amount of \$10 million from USDOT on September 15, 2014. The related expenditures were incurred in FY14, therefore a receivable was recorded in the financial records in FY14. The Bonds are "toll revenue" bonds under the Bond Act that are payable solely from toll receipts.

In September 2013, the state of Washington issued \$285.9 million in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds were issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and pay bond issuance costs. The Series 2014C Bonds are limited obligations of the state payable from and secured solely by the Federal-Aid Highway Funds received by the state. The Series 2014C Bonds received a credit rating of Aa3 from Moody's and AA from Standard and Poor's in September 2013.

The state expects to issue additional toll-backed bonds for the project in Fiscal Year 2016.

Contacting the Organization

This financial report is designed to provide a general overview of the System's finances for bond holders, customers and other interested parties. Questions concerning any of the information provided in this report should be addressed to Jennifer Dahl, Director of Accounting and Financial Services, Washington State Department of Transportation, PO Box 47420, Olympia, Washington, 98504-7420.

Washington State System of Eligible Toll Facilities

Balance Sheet / Statement of Net Position

June 30, 2014

	GOVERNMENT FUND FINANCIAL STATEMENTS				
	Toll Facility			Adjustments (Note 4)	Statement of Net Position
	SR 520 Corridor Account	Bond Retirement Account	Total		
ASSETS					
Cash and Cash Equivalents	\$ 256,604,956	\$ 2,197,917	\$ 258,802,873	\$ -	\$ 258,802,873
Cash Held with Escrow Agents	13,968,940	-	13,968,940	-	13,968,940
Accounts Receivable (Net)	2,149,556	-	2,149,556	-	2,149,556
Due from Other Governments	10,000,000	-	10,000,000	-	10,000,000
Due from Other Funds/Agencies	1,013,603	118	1,013,721	-	1,013,721
Due from Toll Vendor	849,039	-	849,039	-	849,039
Capital assets, not being depreciated (Note 7)	-	-	-	1,504,362,994	1,504,362,994
Capital assets, being depreciated (Note 7)	-	-	-	10,250	10,250
Intangible assets, being amortized (Note 7)	-	-	-	1,648,653	1,648,653
Total Assets	<u>\$ 284,586,094</u>	<u>\$ 2,198,035</u>	<u>\$ 286,784,129</u>	<u>\$ 1,506,021,897</u>	<u>\$ 1,792,806,026</u>
LIABILITIES					
Accounts Payable	\$ 50,356,359	\$ -	\$ 50,356,359	-	50,356,359
Retainage Payable	14,442,020	-	14,442,020	-	14,442,020
Due to Other Funds/Agencies	16,829,395	-	16,829,395	-	16,829,395
Due to Other Governments	452,793	-	452,793	-	452,793
Unearned Revenue	625,158	-	625,158	-	625,158
Debt Service Interest Payable	-	-	-	15,265,799	15,265,799
Long-term Liabilities (Note 8)					
Compensated Absences Payable	-	-	-	41,017	41,017
Sales Tax Payable	-	-	-	104,530,576	104,530,576
Premiums on Bonds Payable	-	-	-	148,302,870	148,302,870
Bond Principal Due After One Year	-	-	-	1,305,090,000	1,305,090,000
TIFIA Loan Principal Due After One Year	-	-	-	10,000,000	10,000,000
Total Liabilities	<u>\$ 82,705,725</u>	<u>\$ -</u>	<u>\$ 82,705,725</u>	<u>1,583,230,262</u>	<u>1,665,935,987</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue-Toll Vendor	764,406	-	764,406	(764,406)	-
Unavailable Revenue-Reprocessing Fee	870,355	-	870,355	(870,355)	-
Total Deferred Inflows of Resources	<u>\$ 1,634,761</u>	<u>\$ -</u>	<u>\$ 1,634,761</u>	<u>\$ (1,634,761)</u>	<u>\$ -</u>
FUND BALANCES/NET POSITION					
Fund Balances:					
Restricted for Unspent					
GARVEE Bond Proceeds	161,208,906	-	161,208,906	(161,208,906)	-
Restricted for Operating & Maintenance Reserve	7,253,547	-	7,253,547	(7,253,547)	-
Restricted for Repair & Replacement	3,750,000	-	3,750,000	(3,750,000)	-
Restricted for Transportation	28,033,155	-	28,033,155	(28,033,155)	-
Restricted for Third Tier Debt Service	-	2,198,035	2,198,035	(2,198,035)	-
Total Fund Balances	<u>200,245,608</u>	<u>2,198,035</u>	<u>202,443,643</u>	<u>(202,443,643)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 284,586,094</u>	<u>\$ 2,198,035</u>	<u>\$ 286,784,129</u>		
Net Position:					
Net Investment in Capital Assets				99,307,357	99,307,357
Restricted for Operating & Maintenance Reserve				7,253,547	7,253,547
Restricted for Repair & Replacement Reserve				3,750,000	3,750,000
Restricted for Transportation				14,361,099	14,361,099
Restricted for Third Tier Debt Service				2,198,035	2,198,035
Total Net Position				<u>\$ 126,870,038</u>	<u>\$ 126,870,038</u>

Washington State System of Eligible Toll Facilities
Statement of Revenues, Expenditures and Changes in Net Position /
Statement of Activities
June 30, 2014

	GOVERNMENT FUND FINANCIAL STATEMENTS				
	SR 520 Corridor Account	Toll Facility Bond Retirement Account	Total	Adjustments (Note 5)	Statement of Activities
REVENUES					
Tolling Revenue	\$ 60,495,517	\$ -	\$ 60,495,517	\$ -	\$ 60,495,517
Debt Service Reimbursement -					
Federal Highway Administration	30,817,141	-	30,817,141	-	30,817,141
Transponder Sales	500,600	-	500,600	-	500,600
Toll Vendor Contractual Damages	119,106	-	119,106	(84,633)	34,473
Toll Bill Reprocessing Fee Revenue	1,450,054	-	1,450,054	-	1,450,054
Interest Income	499,566	12,340	511,906	-	511,906
Miscellaneous Revenue	67,776	-	67,776	-	67,776
Total Revenues	<u>93,949,760</u>	<u>12,340</u>	<u>93,962,100</u>	<u>(84,633)</u>	<u>93,877,467</u>
EXPENDITURES					
Current:					
Personal Service Contracts	886,457	-	886,457	-	886,457
Goods and Services	9,745,288	-	9,745,288	413,619	10,158,907
Salaries and Benefits	946,423	-	946,423	-	946,423
Cost of Financing	883,493	-	883,493	-	883,493
Capital Outlays	341,576,828	-	341,576,828	(341,576,828)	-
Debt Service - Interest	-	56,842,117	56,842,117	(16,525,046)	40,317,071
Total Expenditures	<u>354,038,489</u>	<u>56,842,117</u>	<u>410,880,606</u>	<u>(357,688,255)</u>	<u>53,192,351</u>
Excess (Deficiency) of					
Revenues over Expenditures	(260,088,729)	(56,829,777)	(316,918,506)	357,603,622	40,685,116
Other Financing Sources/Uses:					
Bond Issuance	285,915,000	-	285,915,000	(285,915,000)	-
TIFIA Loan Proceeds	10,000,000	-	10,000,000	(10,000,000)	-
Original Issue Premium	37,968,633	-	37,968,633	(37,968,633)	-
Transfers-Internal Activities	<u>(56,842,117)</u>	<u>56,842,117</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and					
Transfers In over Expenditures					
and Transfers Out	<u>277,041,516</u>	<u>56,842,117</u>	<u>333,883,633</u>	<u>(333,883,633)</u>	<u>-</u>
Change in Fund Balances/Net Position	16,952,787	12,340	16,965,127	23,719,989	40,685,116
Fund Balances/Net Position:					
Beginning of The Year	<u>183,292,821</u>	<u>2,185,695</u>	<u>185,478,516</u>	<u>(99,293,595)</u>	<u>86,184,922</u>
End of The Year	<u>\$ 200,245,608</u>	<u>\$ 2,198,035</u>	<u>\$ 202,443,643</u>	<u>\$ (75,573,606)</u>	<u>\$ 126,870,038</u>

