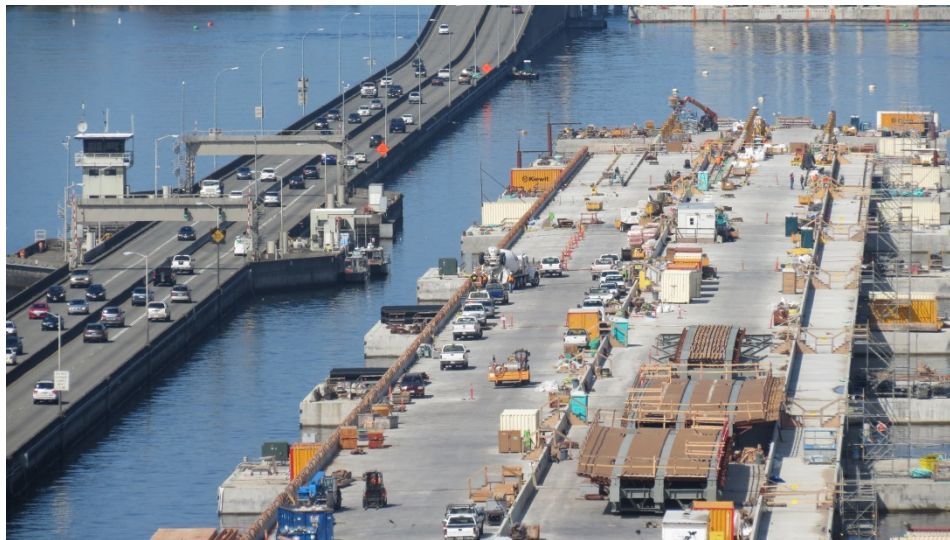




**Washington State
Department of Transportation**

WASHINGTON STATE
SYSTEM OF ELIGIBLE TOLL FACILITIES
ANNUAL FINANCIAL REPORT
JUNE 30, 2015





Presented By

Washington State Department of Transportation

Accounting and Financial Services Division
and
Toll Division



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INTRODUCTORY SECTION



**Washington State
Department of Transportation**

Lynn Peterson
Secretary of Transportation

Accounting and Financial Services
310 Maple Park Ave SE
P.O. Box 47420
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TTY: 1-800-833-6388
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October 29, 2015

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

Dear Secretary Peterson:

The Accounting and Financial Services Division and the Toll Division are pleased to present to you and the citizens of Washington State the Annual Financial Report for the Washington State System of Eligible Toll Facilities ("System"), for fiscal year ended June 30, 2015. 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. This report has been prepared in accordance with standards established by the Government Accounting Standards Board (GASB). We believe the report contains all disclosures necessary for the reader to understand the System's financial position.

The overall net position of the System increased 40.2% to \$177.9 million during Fiscal Year 2015. Tolling Revenue increased 5.7% to \$63.9 million over the prior year, primarily due to an additional one million tolled trips across the State Route 520 Bridge. Total Expenditures also increased slightly by 5.0%, a difference of \$2.6 million from Fiscal Year 2014.

The financial statements and narratives included in this report represents that portion of the System financed by bonds issued under State Finance Committee Master Resolution Numbers 1117 and 1125, as represented in the State Route 520 Corridor Account and the Toll Facility Bond Retirement Account. Pursuant to RCW 47.56.060, this report is intended to provide complete and reliable information that can be used to make management decisions and demonstrate the financial condition of the System.

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 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.

This Annual Financial Report is divided into an Introductory Section and Financial Section to facilitate a thorough understanding of the financial position of the System. Management's Discussion and Analysis (MD&A) can be found in the Financial Section and provides a narrative overview and analysis of the financial statements.

The preparation of the System's Annual Financial Report was accomplished through a partnership between the employees of the Toll Division and the Accounting and Financial Services Division. We appreciate the assistance of all employees involved.

Respectfully submitted,



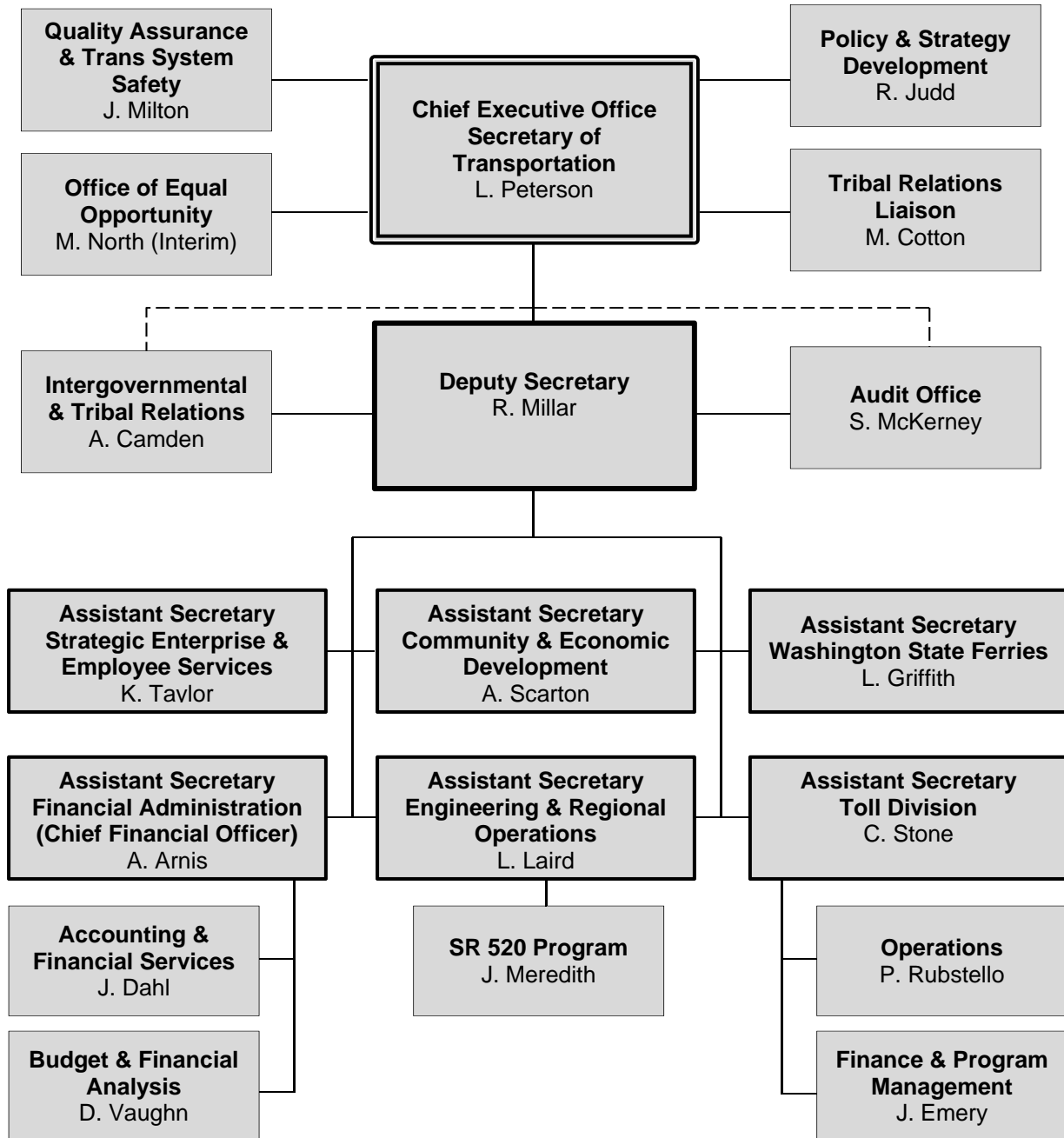
Jennifer Dahl, Director
Accounting and Financial Services Division



