

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

**FINANCIAL STATEMENTS
June 30, 2012**



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Independent Auditor's Report

Washington State System of Eligible Toll Facilities
Olympia, Washington

We have audited the accompanying basic financial statements of the Washington State System of Eligible Toll Facilities ("System") as of and for the year ended June 30, 2012, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2012 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the basic financial statements of the Washington State System of Eligible Toll Facilities as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 8 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. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Seattle, Washington
October 26, 2012

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

As managers of the System of Eligible Toll Facilities, we offer this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. We present this information in conjunction with the financial statements which follow. Governmental Accounting Standards Board Statement No. 34 requires that two years of information be presented in the management's discussion and analysis, however, fiscal year 2012 is the first year of operations, and therefore only one year will be presented.

The System of Eligible Toll Facilities or "System" is made up of toll facilities that the Washington State Legislature has specifically identified and designated as an eligible toll facility, 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.

For financial reporting purposes, the System is a part of the primary government of the State of Washington and is included in the basic financial statements of the State.

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 Resolution No. 1117 and No. 1125 as the portion of State Route 520 between the junctions of Interstate 5 and State Route 202. The entire SR 520 Corridor Program is financed through various accounts, including but not limited to the SR 520 Corridor Account, the Transportation 2003 Account (Nickel Account), Transportation Partnership Account and Motor Vehicle Account.

The Washington State Department of Transportation (WSDOT) began pre-construction tolling of the existing SR 520 Bridge across Lake Washington on December 29, 2011. All electronic tolling and time of day variable tolling is being used to manage congestion on the corridor. Toll revenues are being used to finance a portion of the funds required to replace the floating bridge across the lake, plus make other corridor improvements between the bridge and I-405 to the east.



Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

The State Route 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 State Route 520 Corridor improvements authorized by the State Legislature in 2012 represent \$2.72 billion of investments. The improvements include:

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

For financial planning purposes, this \$2.72 billion package of investments is referred to as the "SR 520 Floating Bridge and Eastside plus the West Approach Project" (Project). The Project represents the funded portion of the larger \$4.65 billion "SR 520 Corridor Program" that will ultimately widen and/or improve the entire SR 520 corridor between I-5 and SR 202.

For more information about the SR 520 Floating Bridge and Eastside plus the West Approach Project or the entire SR 520 Corridor Program, including the program's purpose and need, costs and benefits, and a series of maps and photos, the reader is referred to the SR 520 Bridge Replacement and HOV Program website at: <http://www.wsdot.wa.gov/Projects/SR520Bridge/>.

Financial Highlights

Tolling operations commenced on the SR 520 Floating Bridge on December 29, 2011. It is important to note that tolling began approximately 6 months into the fiscal year, resulting in some categories of revenue and expenditure being less than would be expected for a full year.

- ❖ Total governmental fund revenues for the SR 520 Corridor Account for Fiscal Year 2012 were \$30,253,675. This includes toll revenues in the amount of \$26,103,958, which represents approximately six months of toll operations, which exceeded forecasted revenue of \$24,021,001. Government-wide revenues total \$31,102,720, an increase over governmental funds revenues of \$849,039 which is due to the recognition of revenue associated with long-term toll vendor contractual damages owed.
- ❖ Total expenditures for the State Route 520 Corridor Account for Fiscal year 2012 were \$442,651,973. Of this amount, \$432,372,569 was Capital Outlays.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

- ❖ During Fiscal Year 2012, the State of Washington had bond issuances totaling \$1,019,175,000 for use in the State Route 520 Corridor Account construction activities.
 - October 2011, issued \$518,775,000 in Motor Vehicle Fuel Tax General Obligation Bonds
 - June 2012, issued \$500,400,000 in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds
- ❖ Total cost for Construction-In-Progress in the State Route 520 Corridor Account for Fiscal Year 2012 was \$472,518,171.
- ❖ The System's governmental funds reported a combined ending fund balance of \$566,900,829.

Overview of the Financial Statements

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and in accordance with methods prescribed by the Washington State Office of Financial Management. The fiscal year 2012 financial statements were prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

As the System represents a single governmental program, the fund financial statements (Governmental Funds Balance Sheet and the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances) and the government-wide statements (Statement of Net Assets and the Statement of Activities) are presented in a combined format in accordance with paragraph 136 of GASB Statement No. 34. These statements focus on both the System as a whole (government-wide) and on the major individual funds. The dual perspectives approach supports accountability and transparency. It also allows the reader to address relevant questions, and broaden a basis for comparison (year-to-year or government-to-government).