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

1. Reporting Entity

The System of Eligible Toll Facilities or “System” is part of the Washington State Department of Transportation (WSDOT). WSDOT is a department established under and governed by the laws of the state of Washington. WSDOT has the primary responsibility for the System and the Office of State Treasurer carries out the administration of debt service activities. For financial reporting purposes, the System is a part of the primary government of the state of Washington and is included in the state’s Comprehensive Annual Financial Report (CAFR). These financial statements are intended to present financial information of only the portion of government-type activities that are attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial information of WSDOT or the state of Washington. The System is not a legally separate entity and no component units were identified.

The System is made up of toll facilities that the Washington State Legislature has specifically identified and designated as eligible toll facilities and for which bonds are issued under State Finance Committee Master Resolution Number 1117 or Master Resolution Number 1125.

At this time, the System includes that portion of the SR 520 Corridor Program, which has been financed by bonds issued under Master Resolution Number 1117 or Master Resolution Number 1125, as represented in the *State Route Number 520 Corridor Account* and the *Toll Facility Bond Retirement Account*. The financial statements of the System are intended to present information of only that portion of the government-type activities of the state of Washington that are attributable to the transactions of the System.

It is important to note that the System represents only a portion of those accounts used to fund the State Route 520 Corridor Program, which is defined in the Toll Facilities Act (RCW 47.56.870) and restated in Master Bond Resolution No. 1117 and No. 1125 as the portion of State Route 520 between the junctions of Interstate 5 and State Route 202. The entire SR 520 Corridor Program is financed through various accounts, including but not limited to the SR 520 Corridor Account, the Transportation 2003 Account (Nickel Account), Transportation Partnership Account and Motor Vehicle Account.

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statement information (provided on the financial statements in the Statement of Activities column and the Statement of Net Position column) is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The activities of the System, as a whole, are reported on the government-wide financial statements.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

The governmental fund financial statement information provided in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The system's toll revenues are determined to be available if received within 12 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The System adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* as of July 1, 2012. This statement is the codification of accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements. This statement improves financial reporting by contributing to efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It results in more consistent application of applicable guidance in financial statements of state and local governments.

The System previously adopted GASB Statement No. 63, *Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012 and GASB Statement No. 65 *Items Previously Recognized as Assets and Liabilities* as of July 1, 2011. GASB Statement No. 63 impacted financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. GASB Statement No. 65 impacted financial reporting by establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The standard eliminates the provision for capitalizing and amortizing debt issuance costs. Debt issuance costs are considered expense at the time the debt is issued.

Fund Structure

The System accounts are maintained in accordance with the principles of fund accounting to ensure compliance with limitations and restrictions placed on the use of resources available. Under fund accounting, individual funds are established for the purpose of carrying on activities or attaining objectives in accordance with specific regulations, restrictions or limitations. Each individual fund is a self-balancing set of accounts recording cash and other financial resources, together with liabilities and residual equities or balances, and changes therein. The System includes the following governmental funds, which are considered major funds:

State Route Number 520 Corridor Account – Established August 2009, pursuant to RCW 47.56.875. The State Route Number 520 Corridor Account was created in the state treasury for the purpose to assist financing the replacement and operations of the State Route 520 Floating

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Bridge and necessary landings. This account is administered by the WSDOT and is classified as a Special Revenue Fund. Pursuant to RCW 47.56.820, toll revenue is restricted to use.

Toll Facility Bond Retirement Account – Established May 2011, pursuant to RCW 47.10.882. The Toll Facility Bond Retirement Account was created in the state treasury to facilitate the payment of the principal and interest and premium on bonds issued for construction of the eligible toll facilities, including the State Route 520 Floating Bridge and Eastside plus the West Approach Project. This account is administered by the Washington State Treasurer’s Office and is classified as a Debt Service Fund.

Cash and Cash Equivalents

All monies of the System are deposited with the State Treasurer’s Office and are considered cash and cash equivalents. According to state law, the Treasurer’s Office is responsible for maintaining the cash balances and investing excess cash of the accounts. Consequently, WSDOT does not have control over the investment of the excess cash. The financial statements consider all funds deposited with the State Treasurer’s Office to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Accounts Receivables

Accounts Receivable of the System consist primarily of toll and fee receivables from the State Route 520 toll facility, net of related allowance for doubtful accounts. As described in the Revenue Recognition & Unearned Revenue section below, customers have a Pay-by-Mail option when crossing the toll facility. When the toll bills are mailed to the customer, they are recorded as an accounts receivable. For toll bill balances left unpaid, the customer service center sends a second toll bill with a \$5 toll bill reprocessing fee. For toll bills unpaid after 80 days, the amount due is no longer considered a toll bill, and becomes a Notice of Civil Penalty (NOCP). When this occurs, the toll bill receivable and toll revenue are transferred out of the State Route Number 520 Corridor Account to a separate account established by the Washington State Legislature (RCW 47.56.876), specifically for State Route 520 Corridor Notice of Civil Penalty (NOCP) Account for adjudication and collection. Pursuant to this RCW, the Legislature may transfer excess fund balance from the 520 Civil Penalties Account to the 520 Bridge Account for capital expenditures on the SR 520 Corridor. In order to transfer the funds the State Treasurer’s Office must be provided administrative transfer authority. The Legislature has provided authority for the 2015 Biennium, and a portion of fund balance may be transferred to the 520 Corridor Account in Fiscal Year 2015.

Both the Toll Bill Receivable and the \$5 Toll Bill Reprocessing Fee Receivable are reported net of allowances for uncollectible amounts. An allowance for estimated uncollectible receivables is recognized to reduce the gross amount of both receivables to their estimated recognizable values. The allowance for doubtful accounts for toll bill receivables is calculated at approximately 14% of the accounts receivable balance based upon a review of similar toll operations and WSDOT historical experience to date, and \$5 reprocessing fee allowance for doubtful accounts is currently approximately 55% of the accounts receivable balance.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Capital Assets

Capital Assets of the System consist of Land, Intangible Assets, and Infrastructure Construction-in-Progress associated with the construction of the State Route 520 Program. For purposes of the System audited financial statements, WSDOT fully capitalizes infrastructure and reports the full cost of the asset. This reporting approach differs from how these infrastructure assets are reported in the state of Washington's CAFR. Within the CAFR, infrastructure assets are reported using the modified approach, which only capitalizes infrastructure assets if the asset increases capacity or efficiency and does not depreciate those assets. The state of Washington and WSDOT's capitalization threshold for intangible assets, including land use rights not acquired with the purchase of land, is \$1 million. Individual intangible assets under this threshold are expensed. Amortization of intangibles is calculated using the straight-line method over the estimated useful life of 6.5 years.