Joel Emery, Director
Finance and Program Management
Toll Division

Washington State Department of Transportation's Organization

Citizens of the State of Washington
Governor Jay Inslee



Profile of Washington State System of Eligible Toll Facilities

History of Tolling State Route 520 Across Lake Washington

Tolling on State Route 520 (SR 520) across Lake Washington began in 1963 with the opening of the SR 520 (Evergreen Point Floating) Bridge. In the years leading up to the opening of the SR 520 Bridge, traffic was rapidly increasing on the existing Lacey V. Murrow Memorial Bridge. Growth and development studies, along with increased delays and traffic accidents, justified the need for an alternative route across Lake Washington.



State Route 520 (Evergreen Point Floating) Bridge

In 1953 Washington State Legislature passed Chapter 192 authorizing the second bridge over Lake Washington. The project was funded by revenue bonds that would be supported by tolls from the new bridge.

After ongoing discussions about the location of the new bridge, it was determined the most feasible location was the Montlake-Evergreen Point route. With the location of the bridge resolved, planning and design began and contract bids for the floating bridge portion of the project were opened in March 1959. Financed by a \$30 million revenue bond, \$5 million in Federal aid and a portion of King County's state gas tax fund. The SR 520 Bridge opened August 28, 1963, which relieved traffic and stimulated development and growth in neighboring communities.

The SR 520 corridor stretches nearly 13 miles between I-5 in Seattle to the west and SR 202 to the east, crossing I-405 at about the halfway point, and serving various Eastside communities, including Bellevue, Kirkland and Redmond. The main SR 520 bridge span across Lake Washington is 1.42 miles long, making it the longest floating bridge span in the world. It is a floating concrete pontoon bridge with unique movable pontoons and draw span that allows for ship passage.



Tolls were expected to be collected for 40 years, at which time the bond was expected to be paid off. However, traffic was so heavy the bond was paid off in June 1979 and tolls ended only 16 years after the bridge opened.

The SR 520 Bridge was built to last for 50 years, designed to carry 65,000 cars a day and expected to handle a 100 year storm. By 2011, it was carrying an average of 93,100 vehicles a day, had withstood \$500,000 of damage from a colliding gravel barge, endured the 1993 “Inaugural Day Storm” resulting in 30,000 linear feet of cracks, and undergone various repairs and reinforcements to weather high winds. Nearing the end of the bridge’s expected life, growing concerns about safety and increased travel sparked discussions around bridge replacement and SR 520 improvements.

New SR 520 Bridge

A Tolling Implementation Committee was formed in 2008 to work with the public on different tolling scenarios to finance the 520 Bridge Replacement and High Occupancy Vehicle (HOV) program. In May 2009, Governor Gregoire and the Washington State Legislature approved the SR 520 Bridge Replacement and HOV project and authorized tolling across the SR 520 Bridge.

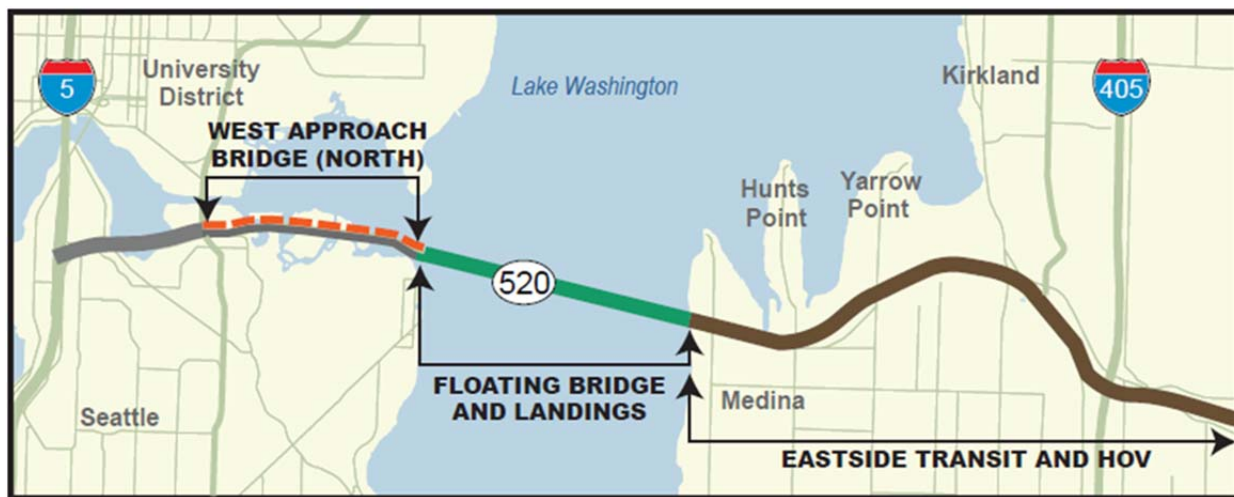
Since 2011 construction has been underway to replace the Evergreen Point floating bridge with a new 75 year floating bridge, one capable of carrying more traffic and surviving stronger storms. This bridge is the centerpiece of the SR 520 Bridge Replacement and HOV Program, a program addressing safety vulnerabilities and capacity restrictions along the 12.8-mile SR 520 Corridor which stretches from I-5 in Seattle to SR 202 in Redmond.

WSDOT began tolling the east high-rise section of the existing SR 520 bridge on December 29, 2011. WSDOT will continue to collect tolls during construction and toll collection is expected to continue after construction is completed.

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 \$285.9 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.

The investment of \$2.89 billion is funding improvements to include:

- Building a new floating bridge, plus 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.
- Making a series of other investments for safety, reliability, and transit and HOV operations.



WSDOT Promotes Sustainability

WSDOT is committed to environmental stewardship and promoting sustainability. On track to open in the spring of 2016, the new SR 520 floating bridge can be retrofitted for future light rail and has been designed to minimize concrete requirements by reducing the number of in-water columns and the amount of concrete needed to build them.