- ❖ **Governmental Funds Balance Sheet / Statement of Net Assets** - The first three columns of the combining statement presents the Governmental Funds Balance Sheet, while the last column presents the Statement of Net Assets. The fourth column, between the two presentations, provides information which reconciles the noted differences. This combined statement can be found on page 10 of this report.
- ❖ **Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances / Statement of Activities** - The first three columns of the combining statement presents the Governmental Funds Revenues, Expenditures, and Changes in Fund Balance, while the last column presents the Statement of Activities. The fourth column, between the two presentations, provides information which reconciles the noted differences. This combined statement can be found on page 11 of this report.

Government-Wide Financial Statements - The government-wide financial statements (Statement of Net Assets and the Statement of Activities) are designed to provide readers with a broad overview of the System's finances, using full accrual accounting in a manner similar to a private sector business.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

- ❖ **Statement of Net Assets.** The Statement of Net Assets presents information on all of the System assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.
- ❖ **Statement of Activities.** While the Statement of Net Assets shows the change in financial position of System's net assets, the Statement of Activities provides information regarding the nature and source of these changes. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., deferred sales taxes and earned but unused vacation leave).

Government Fund Financial Statements- Funds are used to maintain control over resources that are segregated for specific activities or objectives. The System uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike the government-wide financial statements, governmental fund financial statements (Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance) focus on near-term inflows and outflows of spendable resources, as well as on fund balances at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Both funds within the System are categorized as Governmental Funds, and use the modified accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the combined government-wide and fund financial statements previously described above. Those notes to the financial statements can be found on pages 12-29 of this report.

Financial Analysis

As previously stated, fiscal year 2012 is the first year of toll operations on the System, therefore, prior year comparative data is not presented in the below tables.

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

Condensed Statement of Net Assets	Fiscal Year 2012
Current and Other Assets	\$ 645,061,381
Capital Assets, Net	656,380,061
Total Assets	<u>\$ 1,301,441,442</u>
Current and Other Liabilities	\$ 81,122,197
Noncurrent Liabilities	1,202,723,730
Total Liabilities	<u>\$ 1,283,845,927</u>
Invested in Capital Assets, Net of Related Debt	\$ 683,028
Restricted Net Assets	18,554,420
Unrestricted Deficit	(1,641,933)
Total Net Assets	<u>\$ 17,595,515</u>

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

Net assets, the difference between assets and liabilities, is one way to measure the financial health of an organization, and may serve, over time, as a useful indicator of financial position. For the first year of tolling on the State Route 520 Toll Facility, total assets of the System exceeded total liabilities by \$19,725,796, as of June 30, 2012.

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

<u>Condensed Statement of Activities</u>	<u>Fiscal Year 2012</u>
Revenue:	
Tolling Revenue	\$ 26,103,958
Other Revenue	4,998,762
Total Revenue	<u>\$ 31,102,720</u>
Expenses:	
Personnel Service Contracts	\$ 138,350
Goods and Services	12,059,600
Other Expenditures	533,446
Total Expenses	<u>\$ 12,731,396</u>
Change in Net Assets	\$ 18,371,324
Net Assets, Beginning of the year	<u>(775,809)</u>
Net Assets, end of the year	<u>\$ 17,595,515</u>

As we complete the first year of tolling on the System, the Statement of Net Assets displays total assets exceeded total liabilities by \$17,595,515 as of June 30, 2012.

Total assets, as shown on the Governmental Funds Balance Sheet, exceeded liabilities by \$566,900,829 at June 30, 2012, as reflected in Total Fund Balances. This fund balance is restricted to any proper purpose of the System in accordance with Master Resolution 1117 and Master Resolution 1125 (referred to as "sub-accounts" within the Bond Covenants), and have been established during this fiscal year as a result of the issuance of bonds for the System.

- Restricted for Unspent Bond Proceeds - \$29,588,816
- Restricted for Unspent GARVEE Bond Proceeds - \$517,394,950
- Restricted for Operating & Maintenance Reserve - \$2,565,733
- Restricted for Transportation - \$15,182,573
- Restricted for Third Tier Debt service - \$2,168,751
- Restricted for Debt Service - \$6

Total toll revenue, as shown on the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance, for fiscal year 2012 (the first year of tolling on the 520 Bridge) is \$26,103,958. This represents toll revenue for approximately half a year - from the inception of tolling on this toll facility (December 29, 2011) through June 30, 2012, exceeding forecasted revenue of \$24,021,001.

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

Capital Assets

Capital Assets of the System are comprised of Land, Construction-in-Progress, and a Software-Intangible Asset. The total Construction-in-Progress balance of \$630,866,090 is related to construction activities of 520 Corridor Program, which is considered an infrastructure asset.