Retainage Payable

Retainage payable represents amounts billed to the System by contractors for work performed, but payment is not due in accordance with contractual provisions, until substantial completion of performance by the contractor and/or acceptance by WSDOT.

Pension and Other Post Employment Benefits

Within the state of Washington, the pension and other post employment benefits liability are determined at the state level and not allocated to the individual agencies. Therefore, no liability is recorded by the System.

Compensated Absences

Within the state of Washington, the compensated absences liability is determined at the agency level. A proportionate share of the liability has been recorded on the System's books based upon the System's toll operations employee costs in relation to total WSDOT employee costs.

WSDOT employees, including those positions that are funded from the System, accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 240 hours at the employee's anniversary date. Annual leave that is not used for paid time off results in full compensation at termination or upon retirement. It is the accounting policy of the state of Washington to liquidate unpaid annual leave with future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize annual leave when it is paid.

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested. Sick leave that is not used for paid time off is only payable upon employees' death or retirement, at which time the SR 520 Corridor Account would be liable for 25% of the employee's accumulated sick leave. Each January, employees who have accumulated sick leave in excess of 480 hours have the option to redeem sick leave earned but not taken during the

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

previous year at the rate of one day's pay in exchange for four days of sick leave. It is the accounting policy of the state of Washington to liquidate unpaid sick leave from future resources rather than currently available expendable resources. Accordingly, governmental fund type accounts, as used by the System, recognize sick leave when it is paid.

The System's portion of the total accumulated annual and sick leave balance is shown as a reconciling item between the balance sheet and the statement of net position.

Restricted Net Position

Restricted Net Position of the System represent bond proceeds and reserves set aside pursuant to requirements within the Bond Covenants. The Bond Covenants require funds to be set aside in the following accounts: Restricted for Unspent GARVEE Bond Proceeds, Restricted for Operating & Maintenance Reserve, Restricted for Repair & Replacement Reserve, and Restricted for Third Tier Debt Service. The remaining fund balance in the System account is restricted within the balance entitled "Restricted for Transportation" pursuant to the requirements of GASB Statement No. 54. This GASB statement requires that the fund balance be restricted if the fund resources are subject to externally enforceable legal restrictions, such as bond covenants, or when the revenue of the fund is to be used for a particular purpose pursuant to enabling legislation.

Toll Revenue

Tolling Revenue on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities is comprised of revenue associated with tolls on the System, and includes toll revenue from electronic tolls, toll revenue from pay-by-plate toll transactions and toll revenue associated with toll bills. Interest and revenue associated with reprocessing fees are each displayed separately on the financial statement, with the remaining fee revenues included in miscellaneous revenue.

Revenue Recognition, Unearned Revenue and Deferred Inflows of Resources

The System uses an automated electronic toll collection system (Good to Go) which uses transponders to identify vehicles passing under a toll gantry. Customers fund their Good to Go accounts and upon crossing the toll facility and verification of the crossing data, the system recognizes toll revenue. Users may also cross the toll facility without a Good to Go account and receive a toll bill. The system uses cameras to record license plate images and a bill for the toll(s) is mailed to the registered owner of the vehicle. When this Pay By Mail option is used, revenue is recognized as soon as the toll bill is generated by the system and sent to the customer. From the initial point of crossing the toll facility to the moment toll revenue is recorded, the toll transactions that are in-process are recorded as unbilled receivable offset to unearned revenue. At year end, the balance in the unbilled receivable account and the associated unearned revenue are removed from the accounting records.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Additionally, unearned revenue exists to properly adjust toll revenue to reflect that a portion of the toll bill receivables will be collected when the toll bill becomes a NOCP. This long-term portion of the receivables is offset by unearned revenue in accordance with governmental fund revenue recognition criteria as described in the first section of Note 2 above.

Deferred Inflows of Resources exist to reflect the long-term portion of the receivable due from the toll vendor and the portion of toll bill reprocessing fee that is estimated to take over 12 months to collect. These items are offset by long-term receivables and are considered “deferred” for governmental fund reporting purposes, but are considered earned revenue in the government wide financial statements.

Within the SR 520 Corridor Account there is no unearned revenue related to customer deposits. Customer deposits for all WSDOT toll facilities are held in a separate account outside of the System.

Common Toll Revenue and Toll Expenditure Allocation Methodology

There are currently three WSDOT Toll facilities – The Tacoma Narrows Bridge, State Route Number 167 High Occupancy Toll (HOT) Lanes, and the State Route Number 520 Floating Bridge. Various toll expenditures and toll revenues related to tolling don’t benefit a single facility, but provide benefit or are attributable to multiple facilities. These are referred to as “common” revenues and expenditures. These common revenues and expenditures are allocated to the applicable toll facilities using an approved allocation methodology that is consistent, reliable, and equitable.

Transfers between System Accounts

For Fiscal Year 2014, there was an operating transfer out of the State Route Number 520 Corridor Account and a corresponding operating transfer in to the Toll Facility Bond Retirement Account of \$56,842,117. The purpose of these operating transfers was to provide funds for the scheduled debt service payments that the Toll Facility Bond Retirement Account makes on behalf of the State Route Number 520 Corridor Account. The transfer between accounts is eliminated and not displayed within the Statement of Activities because all accounts of the System are combined and displayed as one column within the government-wide Statement of Activities, thereby eliminating the interfund activity.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year end and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

3. **Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Position**

“Total fund balances” of the System governmental funds, \$202,443,643, differs from “net position” of governmental activities, \$126,870,038, on the Governmental Funds Balance Sheet / Statement of Net Position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet. The effect of each of the differences is described below:

- a. When capital assets used in governmental activities are purchased or constructed, the cost of those assets is reported as expenditures in governmental funds. However, the Statement of Net Position includes those capital assets among the assets of the System.

Capital Assets	\$ 1,507,058,418
Accumulated Amortization and Depreciation	<u>(1,036,521)</u>
Net Capital Assets, June 30, 2014	<u>\$ 1,506,021,897</u>

- b. Interest payable is the amount of bond interest accrued from bond issuance or debt service payment date through June 30, 2014:

Interest Payable	<u>\$ (15,265,799)</u>
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- c. Long-term liabilities applicable to the System are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities – both current and long-term – are reported in the Statement of Net Position. Balances as of June 30, 2014 were:

Compensated Absences Payable	\$ (41,017)
Deferred Sales Tax Payable	(104,530,576)
Bond Premium Payable	(148,302,870)
Bond Principal Payable	(1,305,090,000)
TIFIA Loan Principal Payable	<u>(10,000,000)</u>
Total	<u>\$ (1,567,964,463)</u>

- d. Deferred Inflows of Resources is associated with: (a) the long-term portion of receivable that is due from WSDOT’s toll vendor – ETCC, and (b) the long-term receivable portion of the reprocessing fee receivable estimated to be collected after 12 months. While this revenue is considered “unavailable” for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, these amounts are

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

removed from the Statement of Net Position and appear as revenue in the Statement of Activities. (It should be noted that the language contained within the vendor contract with ETCC indicates that the amount due in future years becomes invalid and any amount outstanding will no longer be due to WSDOT if the contract is terminated prior to 2018):

Revenue – Toll Vendor	\$	764,406
Revenue – Reprocessing Fee		<u>870,355</u>
	\$	<u><u>1,634,761</u></u>

4. Net Investment in Capital Assets

Net Investment in capital assets is comprised of the following amounts:

Capital Assets Balance, June 30, 2014	\$	1,506,021,897
Less:		
Deferred Sales Tax Payable		(104,530,576)
Bonds Premium		(148,302,870)
Bond Principal Payable		(1,305,090,000)
TIFIA Loan Payable		<u>(10,000,000)</u>
		(1,567,923,446)
Add:		
Unspent GARVEE Bond Proceeds		<u>161,208,906</u>
Net Investment in Capital Assets	\$	<u><u>99,307,357</u></u>

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

5. Explanation of Differences between Governmental Funds Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds, \$16,965,127, in the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balances / Statement of Activities differs from the “change in net position” for governmental activities of \$40,685,116. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of each of the differences is described below:

- a. As described in Note 3d above, the governmental funds reflect deferred inflows of resources associated with the long-term portion of the toll vendor contractual damages. While this revenue is considered “unavailable” for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, the short-term portion of toll vendor contractual damages recognized as revenue in the governmental funds in Fiscal Year 2014 was previously recognized in the entity-wide statements.