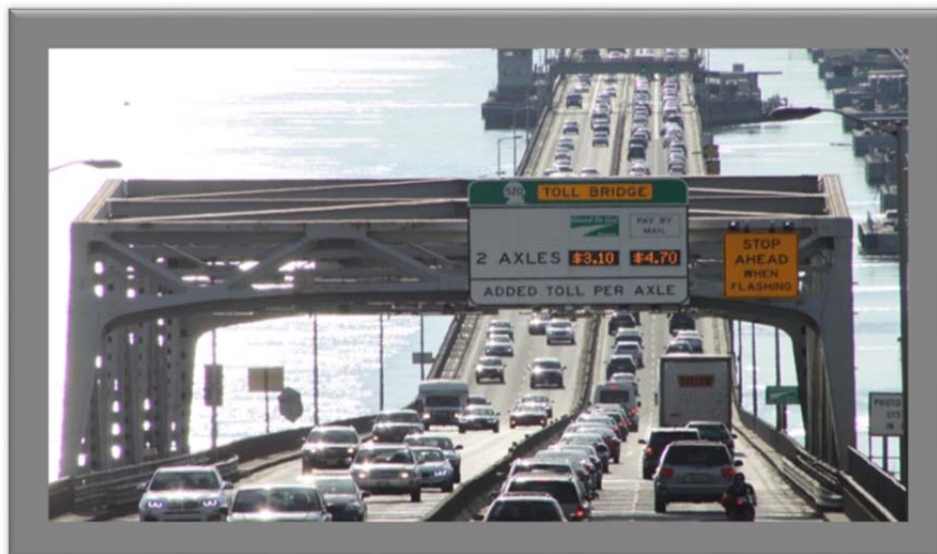
WSDOT follows best practices to protect the environment by:

- Using specialized bubble curtains to reduce underwater construction noise that can harm fish.
- Erecting silt and turbidity curtains to halt erosion, prevent runoff and contain dredged sediments.
- Using vegetable based hydraulic fluids.
- Requiring contractors to reduce, reuse, and recycle construction materials.

For more information about the SR 520 Bridge Replacement and HOV Program including the program's purpose, costs and benefits, and a series of maps and photos visit the SR 520 Bridge Replacement and HOV Program website at: <http://www.wsdot.wa.gov/Projects/SR520Bridge/>.

Washington State System of Eligible Toll Facilities Organization

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, of the state (together, the "Toll Facilities Act"), the Legislature may specifically identify and designate portions of the state highway system as an eligible toll facility, including, but not limited to, transportation corridors, bridges, crossings, interchanges, on-ramps, off-ramps, approaches, bi-state facilities, and interconnections between highways ("Eligible Toll Facilities"). In the Toll Facilities Act, the Legislature designated the SR 520 Corridor as an Eligible Toll Facility and has authorized the imposition of tolls only for travel on the floating bridge portion of the SR 520 Corridor.



In the Toll Facilities Act, the Legislature also has delegated to the State Transportation Commission, the delegated tolling authority for the state (the “Tolling Authority”), the legal power to set, review and adjust tolls on Eligible Toll Facilities identified by the Legislature and on which the Legislature has authorized the imposition of tolls. The Transportation Commission is a seven-member body of citizens appointed by the Governor for six-year terms. The Secretary of Transportation and a representative from the Governor’s office serve as ex officio members.

The Toll Facilities Act directs that, in setting and adjusting toll rates, the Tolling Authority must ensure that tolls will generate revenue sufficient to: (1) meet operating costs of the Eligible Toll Facilities, including necessary maintenance, preservation, renewal, replacement, administration, and toll enforcement; (2) meet obligations for the timely payment of debt service on bonds issued for Eligible Toll Facilities, and any other associated financing costs including, but not limited to, required reserves, minimum debt service coverage and other appropriate contingency funding, insurance, and compliance with all other financial and other covenants made by the state in the bond proceedings; (3) meet obligations to reimburse the Motor Vehicle Fund for Motor Vehicle Fuel Taxes applied to the payment of bonds issued for Eligible Toll Facilities; and (4) meet any other obligations of the Tolling Authority to provide its proportionate share of funding contributions for any projects or operations of the Eligible Toll Facilities.

WSDOT is committed to financial transparency and accountability in fulfilling our tolling fiduciary responsibilities. Organizations listed below contribute to the operations and oversight of the System.

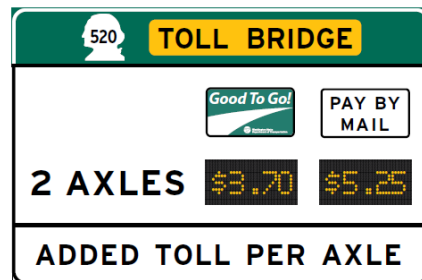
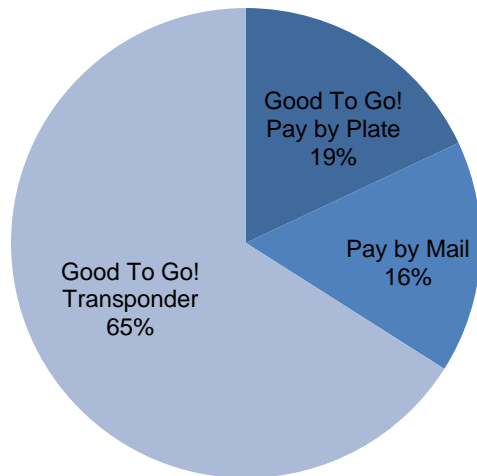
Organization	Roles and Responsibilities
Washington State Legislature Legislative Building Olympia, WA 98504	Provides legal framework for tolling; determines eligible tolling corridors and facilities; authorizes tolling budget and finance plans.
Washington State Transportation Commission 2404 Chandler Court SW, Suite 270 Olympia, WA 98502-6052	Sets tolls for state highways and bridges; reviews and oversees toll collection processes and costs, operations policies, and traffic and toll revenue.
Office of the State Treasurer 416 Sid Snyder Avenue SW Olympia, WA 98504-0200	Provides cash management and administration of debt service.
State Auditor's Office 302 Sid Snyder Avenue SW Olympia, WA 98504-0021	Conducts the Comprehensive Annual Financial Report (CAFR) Audit, Performance Audits and the Statewide Single Audit (SWSA) for the State of Washington.
WSDOT Toll Division 401 2 nd Avenue S #300 Seattle, WA 98104	Develops, delivers and oversees the statewide toll collection system.
WSDOT Accounting and Financial Services PO Box 47420 Olympia, WA 98504	Provides financial services and consultation to the statewide toll collection system.
WSDOT Budget and Financial Analysis PO Box 47422 Olympia, WA 98504	Provides financial planning and debt management services.
WSDOT Audit Office PO Box 47320 Olympia, WA 98504	Provides audit and consulting services to the statewide toll collection system.
Schneider Electric Boston One Campus 800 Federal Street Andover, MA 01810	Operates the Roadway Toll System, collecting electronic and photo toll transactions for processing.
Electronic Transaction Consultants Corporation (ETCC) 1705 N. Plano Road Richardson, TX 75081	Operates the statewide <i>Good to Go!</i> Customer Service Center (CSC) that supports customer service account management, payment processing, and customer service.
CliftonLarsonAllen (CLA) 3000 Northup Way, Suite 200 Bellevue, WA 98004	Conducted the independent audit of the System's annual financial statements.
Montgomery Coscia Greilich LLP 2500 Dallas Parkway, Suite 300 Plano, TX 75093	Issued the 2015 Service Organization Controls (SOC 1) Report on ETCC's controls relevant to WSDOT's internal controls over financial reporting.