Revenue previously recognized, associated with short-term portion of toll vendor contractual damage	<u>\$ (84,633)</u>
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- b. Some expenses reported in the Statement of Activities column do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences Expense	\$ 4,657
Amortization Expense	(412,163)
Depreciation Expense	(6,113)
Interest Expense	(4,776,991)
Bond Premium Amortization	<u>21,302,037</u>
Net Change in Operating Expense Accruals	<u><u>\$ 16,111,427</u></u>

The adjustments for these amounts are shown in the Statement of Revenues, Expenditures and Changes in Fund Balance / Statement of Activities as follows:

Debt Service Interest	\$ (16,525,046)
Goods and Services	<u>413,619</u>
	<u><u>\$ (16,111,427)</u></u>

- c. Capital outlays shown in the governmental funds consist of cost associated with the purchase of land, an intangible software asset, and infrastructure construction-in-progress. When capital assets that are used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is capitalized, and

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

for those assets that are depreciated, costs are allocated over the assets estimated useful life. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year:

Capital Outlays	\$ <u>341,576,828</u>
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- d. Bond issuance proceeds and bond original issuance premiums and TIFIA loan proceeds are considered other financing sources within governmental funds, while they are considered long-term liabilities within governmental-wide financial statements, and are therefore adjusted off the statement of activities and are reflected on the statement of net position.

Bond Issuance	\$ (285,915,000)
Original Issue Bond Premiums	(37,968,633)
TIFIA Loan Proceeds	<u>(10,000,000)</u>
	\$ <u>(333,883,633)</u>

6. Detailed Notes on Account Balances

Cash and Investments Held By State Treasury

All monies of the System are deposited with the Office of the State Treasurer (OST) as part of the state's treasury and are considered cash. OST is responsible for maintaining and investing the pooled cash balances in accordance with state laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The State of Washington's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2014 should be referred to for disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). Please refer to said report which may be obtained from the Internet at <http://www.ofm.wa.gov/cafr/default.asp>.

All monies of the System are deposited with the OST. Cash Balances for the System were as follows:

	<u>Balance</u> <u>June 30, 2014</u>
SR 520 Corridor Account Cash and Cash Equivalents	\$ 256,604,956
Toll Facility Bond Retirement Account Cash and Cash Equivalents	<u>2,197,917</u>
Total System Account Cash and Cash Equivalents	<u>\$ 258,802,873</u>

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Accounts Receivable

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2014:

	Balance June 30, 2014
Toll Bill Accounts Receivable	\$ 1,416,878
Toll Bill Allowance for Doubtful Accounts	<u>(206,187)</u>
Net Toll Bill Accounts Receivable	<u>1,210,691</u>
Toll Bill Reprocessing Fee Receivable	2,016,400
Toll Bill Reprocessing Fee Allowance for Doubtful Accounts	<u>(1,116,807)</u>
Net Toll Bill Reprocessing Fee Receivable	<u>899,593</u>
Toll Receivable	21,567
NSF Fee Receivable	13,497
Transponder Fee Receivable	<u>4,208</u>
Subtotal	<u>39,272</u>
Total Accounts Receivable (Net)	<u>\$ 2,149,556</u>

7. Capital Assets

Capital Assets of the System consist of Land and Construction-in-Progress related to the replacement of the SR 520 Floating Bridge and Eastside plus West Approach Bridge, as well as equipment and also IT intangible assets capitalized pursuant to GASB No. 51. Because the 520 Corridor Account operates as a governmental fund, starting FY14 interest associated with payment of debt service on bonds and amortized bond premium used to fund construction of this System were not capitalized and included in the total construction-in-progress value.

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

Capital Assets (Continued)

Total Capital Assets increased by \$378,528,161 in Fiscal Year 2014.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 27,900,419	\$ 5,320,000	\$ -	\$ 33,220,419
Infrastructure:				
Construction-in-Progress	<u>1,097,532,501</u>	<u>373,610,074</u>	-	<u>1,471,142,575</u>
Total Capital Assets, Not Being Depreciated	<u>1,125,432,920</u>	<u>378,930,074</u>	-	<u>1,504,362,994</u>
Capital Assets, Being Depreciated:				
Equipment	-	16,363	-	16,363
Less: Depreciation	-	(6,113)	-	(6,113)
Total Capital Assets Being Depreciated	<u>-</u>	<u>10,250</u>	-	<u>10,250</u>
Capital Assets, Being Amortized:				
Intangible Asset (IT)	2,679,061	-	-	2,679,061
Less: Amortization	<u>(618,245)</u>	<u>(412,163)</u>	-	<u>(1,030,408)</u>
Total Capital Assets Being Amortized	<u>2,060,816</u>	<u>(412,163)</u>	-	<u>1,648,653</u>
Total Net Capital Assets	<u><u>\$ 1,127,493,736</u></u>	<u><u>\$ 378,528,161</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,506,021,897</u></u>

8. Long-Term Liabilities

a. Long-term liabilities of the System consist of the items described below. Total long-term liabilities increased by \$349,946,487 in Fiscal Year 2014.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Compensated Absences	\$ 45,674	\$ -	\$ (4,657)	\$ 41,017	\$ -
Deferred Sales Tax Payable	67,160,967	37,369,609	-	104,530,576	-
Premiums on Bonds Payable	131,636,274	37,968,633	(21,302,037)	148,302,870	-
Bonds Payable	1,019,175,000	285,915,000	-	1,305,090,000	-
TIFIA Loan Payable	<u>-</u>	<u>10,000,000</u>	-	<u>10,000,000</u>	-
Total Long-Term Liabilities	<u><u>\$ 1,218,017,915</u></u>	<u><u>\$ 371,253,242</u></u>	<u><u>\$ (21,306,694)</u></u>	<u><u>\$ 1,567,964,463</u></u>	<u><u>\$ -</u></u>

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

b. Bonds Payable

Series 2012 Bonds

In October 2011, the state of Washington issued \$518,775,000 Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2012C, for the purpose of providing funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside Project. The Series 2012C Bonds are general obligations of the state and, as provided by the Series 2012C Bond Resolution, the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds. The Series 2012C Bonds are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Bonds issued under the Series 2012C Bond Resolution have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds, (2) Second Tier Bonds, (3) Third Tier Bonds, and (4) Fourth Tier Bonds. The Series 2012C Bonds are issued as Third Tier Bonds with respect to Toll Revenue. Interest on the Series 2012C Bonds is payable semiannually on each June 1 and December 1, beginning June 1, 2012. The principal of the Series 2012C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

In June 2012, the state of Washington issued \$500,400,000 Federal Highway Grant Anticipation Revenue Bonds, Series 2012F (GARVEE) (SR 520 Corridor Program) to finance a portion of the costs of constructing the SR 520 Floating Bridge, the Eastside Project and to pay issuance costs for the Series 2012F Bonds. The Series 2012F Bonds are payable only from Federal-Aid Highway Funds received by the state. The Series 2012F Bonds are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged. Interest on the Series 2012F Bonds is payable semiannually on each March 1 and September 1, beginning September 1, 2012. The principal of the Series 2012F Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024. Under 23 U.S.C. §122(e), FHWA does not guarantee the payment of principal or interest on a GARVEE bond issuance.