Washington State System of Eligible Toll Facilities Operations

The SR 520 Bridge is an electronic tolling facility, where tolls are paid through a *Good to Go!* account or through the Pay by Mail option. A brief description of the payment options are listed below:

- **Good to Go! Pass** – This account requires a *Good to Go!* pass (transponder) and registered license plate number. Accounts can be set up to be automatically replenished when account balance drop below a predefined level. These accounts are charged the lowest toll rate.
- **Pay by Plate** – This account does not require a transponder, but does require a license plate number registered with a *Good to Go!* account. Accounts can be set up to be replenished automatically. Customers are charged the *Good to Go!* toll rate plus a \$0.25 fee per toll transaction.
- **Pay by Mail** – Meant for infrequent users that do not have a *Good to Go!* account. Toll bills are mailed to the registered vehicle owner’s address on file with the Department of Licensing. Toll bills are generally mailed within 14 days of crossing the SR 520 Bridge. Customers are charged the Pay by Mail toll rate, which is approximately \$1.65 more per transaction than the *Good to Go!* pass.
- **Short Term** – These accounts are only valid for 14 days and then they automatically close. Drivers have up to 72 hours after traveling a tolled facility to set up a Short Term Account. Customers are charged the *Pay by Mail* rate minus a \$0.50 discount per toll transaction. Tolls and fees are charged directly to the customer’s debit or credit card.

Monthly Trip Reports provide a breakdown of toll transactions by payment method. For Fiscal Year 2015, the proportion of *Good To Go!* (i.e. account based) transactions was 84%, with 65% of the transactions using a transponder and 19% using the Pay-By-Plate payment option. For more information about payment share, readers should review the Investment Grade Traffic and Revenue Study Updates found at <http://www.wsdot.wa.gov/Tolling/520/Finance.htm>.



Toll Transaction by Payment Method (FY 2015)

Toll rates are established by the Washington State Transportation Commission (WSTC). For the SR 520 Bridge, tolls vary by time of day and for weekends and holidays. WSTC works with WSDOT and the public to establish toll rates. WSTC reviews traffic and revenue each year to determine whether new toll rates are needed to cover operational costs and debt payments. This review process starts in the fall and, if new rates are adopted, they are in effect the following July.

Tolling Subsidiary Accounting System

Recent independent audits have determined that the tolling subsidiary accounting system managed by ETCC, a contracted service organization, contains weaknesses in internal controls. The most recent audit showed that some of the deficiencies identified in previous audits have been remediated, resulting in improved internal controls. WSDOT continues to work with ETCC to remediate the remaining deficiencies. WSDOT is committed to the highest standard of transactional and financial accountability for the citizens of Washington State.

Contacting Washington's Department of Transportation

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.

Financial Section

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, a component of the Washington State Department of Transportation as of and for the year ended June 30, 2015, 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 opinions.

Opinions

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, 2015, 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.

Other Matter - 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, 2015 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 16 through 21 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 opinions 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 29, 2015

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of financial activities of the System for the fiscal years ended June 30, 2014 and 2015. Please read it in conjunction with the financial statements and notes to the financial statements, which begin on page 22.

The financial statements 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 financial activity related to tolling on the System for fiscal years ended June 30, 2014 and 2015.

- *Revenues*

Government-wide revenues were \$93,877,467 for Fiscal Year 2014 and \$105,971,928 for Fiscal Year 2015, representing an increase of \$12,094,461.

Total governmental fund revenues were \$93,949,760 for Fiscal Year 2014 and \$105,804,403 for Fiscal Year 2015. This includes tolling revenues of \$60,495,517 and \$63,950,226 for Fiscal Years 2014 and 2015, respectively.

Total Toll Facility Bond Retirement revenues were \$12,340 for Fiscal Year 2014 and \$28,909 for Fiscal Year 2015. Source of revenue for debt service consists of Interest Income.

- *Expenditures*

Government-wide expenditures were \$53,192,351 for Fiscal Year 2014 and \$54,624,282 for Fiscal Year 2015, representing an increase of \$1,431,931.

Total governmental fund expenditures were \$354,038,489 for Fiscal Year 2014 and \$379,045,917 for Fiscal Year 2015. This includes capital outlays of \$341,576,828 and \$366,112,908 for Fiscal Year 2014 and Fiscal Year 2015, respectively.

In Fiscal Year 2015, total government-wide expenditures increased by \$33,285,961. This is predominantly due to an increase in Capital Outlays and Debt Service Interest as compared to prior year. In addition, State Route Number 520 Corridor Account did not incur expenditures for the Cost of Financing in Fiscal Year 2015. Expenditures recorded in the debt service account, Toll Facility Bond Retirement, represent the interest, principal and premium payments issued for construction of eligible toll facilities. The interest payments made in Fiscal Year 2014 were \$56,842,117 and \$65,120,650 in Fiscal Year 2015.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2015

- *Net Position*

The System reported a total net position of \$126,870,038 in Fiscal Year 2014 and \$177,869,869 in Fiscal Year 2015, representing an increase of \$50,999,831.

The System's governmental combined funds reported a combined ending fund balance of \$202,443,643 for Fiscal Year 2014 and \$50,195,752 for Fiscal Year 2015.

- *Construction in Progress*

Total cost for Construction-in-Progress is \$373,610,074 for Fiscal Year 2014 and \$377,885,885 for Fiscal Year 2015. The increased cost during Fiscal Year 2015 resulted in an ending balance of \$1,849,028,460.

- *Capital Assets*

The value of land was \$33,220,419 for Fiscal Year 2014 and \$50,083,897 for Fiscal Year 2015, representing an increase of \$16,863,478. The net value of equipment was \$10,250 for Fiscal Year 2014 and \$18,921 for Fiscal Year 2015, representing an increase of \$8,671.

The net value of System assets for Fiscal Year 2015, excluding Construction-in-Progress, total \$51,339,308 including Intangible Software valued at \$1,236,490.

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. The System is a governmental program, consisting of two accounts: the State Route Number 520 Corridor Account, a Special Revenue Fund, and the Toll Facility Bond Retirement Account, a Debt Service Fund, both of which use the modified accrual basis of accounting.

Basic Financial Statements

The financial statements for the System are presented in a combined format that represents individual accounts, State Route Number 520 Corridor Account and the Toll Facility Bond Retirement Account, 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 22 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 23 of this report.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2015

Government Fund Financial Statements

The Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance provides 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.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities provides 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 24-41 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 individual special revenue accounts and government-wide financial statements.

Financial Analysis

The data presented in the tables below is a comparison of Fiscal Year ended June 30, 2014 and Fiscal Year ended June 30, 2015.

CONDENSED STATEMENT OF NET POSITION			
	2014	2015	% Change
Assets			
Current and Other Assets	\$ 286,784,129	\$ 74,916,768	-73.9%
Capital Assets, Net	1,506,021,897	1,900,367,768	26.2%
Total Assets	1,792,806,026	1,975,284,536	10.2%
Liabilities			
Current and Other Liabilities	97,971,524	38,276,038	-60.9%
Noncurrent Liabilities	1,567,964,463	1,759,138,629	12.2%
Total Liabilities	1,665,935,987	1,797,414,667	7.9%
Net Investment in Capital Assets	99,307,357	141,204,555	42.2%
Restricted Assets (Net)	27,562,681	36,665,314	33.0%
Unrestricted Deficit	-	-	
Net Position, end of the Year	\$ 126,870,038	\$ 177,869,869	40.2%

During Fiscal Year 2015, Current and Other Assets decreased considerably, primarily due to a \$205,674,835 reduction in Cash and Cash Equivalent due to continued construction of the bridge. In addition Bond Proceeds decreased from \$295,915,000 in Fiscal Year 2014 to \$185,199,364 in Fiscal Year 2015 as no new bonds were issued during 2015.

Washington State System of Eligible Toll Facilities
Management's Discussion and Analysis
June 30, 2015

CONDENSED STATEMENT OF ACTIVITIES			
	2014	2015	% Change
Revenue			
Tolling Revenue	\$ 60,495,517	\$ 63,950,226	5.71%
Other Revenue	33,381,950	42,021,702	25.88%
Total Revenue	93,877,467	105,971,928	12.88%
Expenses			
Personnel Service Contracts	886,457	1,587,467	79.08%
Goods and Services	10,158,907	11,757,547	15.74%
Other Expenditures	42,146,987	42,513,083	.87%
Total Expenses	53,192,351	55,858,097	5.01%
Other Financing Sources/Uses	-	886,000	
Change in Net Position	40,685,116	50,999,831	25.35%
Net Position, Beginning of the Year	86,184,922	126,870,038	47.21%
Net Position, end of the Year	\$ 126,870,038	\$ 177,869,869	40.20%

Tolling Revenue for Fiscal Year 2015 is \$63,950,226. This represents an increase of \$3,454,709 over Fiscal Year 2014. The increase in Other Revenue is largely due to an increase in Debt Service Reimbursement. In Fiscal Year 2015 Debt Service Reimbursement from the Federal Highway Administration totaled \$39,095,675, as compared to \$30,817,141 received in Fiscal Year 2014.

The System's fund balance is restricted to any proper purpose of the System's operations, in accordance with Master Resolution 1117 (referred to as "sub-accounts" within the Bond Covenant). The restricted fund balances are established as a result of the issuance of bonds for the System. Restrictions for fiscal year ended June 30, 2015 are as follows:

RESTRICTED FUND BALANCE		
	2014	2015
Restricted for Unspent GARVEE Proceeds	\$161,208,906	\$ -
Restricted for Operating/Maintenance Reserve	7,253,547	7,798,635
Restricted for Repair/Replacement Reserve	3,750,000	3,402,768
Restricted for Transportation	28,033,155	36,767,404
Restricted for Third Tier Debt Service	2,198,035	2,226,945

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2015

Capital Assets

The System's capital assets are comprised of Land, Equipment, Construction-in-Progress, and a Software-Intangible Asset. The total Construction-in-Progress balance of \$1,849,028,460 is related to activities of SR520 Corridor Program, which is considered an infrastructure asset.

ETCC's Electronic Tolling System includes an IT software intangible asset that is owned by WSDOT. The capitalized portion of ETCC's Electronic Tolling System that was purchased and developed by the State Route Number 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 "tolling 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 tolling revenue to the payment of particular bonds issued under the Bond Act that "tolling revenue" means and includes only such tolling 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 tolling 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 Committee to issue the authorized bonds as tolling revenue bonds, which are payable solely from and secured solely by tolling 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 - Tolling 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 Tolling 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.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis June 30, 2015

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 to 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 \$300.0 million to be reimbursed from tolling revenue. As of June 30, 2015, \$195.2 million has been drawn on the TIFIA Bond. The Bonds are "tolling 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 are being issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to 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.

In addition to the bonds mentioned above, the state may in the future issue bonds payable solely from toll receipts from the SR 520 Corridor.

Washington State System of Eligible Toll Facilities

Balance Sheet / Statement of Net Position

June 30, 2015

GOVERNMENT FUND FINANCIAL STATEMENTS					
Toll Facility					
	SR 520 Corridor Account	Bond Retirement Account	Total	Adjustments (Note 2)	Statement of Net Position
Assets					
Cash and Cash Equivalents	\$ 50,901,152	\$ 2,226,885	\$ 53,128,038	\$ -	\$ 53,128,038
Cash Held with Escrow Agents	16,370,147	-	16,370,147	-	16,370,147
Accounts Receivable (Net)	2,827,251	-	2,827,251	-	2,827,251
Due from Other Governments	-	-	-	-	-
Due from Other Funds/Agencies	1,826,867	59	1,826,926	-	1,826,926
Due from Toll Vendor	764,406	-	764,406	-	764,406
Capital Assets, not being Depreciated (Note 6)	-	-	-	1,899,112,357	1,899,112,357
Capital Assets, being Depreciated (Note 6)	-	-	-	18,921	18,921
Intangible Assets, being Amortized (Note 6)	-	-	-	1,236,490	1,236,490
TOTAL ASSETS	72,689,823	2,226,945	74,916,768	1,900,367,768	1,975,284,536
Liabilities					
Accounts Payable	1,653,706	-	1,653,706	-	1,653,706
Retainage Payable	16,725,350	-	16,725,350	-	16,725,350
Due to Other Funds/Agencies	3,917,139	-	3,917,139	-	3,917,139
Due to Other Governments	-	-	-	-	-
Unearned Revenue	651,444	-	651,444	-	651,444
Current Portion of Long-Term Bond Principal	-	-	-	62,600	62,600
Debt Service Interest Payable	-	-	-	15,265,799	15,265,799
Long-Term Liabilities (Note 7)	-	-	-	-	-
Compensated Absences Payable	-	-	-	38,017	38,017
Sales Tax Payable	-	-	-	134,412,361	134,412,361
Premiums on Bonds Payable	-	-	-	124,461,487	124,461,487
Bond Principal Due After One Year	-	-	-	1,305,027,400	1,305,027,400
TIFIA Loan Principal Due After One Year	-	-	-	195,199,364	195,199,364
TOTAL LIABILITIES	22,947,639	-	22,947,639	1,774,467,028	1,797,414,667
Deferred Inflows of Resources					
Unavailable Revenue-Toll Vendor	509,610	-	509,610	(509,610)	-
Unavailable Revenue-Reprocessing Fee	1,263,768	-	1,263,768	(1,263,768)	-
Total Deferred Inflows of Resources	1,773,378	-	1,773,378	(1,773,378)	-
FUND BALANCES/NET POSITION					
Fund Balances					
Restricted for Unspent	-	-	-	-	-
GARVEE Bond Proceeds	-	-	-	-	-
Restricted for Operating & Maintenance Reserve	7,798,635	-	7,798,635	(7,798,635)	-
Restricted for Repair & Replacement	3,402,768	-	3,402,768	(3,402,768)	-
Restricted for Transportation	36,767,404	-	36,767,404	(36,767,404)	-
Restricted for Third Tier Debt Service	-	2,226,945	2,226,945	(2,226,945)	-
Restricted for Debt Service	-	-	-	-	-
Total Fund Balances	47,968,807	2,226,945	50,195,752	(50,195,752)	177,869,869
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
	\$ 72,689,824	\$ 2,226,945	\$ 74,916,769		
Net Position:					
Net Investment in Capital Assets				141,204,555	141,204,555
Restricted for Unspent					
Bond Proceeds - Non Capitalized					
Restricted for Unspent					
GARVEE Bond Proceeds					
Restricted for Operating & Maintenance Reserve				7,798,635	7,798,635
Restricted for Repair & Replacement Reserve				3,402,768	3,402,768
Restricted for Transportation				23,236,966	23,236,966
Restricted for Third Tier Debt Service				2,226,945	2,226,945
Total Net Position				\$ 177,869,869	\$ 177,869,869