Series 2013 TIFIA Bond

In October 2012, the state of Washington issued a Transportation Infrastructure and Innovation Bond, which represented a draw down loan from the United States Department of Transportation's Transportation Infrastructure Finance and Innovation Act (TIFIA) program in the amount of \$300 million to be reimbursed from toll revenue. WSDOT received its first disbursement in the amount of \$10 million from USDOT on September 15, 2014. The related expenditures were incurred in FY14, therefore a receivable was recorded in the financial records in FY14. The Bonds are "toll revenue" bonds under the Bond Act that are payable solely from toll receipts. Principal and interest payments begin December 1, 2016, payable every six months through June 1, 2051.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Series 2014 Bonds

In September 2013, the state of Washington issued \$285,915,000 in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds were issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and pay bond issuance costs. The Series 2014C Bonds are not general obligations of the state to which the state's full faith and credit or taxing power is pledged and no state excise taxes on motor vehicle and special fuels are pledged. Interest on the Series 2014C Bonds is payable semiannually on each March 1 and September 1, beginning March 1, 2014. The principal of the Series 2014C Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024. In the unlikely event that FHWA is unable to make principal and interest payments on Series 2012F and 2014C GARVEE bonds Bond Resolution No. 1125 pledges federal funds on balance in the Motor Vehicle Account to meet debt service requirements.

Bonds Outstanding –

The following is a summary of the bonds payable as of June 30, 2014 (dollars in thousands). Please note that only \$10 million of TIFIA bonds have been recorded as drawn as of June 30, 2014:

Bonds Outstanding	Principal Amount	Maturity Dates	Annual Principal Amount Ranges
Series 2012C	\$518,775	6/1/2017 to 6/1/2041	\$10,835 to \$35,100
Series 2012F	\$500,400	9/1/2015 to 9/1/2024	\$39,860 to \$61,665
Series 2013 TIFIA Bond	\$300,000	12/1/2016 to 6/1/2051	\$1,560 to \$10,618
Series 2014C	\$285,915	9/1/2015 to 9/1/2024	\$22,740 to \$35,250

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June 30, 2014

As of June 30, 2014, debt service requirements to maturity for the Series 2012C, Series 2012F, Series 2013 TIFIA Bond (based on the October 2012 debt schedule which may be revised by WSDOT based upon a new drawdown schedule), and Series 2014C bonds were as follows (dollars in thousands).

Series 2012C			
Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 26,025	\$ 26,025
2016	-	26,025	26,025
2017	10,835	26,025	36,860
2018	11,375	25,483	36,858
2019	11,945	24,914	36,859
2020-2024	69,285	114,995	184,280
2025-2029	88,655	95,629	184,284
2030-2034	113,405	70,882	184,287
2035-2039	144,745	39,550	184,295
2040-2041	68,530	5,182	73,712
	<u>\$ 518,775</u>	<u>\$ 454,710</u>	<u>\$ 973,485</u>

Series 2012F			
Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 24,836	\$ 24,836
2016	39,860	23,853	63,713
2017	41,830	21,835	63,665
2018	43,895	19,716	63,611
2019	46,065	17,486	63,551
2020-2024	267,085	49,754	316,839
2025	61,665	1,517	63,182
	<u>\$ 500,400</u>	<u>\$ 158,998</u>	<u>\$ 659,398</u>

Series 2014C			
Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 14,260	\$ 14,260
2016	22,740	13,691	36,431
2017	23,880	12,526	36,406
2018	25,080	11,310	36,390
2019	26,315	10,033	36,348
2020-2024	152,650	28,559	181,209
2025	35,250	876	36,126
	<u>\$ 285,915</u>	<u>\$ 91,254</u>	<u>\$ 377,169</u>

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2014

Year Ending June 30,	Series 2013 TIFIA Bond		
	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	3,120	9,436	12,557
2018	3,202	9,355	12,557
2019	3,298	9,258	12,557
2020-2024	18,030	44,752	62,783
2025-2029	20,939	41,844	62,783
2030-2034	24,276	38,507	62,783
2035-2039	28,159	34,623	62,783
2040-2044	62,740	30,225	92,965
2045-2049	94,384	18,703	113,086
2050-2051	41,852	3,383	45,235
Bonds not yet drawn	(290,000)	(240,086)	(530,086)
	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>

Year Ending June 30,	Combined	Combined	Total
	Principal	Interest	
2015	\$ -	\$ 65,121	\$ 65,121
2016	62,600	63,569	126,169
2017	79,665	69,822	149,487
2018	83,552	65,864	149,416
2019	87,623	61,692	149,315
2020-2024	507,050	238,060	745,110
2025-2029	206,509	139,865	346,374
2030-2034	137,681	109,389	247,070
2035-2039	172,904	74,173	247,077
2040-2044	131,270	35,407	166,676
2045-2049	94,384	18,703	113,086
2050-2051	41,852	3,383	45,235
Bonds not yet drawn	(290,000)	(240,086)	(530,086)
	<u>\$ 1,315,090</u>	<u>\$ 704,961</u>	<u>\$ 2,020,051</u>

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

c. Sales Tax Payable

The 2008 Legislature passed Chapter 270, Section 7 of the Laws of 2008 (RCW 47.01.412) allowing a deferral of state and local sales and use taxes on the site preparation, project construction, and acquisition and rental of equipment for use in the SR 520 replacement project. On December 10, 2009, the Washington State Department of Revenue provided the associated certificate (3096-09-001) for deferral of State and Use Tax on the SR 520 bridge replacement and HOV project. The amount of sales tax payable as of June 30, 2014 is \$104,530,576. Per the RCW, repayment is to begin five years after the replacement bridge is complete and opened to traffic, and is to be repaid in equal payments over a ten year period.

9. Commitments, Contingencies and Subsequent Events

Commitments

Construction Commitments – As of June 30, 2014, the System had in process uncompleted construction projects with remaining balances totaling approximately \$355,025,567.

Customer Service Contract – WSDOT has contracted with Electronic Transaction Consultants Corporation (ETCC) to manage all aspects of the State-Wide Tolling Customer Service Center through Fiscal Year 2018. The contract, of which a portion is allocated to the System based upon a toll facility transaction count allocation methodology, includes a tiered fee schedule for services.

Toll Lane Implementation and Maintenance Contract – WSDOT has contracted with Telvent USA for implementation and on-going maintenance of the SR 520 Floating Bridge toll lane hardware and software.