See accompanying Notes to Financial Statements.

Washington State System of Eligible Toll Facilities
Statement of Revenues, Expenses, and
Changes in Net Position / Statement of Activities
June 30, 2015

GOVERNMENT FUND FINANCIAL STATEMENTS					
	SR 520 Corridor Account	Toll Facility Bond Retirement Account	Total	Adjustments (Note 4)	Statement of Activities
REVENUE					
Tolling Revenue	\$ 63,950,226	\$ -	\$ 63,950,226	\$ -	\$ 63,950,226
Debt Service Reimbursement - - Federal Highway Administration	39,095,675	-	39,095,675	-	39,095,675
Transponder Sales	551,350	-	551,350	-	551,350
Toll Vendor Contractual Damages	278,951	-	278,951	(254,796)	24,155
Toll Bill Reprocessing Fee Revenue	1,539,416	-	1,539,416	393,412	1,932,828
Interest Income	329,384	28,909	358,293	-	358,293
Miscellaneous Revenue	59,401	-	59,401	-	59,401
Total Revenues	105,804,403	28,909	105,833,312	138,616	105,971,928
EXPENDITURES					
Current:					
Personal Service Contracts	1,587,467	-	1,587,467	-	1,587,467
Goods and Services	10,362,706	-	10,362,706	412,005	10,774,711
Salaries and Benefits	982,836	-	982,836	-	982,836
Cost of Financing	-	-	-	-	-
Capital Outlays	366,112,908	-	366,112,908	(366,112,908)	-
Debt Service - Interest	-	65,120,650	65,120,650	(23,841,382)	41,279,268
Total Expenditures	379,045,917	65,120,650	444,166,567	(389,542,285)	54,624,282
Excess (Deficiency) of Revenues over Expenditures	(273,241,514)	(65,091,741)	(338,333,255)	389,680,901	51,347,646
Other Financing Sources/Uses:					
TIFIA Loan Proceeds	185,199,364	-	185,199,364	(185,199,364)	-
Transfers-external Activities	886,000	-	886,000	(1,233,815)	(347,815)
Transfers-Internal Activities	(65,120,651)	65,120,651	-	-	-
Excess (Deficiency) of Revenues and Transfers In over Expenditures and Transfers Out	120,964,713	65,120,651	186,085,364	(186,433,179)	(347,815)
Change in Fund Balances/Net Position	(152,276,801)	28,910	(152,247,891)	203,247,722	50,999,831
Fund Balances/Net Position:					
Beginning of The Year	200,245,608	2,198,035	202,443,643	(75,573,606)	126,870,038
End of The Year	\$ 47,968,807	\$ 2,226,945	\$ 50,195,752	\$ 127,674,116	\$ 177,869,869

See accompanying Notes to Financial Statements.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The System means the SR 520 Corridor, which is defined in the master bond resolution as that portion of SR 520 from Interstate 5 to State Route 202. 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 (OST) 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 Number 1117 and Number 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.

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 Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 tolling 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.

Fund Structure

The System's 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:

a. *State Route Number 520 Corridor Account*

This account was established August 2009, pursuant to RCW 47.56.875, for the purpose to assist financing the replacement and operations of the State Route 520 Floating Bridge and necessary landings. This account is administered by WSDOT and is classified as a Special Revenue Fund. Pursuant to RCW 47.56.820, tolling revenue is restricted to use.

b. *Toll Facility Bond Retirement Account*

This account was established May 2009, pursuant to RCW 47.10.882, 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 OST and is classified as a Debt Service Fund.

Cash and Cash Equivalents

All monies of the System are deposited in the state treasury and are considered cash and cash equivalents. According to state of Washington law, the OST 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 OST to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivables

Accounts Receivable of the System consist primarily of tolling 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 and Deferred Inflows of Resources 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 tolling revenue are transferred out of the State Route Number 520 Corridor Account to a separate account established by RCW 47.56.876, specifically for adjudication and collection. Pursuant to this RCW with authority in an appropriation bill, the Legislature may authorize a transfer of excess fund balance from the 520 Civil Penalties Account to the State Route Number 520 Corridor Account for capital expenditures on the SR 520 Corridor. In order to transfer the funds the OST must be provided administrative transfer authority. Additionally, the Legislature provided authority in the 2013-2015 Biennium to transfer, to the State Route Number 520 Corridor Account, a portion of fund balance that represented toll revenue pledged to the bond holder.

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 currently approximately 14% of the accounts receivable balance. The allowance for doubtful accounts for the \$5 reprocessing fee is currently approximately 10% of the accounts receivable balance. Allowance percentages are based upon review of similar toll operations and WSDOT historical experience.

Capital Assets

Capital Assets of the System consist of Land, Equipment, Intangible Assets, and Infrastructure Construction-in-Progress associated with the construction of the State Route 520 Program. For purposes of the System's audited financial statements, WSDOT fully capitalizes infrastructure and reports the full cost of the asset. Depreciation of infrastructure and equipment is calculated using the straight-line method over the estimated useful life of the asset. The useful life is 5-10 years for equipment and 20-50 years for infrastructure. 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 capitalization threshold for intangible assets, including land use rights not acquired with the purchase of land, is \$1 million, for both the state of Washington and WSDOT. 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.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 separation or 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 death or retirement of an employee, at which time the State Route Number 520 Corridor Account would be liable for 25 percent 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 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 and Maintenance Reserve, Restricted for Repair and Replacement Reserve, and Restricted for Third Tier Debt Service. The remaining fund balance in the System's 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.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tolling 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 tolling revenue from electronic tolls, pay-by-plate toll transactions and pay-by-mail toll bills. Interest and revenue associated with reprocessing fees are 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 pre-fund their Good to Go! accounts and upon crossing the toll facility and verification of the crossing data, the system recognizes tolling revenue. Users who cross the toll facility without a Good to Go! account receive a toll bill in the mail (Pay-by-Mail). The system uses cameras to record license plate images and a toll bill 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 tolling 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.

Additionally, unearned revenue exists to properly adjust tolling revenue to reflect the long term portion of toll bill receivables. 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 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 State Route Number 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 Tolling 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 tolling 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.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers Between System Accounts

For Fiscal Year 2015, 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 \$65,120,651. The purpose of these operating transfers was to provide funds for the scheduled debt service payments made from the Toll Facility Bond Retirement Account for bonds issued to construct the State Route Number 520 Corridor. 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.

Pursuant to RCW 47.56.876, 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. For the 2013-15 biennium, the Legislature provided authority in Chapter 10, Laws of 2015 PV (2ESHB 1299, Section 1106(7)) to transfer \$886,000, which represented toll revenue pledged to the bond holder.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP), 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.

NOTE 2 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION

"Total fund balances" of the 520 Corridor Tolling Facility governmental funds, \$50,195,752, differs from "net position" of governmental activities, \$177,896,869 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	
Capital Assets, as of June 30, 2015	\$ 1,901,819,294
Accumulated Amortization and Depreciation	(1,451,526)
Capital Assets Net, as of June 30, 2015	\$ 1,900,367,768

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 2 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION (CONTINUED)

- b. Interest payable is the amount of bond interest accrued from bond issuance or debt service payment date through June 30, 2015.

Interest Payable, June 30, 2015 \$ 15,265,799

- 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. Below are long-term liabilities as of June 30, 2015.

LONG-TERM LIABILITIES	
Compensated Absences Payable	\$ (38,017)
Deferred Sales Tax Payable	(134,412,361)
Bond Premium Payable	(124,461,487)
Bond Principal Payable	(1,305,090,000)
TIFIA Loan Principal Payable	(195,199,364)
Total Long-Term Liabilities	\$(1,759,201,229)

- d. Deferred inflows of resources are 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 1 above. Therefore, these amounts are removed from the Statement of Net Position and appear as revenue in the Statement of Activities. (The language contained in 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):

DEFERRED INFLOWS/OUTFLOWS OF RESOURCES	
Revenue - Toll Vendor	\$ 509,610
Revenue - Reprocessing Fee	1,263,768
Total Deferred Inflows/Outflows June 30, 2015	\$ 1,773,378

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 3 - NET INVESTMENT IN CAPITAL ASSETS

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

Net Capital Assets Balance, June 30, 2015	\$ 1,900,367,768
Less:	
Deferred Sales Tax Payable	(134,412,362)
Bonds Premium	(124,461,487)
Bond Principal Payable	(1,305,090,000)
TIFIA Loan Payable	(195,199,364)
	<u>(1,759,163,213)</u>
Total Investment in Capital Assets (Net) June 30, 2015	\$ 141,204,555

NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES

In the Statement of Fund Revenues, Expenditures and Changes in Fund Balances/Statement of Activities, the difference between Change in Fund Balances for government funds of \$(152,247,891) and Change in Net Position for governmental activities of \$50,999,831 is 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 2d above, the governmental funds reflect deferred inflows of resources associated with the long-term portion of the Toll Vendor Contractual Damages and Toll Bill Reprocessing Fee Revenue. 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 1 above.

Revenue previously recognized, Toll Vendor Contractual Damages	\$ (254,796)
Unavailable portion of Toll Bill Reprocessing Fee Revenue	\$ 393,413

- 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	\$ 3,000
Amortization Expense - Intangible Asset	(412,163)
Depreciation Expense	(2,842)
Bond Premium Change in Coupon Rate	(288,252)
Bond Premium Amortization	24,129,634
Total Net Change Operating Expense Accruals June 30, 2015	<u>\$ 23,429,377</u>

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 4 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES (CONTINUED)

- 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 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	\$366,112,908
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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.

TIFIA Proceeds as of June 30, 2015	\$(185,199,364)
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- e. Nonreciprocal interfund activity is a non-exchange transaction between funds within an entity. Non-exchange transactions are flows of assets without equivalent flows of assets in return and without a requirement for repayment. Capital assets purchased in Fiscal Year 2015 by the 520 Corridor account were donated to the Transportation Equipment Fund (TEF) in Fiscal Year 15. They are reported in capital outlays within governmental wide financial statements and are adjusted off the statement of activities as Other Financing Sources/Uses.

Donated Capital Outlays June 30, 2015	\$1,233,815
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NOTE 5 - DETAILED NOTES ON ACCOUNT BALANCES

Cash and Investments Held by State Treasury

All monies of the "System" are deposited in the state treasury and are considered cash and cash equivalents. OST is responsible for maintaining and investing the pooled cash balances in accordance with state of Washington laws. OST 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. Refer to the state of Washington's CAFR for the year ended June 30, 2015 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). The State of Washington CAFR may be obtained from the Internet at <http://www.ofm.wa.gov/cafr/default.asp>.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 5 - DETAILED NOTES ON ACCOUNT BALANCES (CONTINUED)

CASH BALANCE	
State Route Number 520 Corridor Account Cash and Cash Equivalents	\$ 50,901,152
Toll Facility Bond Retirement Account Cash and Cash Equivalents	2,226,885
Total System Account Cash and Cash Equivalents June 30, 2015	\$ 53,128,038

Accounts Receivable

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2015:

ACCOUNTS RECEIVABLE	
Toll Bill Accounts Receivable	\$ 1,657,009
Toll Bill Allowance for Doubtful Accounts	(223,518)
Net Toll Bill Accounts Receivable	1,433,491
Toll Bill Reprocessing Fee Receivable	2,817,421
Toll Bill Reprocessing Fee Allowance for Doubtful Accounts	(1,474,807)
Net Toll Bill Reprocessing Fee Receivable	1,342,614
Toll Receivable	30,442
NSF Fee Receivable	18,088
Transponder Fee Receivable	2,616
Other Receivables Subtotal	51,146
Total Accounts Receivable (Net)	\$ 2,827,251

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital Assets of the “System” increased \$394,345,871 in Fiscal Year 2015, and there were no decreases. Capital Assets 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 Information Technology intangible assets capitalized pursuant to GASB No. 51. Following is a table of the System’s total assets by category as of June 30, 2015.

CAPITAL ASSETS				
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated				
Land	\$ 33,220,419	\$ 16,863,478	\$ -	\$ 50,083,897
Construction-in-Progress	1,471,142,575	377,885,885	-	1,849,028,460
Total	<u>1,504,362,994</u>	<u>394,749,363</u>	-	<u>1,899,112,357</u>
Capital Assets, Depreciated:				
Equipment	16,363	11,513	-	27,876
Less: Depreciation	(6,113)	(2,842)	-	(8,955)
Total	<u>10,250</u>	<u>8,671</u>	-	<u>18,921</u>
Capital Assets, Amortized:				
Intangible Asset (IT)	2,679,061	-	-	2,679,061
Less: Amortization	(1,030,408)	(412,163)	-	(1,442,571)
Total	<u>1,648,653</u>	<u>(412,163)</u>	-	<u>1,236,490</u>
Total Capital Assets (Net)	\$1,506,021,897	\$ 394,345,871	\$ -	\$1,900,367,768

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 7 - LONG-TERM LIABILITIES

The System's long-term liabilities consist of the items described below. Total long-term liabilities increased by \$191,236,767 in Fiscal Year 2015. There are \$62,600 due within one year. Below is the System's long-term liabilities itemized as of June 30, 2015.