Contingencies

The System Bond Covenants require that WSDOT keep the SR 520 Corridor System and its use and operation thereof insured at all times in such amounts as are customary for similar facilities, including business interruption insurance. WSDOT has purchased insurance from a commercial insurance carrier for this purpose.

In addition, Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state's management believes it is more economical to manage its risk internally (as a Self-Insurance Liability Program) and set aside assets for claims settlements in the Risk Management Fund, an internal service fund. WSDOT participates in Risk Management's Self-Insurance Liability Program.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

SR 520 Program Budget Adjustment: In January 2014, WSDOT Secretary Lynn Peterson and SR 520 Program Director Julie Meredith provided a budget update to the legislature's Joint Transportation Committee. In that briefing, WSDOT acknowledged that with the combined change orders outlined below, the Program's risk reserve would likely be exceeded. Notably, the change orders related solely to the pontoon design error totaled approximately \$200 million. In reviewing the remaining construction costs and the needed risk reserve, WSDOT requested an additional \$170 million for the SR 520 Program. These funds were provided in the 2014 legislative session through ESSB 6001. As of June 30, 2014 the remaining risk reserve is approximately \$123 million. The details about significant program change orders are provided below.

SR 520 Geotechnical Design Issue: On the Eastside Transit and HOV Project, WSDOT and its design-build contractor had a dispute regarding the interpretation of contract language about geotechnical design standards. In particular, the dispute involves a material found on the project site referred to as "Qppl soils" or "Seattle Clay". As part of the contract, the contractor is required to build a number of retaining walls on and around this material. The parties' efforts to resolve the dispute through the Project's Dispute Review Board were not successful. Since that time, however, WSDOT and its contractor have agreed to the terms of a settlement and are working to finalize a change order in Fiscal Year 2015 to address both time and money.

WSDOT was tracking this issue as a potential change order and the potential claim amount was included in the overall program risk estimate when WSDOT publically announced new SR 520 program budget figures in January 2014. The settlement was within the program's risk reserve and budget, as modified in 2014, and did not increase the program's overall budget or require additional funding.

Pontoon Repairs and Floating Bridge Construction: In February 2013, WSDOT acknowledged a design error that led to cracks in the initial cycle of concrete pontoons, and which also required modifications to Cycle 2 to meet the new bridge's 75-year design life. Five main change orders have been executed to address these design issues:

- For the first change order, executed in April 2013, WSDOT paid \$9.9 million to pontoon construction contractor Kiewit-General for repairs related to spalling that occurred following post tensioning of the Cycle 1 pontoons while they were in the casting basin in Aberdeen and related impacts. The work was completed and the pontoons were floated out in 2012.
- For the second change order, executed in July 2013, WSDOT paid \$22.4 million to pontoon construction contractor Kiewit-General to add transverse post-tensioning to four Cycle 2 pontoons while they were in the casting basin in Aberdeen and related schedule impacts. The work was completed in spring 2013 prior to float-out in April 2013.
- For the third change order, executed in July 2013, WSDOT paid \$48.7 million to floating bridge contractor Kiewit/General/Manson, A Joint Venture, to complete repairs on the Cycle 1 pontoons that were delivered from the pontoon construction contract. The change order included leasing dry docks in Portland and Seattle to conduct the repairs in

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

a dry environment, as well as building a coffer cell to create a dry work environment on Lake Washington, and the specific repairs including epoxy injections, transverse post-tensioning, and carbon-fiber wrap. All of the repairs to Cycle 1 pontoons were satisfactorily completed in early summer 2014.

- For the fourth change order, executed in December 2013, WSDOT paid \$37.1 million to pontoon construction contractor Kiewit-General to add transverse post-tensioning to pontoon Cycles 3-6. The costs included the new scope, materials, and labor, and adjusted the pontoon delivery schedule. The additional post-tensioning has been successfully included in Cycles 3-5. Cycle 5 floated out of the casting basin in late September 2014, followed by Cycle 6, which will also include the additional post-tensioning and is estimated to float out of the casting basin in spring 2015.
- For the fifth change order, executed in March 2014, WSDOT paid \$77.5 million to floating bridge contractor Kiewit/General/Manson, A Joint Venture, for schedule impacts related to the revised pontoon delivery dates. This change order established a new “open to traffic” date for the floating bridge of April 2016.
- Finally, there were several change orders, totaling \$12.6 million to address items related to the pontoon design error such as additional underwater inspections and additional pontoon storage.

Eastside Right of Way Litigation: Fisher, et al v. WSDOT: The Fisher lawsuit is a consolidation of inverse condemnation actions by six property owners, based upon the taking of non-possessory restrictive covenants. Trial was held on two of the six properties in June 2012. In September 2012, WSDOT and all six property owners executed a settlement agreement under which WSDOT has dismissed its appeal and paid judgments in the amount of \$2,130,281 (plus some post-judgment interest) in November 2012. Claims regarding liability for future dredging fees were dismissed without prejudice and may be re-asserted at a later date. The amount of potential liability for dredging costs is indeterminate at this time. We have reached settlement with 10 of the remaining 12 owners for a total cost of \$1,611,300. Settlement with two remaining owners and the issue of future dredging costs is still pending.

Potential Kenmore Litigation: Two notices of intent to sue were sent in 2013 regarding potential lawsuits. One was sent by a group known as Waste Action Project to Kiewit/General/Manson, threatening to file a citizens’ suit under the federal Clean Water Act. That complaint was filed against the contractor on September 10, 2013 and names only K/G/M as the defendant. This lawsuit has been settled between K/G/M and the citizens’ group. Another notice of intent to sue was sent to the Federal Highway Administration and the National Marine Fisheries Service on May 30, 2013, threatening a suit under the Endangered Species Act. No complaint has been filed in that matter. WSDOT is not a party to either of these matters but is monitoring them to determine whether they will impact the project.

In addition to the information above, various claims arising in the ordinary course of operations and construction of the System do occur. The ultimate effect of such litigation cannot be ascertained at this time.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2014

Subsequent Events

On August 20, 2014, WSDOT executed a design-bid-build contract in the amount of \$199,537,370 with Flatiron West, Inc. for construction of the West Approach Bridge North. This is the next funded construction project in the SR 520 corridor, and will allow six travel lanes and a bicycle/pedestrian path to reach the Montlake area. The contract specifies that the new structure will be open to traffic in summer 2017.

Exhibit II

Statement of Net Toll Revenues and Coverage Ratios

Exhibit II
Washington State System of Eligible Toll Facilities
Net Toll Revenues and Coverage Ratios
For the Year Ended June 30, 2014
(in dollars)