LONG-TERM LIABILITIES					
	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Compensated Absences	\$ 41,017	\$ -	\$ (3,000)	\$ 38,017	\$ -
Deferred Sales Tax Payable	104,530,576	29,881,785	-	134,412,361	-
Premiums on Bonds Payable	148,302,870	288,252	(24,129,634)	124,461,488	-
Bonds Payable	1,305,090,000	-	-	1,305,090,000	62,600
TIFIA Loan Payable	10,000,000	185,199,364	-	195,199,364	-
Total Long-Term Liabilities	\$1,567,964,463	\$215,369,401	\$(24,132,634)	\$1,759,201,230	\$ -

Bonds Payable

a. Series 2012 Bonds

In October 2011, the state of Washington issued \$518.8 million in "Triple Pledge" Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Tolling 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 Tolling Revenue, Motor Vehicle Fuel Taxes, and then the full faith, credit and taxing power of the state. Bonds issued under the Series 2012C Bond Resolution have a right, pledge and preference to payment from Tolling 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 Tolling 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.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

In June 2012, the state of Washington issued \$500.4 million 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.

b. TIFIA Bonds

In October 2012, the state of Washington issued a Transportation Infrastructure Finance 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 \$300,000 to be reimbursed from tolling revenue. As of June 30, 2015, \$195.2 million has been drawn on the TIFIA Bond. The Bonds are "tolling 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.

c. Series 2014 Bonds

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 are being issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and to 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. Federal-Aid Highway Program funds are pledged to repay the debt service 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 1, 2015, and continuing to September 1, 2024.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Outstanding –

The following is a summary of the bonds payable as of June 30, 2015 (dollars in thousands):

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
TIFIA	\$300,000	12/1/2016 to 6/1/2051	\$3,120 to \$21,236
Series 2014C	\$285,195	9/1/2015 to 9/1/2024	\$22,740 to \$35,250

As of June 30, 2015, debt service requirements to maturity for the Series 2012C, Series 2012F, TIFIA (based on October 2012 debt schedule), and Series 2014C bonds were as follows (dollars in thousands). Please note that only \$195.199 million of the TIFIA amount has been drawn as of June 30, 2015:

Series 2012C

Year Ending June 30	Principal	Interest	Total
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	12,540	24,317	36,857
2021-2025	72,750	111,531	184,281
2026-2030	93,175	91,110	184,285
2031-2035	119,075	65,212	184,287
2036-2040	151,980	32,313	184,293
2041	35,100	1,755	36,855
	\$518,775	\$428,685	\$947,460

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

Series 2012F

Year Ending June 30	Principal	Interest	Total
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	48,355	15,135	63,490
2021-2025	280,395	36,136	316,531
	\$ 500,400	\$ 134,162	\$ 634,562

Series 2014C

Year Ending June 30	Principal	Interest	Total
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	27,630	8,684	36,314
2021-2025	160,270	20,750	181,020
	\$ 285,915	\$ 76,994	\$ 362,909

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

TIFIA Loan

Year Ending June 30	Principal	Interest	Total
2016	\$ -	\$ -	\$ -
2017	3,120	9,436	12,557
2018	3,202	9,355	12,557
2019	3,298	9,258	12,557
2020	3,386	9,171	12,557
2021-2025	18,597	44,186	62,783
2026-2030	21,558	41,224	62,783
2031-2035	25,007	37,775	62,783
2036-2040	29,000	33,783	62,783
2041-2045	74,375	28,651	103,026
2046-2050	97,222	15,865	113,086
2051	21,236	1,381	22,617
Bonds not yet drawn	(104,801)	(240,085)	(344,886)
	\$ 195,199	\$ -	\$ 195,199

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

Combined

Year Ending June 30	Principal	Combined Interest	Total
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	91,911	57,307	149,218
2021-2025	532,012	212,602	744,614
2026-2030	114,733	132,335	247,068
2031-2035	144,082	102,987	247,069
2036-2040	180,980	66,095	247,075
2041-2045	109,475	30,406	139,881
2046-2050	97,222	15,865	113,086
2051	21,236	1,381	22,617
	\$1,605,090	\$ 879,927	\$2,485,017

d. 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. Effective 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, 2015 is \$134.4 million. Per the RCW, repayment is to begin five years after the replacement bridge is operationally complete and opened to traffic, and is to be repaid in equal payments over a ten-year period.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments

Construction Commitments – As June 30, 2015, the System had in process uncompleted construction projects with remaining balances totaling approximately \$218 million.

- a. Customer Service Contract – WSDOT has contracted with 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.
- b. Toll Lane Implementation and Maintenance Contract – WSDOT has contracted with Schneider Electric USA for implementation and on-going maintenance of the SR 520 Floating Bridge toll lane hardware and software.
- c. Design-Bid-Build Contract – On August 20, 2014, WSDOT executed a design-bid-build contract in the amount of \$199.5 million 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 the summer 2017.

Contingencies

- a. The System's 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 Self-Insurance Liability Program.
- b. 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 SR 520 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, 2015 the remaining risk reserve is approximately \$118 million. The details about significant program change orders are provided below.

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

- c. 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 “Qpgl 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.

- d. 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:

Washington State System of Eligible Toll Facilities
Notes to Financial Statements
June 30, 2015

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

- e. For the first change order, executed in April 2013, WSDOT paid \$9.9 million to pontoon construction contractor Kiewit-General for repairs related to spilling 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 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.
- f. Eastside Right of Way Litigation: Fisher, et al v. WSDOT: The Fisher lawsuit is a consolidation of inverse condemnation actions by owners of six properties, 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 \$2.1 million (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 11 of the 12 property owners for a total cost of approximately \$2.0 million. Settlement with the remaining owner is underway.

Washington State System of Eligible Toll Facilities

Notes to Financial Statements

June 30, 2015

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

- g. 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.

NOTE 9 - SUBSEQUENT EVENTS

In July 2015 the Legislature identified the remaining funds for the SR 520 Corridor Program. This added an additional \$1.6 billion in funds to complete the West Approach Bridge South, Portage Bay Bridge, Second Bascule Bridge, I-5 Interchange and Montlake Interchange work. The expected completion of this work is expected in 2027.

NOTE 10 - SIGNIFICANT EVENT IMPACT STATEMENTS

WSDOT and ETCC entered into a Settlement Agreement to resolve 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 System. 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
- \$2.5 million – RITE System License