		Projected*	Actual	Variance
Gross Toll Revenue	1	64,656,000	64,589,147	-66,853
Gross Toll Revenue Adjustments				
Uncollectable Toll Revenue	2	-4,665,816	-4,953,361	-287,546
Other Adjustments to Gross Toll Revenue	3	2,577,984	2,309,786	-268,198
Other Toll Revenue	4	676,355	619,705	-56,650
Interest Earnings on Toll Receipts	5	0	87,169	87,169
Miscellaneous Revenue	6	0	63,939	63,939
Total Gross Toll Revenue Adjustments		-1,411,476	-1,872,762	-461,285
Adjusted Gross Toll Revenues**	7	63,244,524	62,716,385	-528,139
Operations & Maintenance Expenditures				
Credit Card and Bank Fees Fees	8	1,178,575	1,081,236	-97,339
Toll Collection Operation and Maintenance	9	9,541,723	7,981,840	-1,559,883
Routine Facility Operation and Maintenance	10	0	0	0
Bridge Insurance Premiums	11	2,507,613	2,515,092	7,479
Total Operations & Maintenance Expenditures	12	13,227,911	11,578,168	-1,649,743
Net Toll Revenues		50,016,612	51,138,217	1,121,605
Debt Service on All Outstanding Bonds Payable from Tolls				
First Tier Toll Revenue Debt Service		0	0	0
Third Tier (Triple Pledge) Debt Service	13	26,024,975	26,024,975	0
Fourth Tier Toll Revenue Debt Service		0	0	0
Total Debt Service on all Outstanding Bonds		26,024,975	26,024,975	0
<i>Coverage Ratio -- Net Toll Revenue to:</i>				
<i>First Tier Toll Revenue Debt Service</i>		n/a	n/a	n/a
<i>Third Tier (Triple Pledge) Debt Service</i>		1.92	1.96	0.04
<i>Fourth Tier Toll Revenue Debt Service</i>		n/a	n/a	n/a
Required Deposits of Net Toll Revenues				
Operating and Maintenance Reserve Subaccount		843,390	843,390	0
Deposit to Deferred Sales Tax Subaccount		0	0	0
Motor Vehicle Fund Repayment		0	0	0
Repair and Replacement Reserve Subaccount		1,875,000	1,875,000	0
Total Required Deposits of Net Toll Revenues		2,718,390	2,718,390	0
<i>Coverage Ratio -- Net Toll Revenue to Debt Service and All Required Deposits</i>				
		1.74	1.78	0.04
Net after Required Deposits		47,298,223	48,419,827	1,121,605
Other Uses				
Revenue Stabilization Subaccount		0	0	0
Working Capital		0	0	0
Net Toll Revenues Used for the Project		19,767,187	21,008,355	1,241,168
Total Other Uses		19,767,187	21,008,355	1,241,168
Net after Other Uses		27,531,035	27,411,472	-119,563

Prepared in accordance with Master Bond Resolution No. 1117.

Exhibit II
Washington State System of Eligible Toll Facilities
Net Toll Revenues and Coverage Ratios
For the Year Ended June 30, 2014

Notes:

- * Projected revenues and expenditures are based on the SR 520 Bridge Investment Grade Traffic and Revenue Study prepared October 2013.
- ** "Toll Revenues" as defined by the State Finance Committee Master Bond Resolution No. 1117.
- 1. Gross toll revenue was pulled from the ETC system "unbilled reports". The data was used to determine the gross toll revenue and actual toll revenue, and appropriately excluded exempted toll revenue (e.g., transit) as per WSDOT business rules.
- 2. Uncollectible Toll Revenue is deducted from Gross Toll Revenue for transactions not recognized as a receivable. Transactions not recognized as receivables include license plate images that could not be read, or transactions where a vehicle owner could not be identified.
- 3. Includes customer discounts/incentives plus revenues from "pay by plate" and late payment fees.
- 4. Includes payment related ETCC's key performance indicators, transponders, and toll revenues recovered through the notice of civil penalty process.
- 5. Interest earned on toll revenue.
- 6. Includes non-sufficient funds fees, statement fees, and accounting adjustments.
- 7. Actual Adjusted Gross Toll Revenues align with Total Revenue of the June 30, 2014 audited Financial Statements; less federal debt service reimbursement, capital interest, and prior biennium accounting adjustments.
- 8. Credit card and bank fees associated with toll transactions.
- 9. Includes Customer Service Center and Toll Collection System vendor costs, as well as the Department's toll collection Operations and Maintenance
- 10. Post-completion Routine Facility Operation and Maintenance costs will be covered by toll revenue.
- 11. The SR 520 Bridge is insured per the requirements of Section 7.07 of Master Bond Resolution No. 1117.
- 12. Total Operations & Maintenance Expenditures align with the SR 520 Corridor Account Expenditures shown in the audited Financial Statements; excluding capital expenditures.
- 13. Debt service amount paid in FY 2014. This does not include the amount that the state withholds for future debt service payments as required by Section 6.12 of Master Bond Resolution No. 1117.

Exhibit III

Summary of Actual and Projected Gross and Net Toll Revenues

Exhibit III
Washington State System of Eligible Toll Facilities
Summary of Actual and Projected Gross and Net Toll Revenue
As of June 30, 2014

Fiscal Year	Gross Toll Transactions (millions) ⁽¹⁾	Gross Toll Revenue (\$ millions) ⁽¹⁾	Uncollectible Toll Revenue (\$ millions) ⁽²⁾⁽³⁾	Adjustments to Gross Toll Revenue (\$ millions) ⁽²⁾⁽⁴⁾	Subtotal: Adjusted Gross Toll Revenue (\$ millions)	Total Operations and Maintenance Expenditures ⁽²⁾⁽⁵⁾ (\$ millions)	Net Toll Revenue (\$ millions)	2012C Bonds Debt Service (\$ millions)	2012C Bonds Debt Service Coverage ⁽⁶⁾
2012*	9.61	28.06	(1.74)	3.94	30.25	(9.03)	21.22	-	-
2013*	20.22	61.30	(6.53)	2.76	57.53	(10.51)	47.02	26.02	1.81x
2014*	20.96	64.59	(4.95)	3.08	62.72	(11.58)	51.14	26.02	1.96x
2015	22.38	71.37	(4.76)	3.11	69.72	(14.51)	55.22	26.02	2.12x
2016	24.17	78.71	(5.09)	3.15	76.77	(16.31)	60.46	26.02	2.32x
2017	24.25	85.34	(5.19)	3.06	83.20	(17.80)	65.40	36.86	1.77x
2018	25.25	88.05	(5.30)	3.12	85.87	(18.01)	67.86	36.86	1.84x
2019	26.08	90.31	(5.35)	3.17	88.12	(18.52)	69.60	36.86	1.89x
2020	26.91	92.63	(5.42)	3.22	90.43	(19.07)	71.36	36.86	1.94x
2021	27.73	95.01	(5.48)	3.26	92.79	(19.56)	73.23	36.86	1.99x
2022	28.56	97.45	(5.55)	3.30	95.20	(20.20)	75.00	36.86	2.03x
2023	29.39	99.95	(5.62)	3.34	97.68	(20.78)	76.90	36.86	2.09x
2024	30.22	102.52	(5.69)	3.38	100.21	(21.47)	78.74	36.85	2.14x
2025	30.62	104.01	(5.75)	3.40	101.65	(22.03)	79.62	36.86	2.16x
2026	31.02	105.50	(5.81)	3.42	103.11	(22.51)	80.60	36.86	2.19x
2027	31.42	107.01	(5.88)	3.44	104.57	(23.17)	81.40	36.86	2.21x
2028	31.82	108.52	(5.94)	3.46	106.03	(23.74)	82.29	36.86	2.23x
2029	32.23	110.04	(6.00)	3.47	107.51	(24.37)	83.15	36.86	2.26x
2030	32.63	111.57	(6.07)	3.49	109.00	(25.00)	84.00	36.86	2.28x
2031	33.03	113.11	(6.13)	3.51	110.49	(25.65)	84.84	36.86	2.30x
2032	33.70	115.42	(6.26)	3.58	112.73	(26.62)	86.11	36.86	2.34x
2033	34.32	117.52	(6.38)	3.65	114.79	(27.48)	87.31	36.86	2.37x
2034	34.87	119.41	(6.49)	3.72	116.64	(28.26)	88.38	36.86	2.40x
2035	35.36	121.09	(6.59)	3.78	118.28	(29.01)	89.27	36.86	2.42x
2036	35.79	122.54	(6.67)	3.84	119.70	(29.82)	89.88	36.86	2.44x
2037	36.15	123.76	(6.74)	3.89	120.90	(30.51)	90.40	36.86	2.45x
2038	36.44	124.74	(6.80)	3.94	121.88	(31.25)	90.62	36.86	2.46x
2039	36.66	125.49	(6.85)	3.98	122.62	(31.93)	90.68	36.86	2.46x
2040	36.81	126.00	(6.88)	4.01	123.13	(32.65)	90.48	36.86	2.45x
2041	36.96	126.51	(6.92)	4.05	123.64	(33.38)	90.26	36.86	2.45x
2042	37.11	127.02	(6.95)	4.09	124.15	(34.19)	89.96	-	-
2043	37.26	127.53	(6.99)	4.13	124.67	(34.90)	89.77	-	-
2044	37.42	128.05	(7.02)	4.16	125.19	(35.65)	89.54	-	-
2045	37.57	128.57	(7.06)	4.20	125.71	(36.45)	89.26	-	-
2046	37.73	129.09	(7.09)	4.24	126.24	(37.30)	88.94	-	-
2047	37.88	129.61	(7.13)	4.28	126.77	(38.08)	88.69	-	-
2048	38.04	130.14	(7.17)	4.32	127.30	(38.89)	88.41	-	-
2049	38.19	130.67	(7.20)	4.37	127.83	(39.73)	88.10	-	-
2050	38.35	131.20	(7.24)	4.41	128.37	(40.73)	87.64	-	-
2051	38.51	131.74	(7.27)	4.45	128.91	(41.59)	87.32	-	-
2052	38.67	132.27	(7.31)	4.50	129.46	(42.49)	86.97	-	-
2053	38.83	132.81	(7.35)	4.54	130.00	(43.48)	86.52	-	-
2054	38.99	133.35	(7.39)	4.59	130.55	(44.44)	86.11	-	-
2055	39.15	133.90	(7.42)	4.63	131.11	(45.62)	85.49	-	-
2056	39.31	134.44	(7.46)	4.68	131.66	(46.61)	85.05	-	-
Totals 2012-56	1,468.54	4,997.88	(282.89)	170.10	4,885.09	(1,284.90)	3,600.19	1,025.54	

* Actuals as reported on the Monthly Tolling Reports (MTR) after removing duplicate and non-revenue transactions

- (1) FY 2015 and beyond represent projections prepared by CDM Smith in the October 2013 Traffic and Revenue Forecast.
- (2) FY 2015 and beyond represent projections prepared by Parsons Brinckerhoff in the October 2013 Net Toll Revenue Forecast.
- (3) Net of toll revenues recovered through civil penalty process.
- (4) Includes customer discounts/incentives plus revenues from "pay by plate" and late payment fees.
- (5) Includes credit card fees, routine collection operation and maintenance ("O&M"), routine facility O&M, intangible software assets, and bridge insurance premiums.
- (6) Prepared by the Office of State Treasurer. Debt Service Coverage is projected and actual coverage may be materially different. The state expects to issue additional Bonds backed by Toll Revenue.

Source: 2013 Traffic and Revenue Study and Net Toll Revenue Report.

Exhibit IV

Debt Service on Outstanding Bonds

Exhibit IV
Washington State System of Eligible Toll Facilities
Debt Service on Outstanding Bonds
Outstanding as of June 30, 2014*
(in dollars)

Fiscal Year Ending June 30	General Obligation Triple Pledge			GARVEEs			Total		Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	
2015	-	26,024,975	26,024,975	-	39,095,675	39,095,675	-	65,120,650	65,120,650
2016	-	26,024,975	26,024,975	62,600,000	37,544,175	100,144,175	62,600,000	63,569,150	126,169,150
2017	10,835,000	26,024,975	36,859,975	65,710,000	34,360,925	100,070,925	76,545,000	60,385,900	136,930,900
2018	11,375,000	25,483,225	36,858,225	68,975,000	31,026,150	100,001,150	80,350,000	56,509,375	136,859,375
2019	11,945,000	24,914,475	36,859,475	72,380,000	27,519,375	99,899,375	84,325,000	52,433,850	136,758,850
2020	12,540,000	24,317,225	36,857,225	75,985,000	23,819,250	99,804,250	88,525,000	48,136,475	136,661,475
2021	13,165,000	23,690,225	36,855,225	79,780,000	19,937,625	99,717,625	92,945,000	43,627,850	136,572,850
2022	13,825,000	23,031,975	36,856,975	83,750,000	15,869,938	99,619,938	97,575,000	38,901,913	136,476,913
2023	14,515,000	22,340,725	36,855,725	87,915,000	11,593,625	99,508,625	102,430,000	33,934,350	136,364,350
2024	15,240,000	21,614,975	36,854,975	92,305,000	7,092,125	99,397,125	107,545,000	28,707,100	136,252,100
2025	16,005,000	20,852,975	36,857,975	96,915,000	2,392,250	99,307,250	112,920,000	23,245,225	136,165,225
2026	16,805,000	20,052,725	36,857,725	-	-	-	16,805,000	20,052,725	36,857,725
2027	17,685,000	19,170,463	36,855,463	-	-	-	17,685,000	19,170,463	36,855,463
2028	18,615,000	18,242,000	36,857,000	-	-	-	18,615,000	18,242,000	36,857,000
2029	19,545,000	17,311,250	36,856,250	-	-	-	19,545,000	17,311,250	36,856,250
2030	20,525,000	16,334,000	36,859,000	-	-	-	20,525,000	16,334,000	36,859,000
2031	21,550,000	15,307,750	36,857,750	-	-	-	21,550,000	15,307,750	36,857,750
2032	22,625,000	14,230,250	36,855,250	-	-	-	22,625,000	14,230,250	36,855,250
2033	23,760,000	13,099,000	36,859,000	-	-	-	23,760,000	13,099,000	36,859,000
2034	24,945,000	11,911,000	36,856,000	-	-	-	24,945,000	11,911,000	36,856,000
2035	26,195,000	10,663,750	36,858,750	-	-	-	26,195,000	10,663,750	36,858,750
2036	27,505,000	9,354,000	36,859,000	-	-	-	27,505,000	9,354,000	36,859,000
2037	28,880,000	7,978,750	36,858,750	-	-	-	28,880,000	7,978,750	36,858,750
2038	30,325,000	6,534,750	36,859,750	-	-	-	30,325,000	6,534,750	36,859,750
2039	31,840,000	5,018,500	36,858,500	-	-	-	31,840,000	5,018,500	36,858,500
2040	33,430,000	3,426,500	36,856,500	-	-	-	33,430,000	3,426,500	36,856,500
2041	35,100,000	1,755,000	36,855,000	-	-	-	35,100,000	1,755,000	36,855,000
Total	518,775,000	454,710,413	973,485,413	786,315,000	250,251,113	1,036,566,113	1,305,090,000	704,961,525	2,010,051,525

* Does not include Toll Revenue Bond, Series 2013C (SR 520: TIFIA – 2012-1001A), which had not been drawn as of June 30, 2014. \$10 million of the \$300 million TIFIA Bond was drawn on September 15, 2014.