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

Long-Term Debt – Bond Information

In October 2011 the State of Washington issued \$518,775,000 Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Corridor Program - Toll Revenue). These bonds, referred to as Series 2012C Bonds, are general obligations of the State of Washington to which the state has pledged its full faith, credit and taxing power. The bonds are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. This series was issued to provide funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside plus the West Approach Project, to fund capitalized interest and to pay bond issuance costs. The Series 2012C Bonds received a credit rating of Aa1 from Moody's in October 2011 and AA+ from Fitch, and AA+ from Standard and Poor's in September 2011.

In June 2012, the State of Washington issued \$500,400,000 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 the West Approach 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.

Economic Factors That Will Affect the Future

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

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

Washington State System of Eligible Toll Facilities Management's Discussion and Analysis Fiscal Year Ended June 30, 2012

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

- \$849,039 – Operational Payment Reductions
- \$2,548,000 – RITE System License

Pontoon Construction Repairs: The Pontoon Construction project is in the second of six construction cycles, and the interim schedule milestones may need adjusted to reflect repair work being performed on the pontoons.

Eastside Transit and HOV Potential Scope and Schedule Impacts: WSDOT continues to work with its design-builder to clarify scope and potential schedule impacts resulting from permit and approval modifications in the vicinity of Fairweather Basin. It is also incorporating higher noise walls into the contract along the corridor and addressing concerns over approaches to geotechnical design. WSDOT is monitoring these items and expects the issues to be resolved in fall 2012.

Contacting the Organization

This financial report is designed to provide a general overview of the System's finances for bond holders, customers and other interested parties. Questions concerning any of the information provided in this report should be addressed to Bob Covington, Director of Accounting and Financial Services, Washington State Department of Transportation, 310 Maple Park Ave. SE, Olympia, Washington, 98501.

FINANCIAL STATEMENTS

Washington State System of Eligible Toll Facilities

Balance Sheet / Statement of Net Assets

June 30, 2012

	SR 520 Corridor Account	Toll Facility Bond Retirement Account	Total	Adjustments (Note 3)	Statement of Net Assets
ASSETS					
Cash and Cash Equivalents	\$ 630,861,515	\$ 2,168,751	\$ 633,030,266	\$ -	\$ 633,030,266
Cash Held with Escrow Agents	6,011,940	-	6,011,940	-	6,011,940
Accounts Receivable (Net)	1,984,493	-	1,984,493	-	1,984,493
Due from Other Funds/Agencies	3,185,637	6	3,185,643	-	3,185,643
Long-Term Due from Toll Vendor	849,039	-	849,039	-	849,039
Capital assets, not being depreciated (Note 6)	-	-	-	653,907,082	653,907,082
Intangible assets, being amortized (Note 6)	-	-	-	2,472,979	2,472,979
Total Assets	<u>\$ 642,892,624</u>	<u>\$ 2,168,757</u>	<u>\$ 645,061,381</u>	656,380,061	1,301,441,442
LIABILITIES					
Accounts Payable	\$ 49,064,956	\$ -	\$ 49,064,956	-	49,064,956
Retainage Payable	6,662,717	-	6,662,717	-	6,662,717
Due to Other Funds/Agencies	21,120,630	-	21,120,630	-	21,120,630
Due to Other Governments	463,210	-	463,210	-	463,210
Debt Service Interest Payable	-	-	-	3,810,684	3,810,684
Deferred Revenue	849,039	-	849,039	(849,039)	-
Long-term Liabilities (Note 7)	-	-	-	-	-
Compensated Absences Payable	-	-	-	42,931	42,931
Deferred Sales Tax Payable	-	-	-	35,764,347	35,764,347
Premiums on Bonds Payable	-	-	-	147,741,452	147,741,452
Bond Principal Due After One Year	-	-	-	1,019,175,000	1,019,175,000
Total Liabilities	<u>\$ 78,160,552</u>	<u>\$ -</u>	<u>\$ 78,160,552</u>	1,205,685,375	1,283,845,927
FUND BALANCES/NET ASSETS					
Fund Balances:					
Restricted for Unspent					
Bond Proceeds	29,588,816	-	29,588,816	(29,588,816)	-
Restricted for Unspent					
GARVEE Bond Proceeds	517,394,950	-	517,394,950	(517,394,950)	-
Restricted for Operating					
& Maintenance Reserve	2,565,733	-	2,565,733	(2,565,733)	-
Restricted for Transportation	15,182,573	-	15,182,573	(15,182,573)	-
Restricted for Third Tier Debt Service	-	2,168,751	2,168,751	(2,168,751)	-
Restricted for Debt Service	-	6	6	(6)	-
Total Fund Balances	<u>564,732,072</u>	<u>2,168,757</u>	<u>566,900,829</u>	(566,900,829)	-
Total Liabilities and Fund Balances	<u>\$ 642,892,624</u>	<u>\$ 2,168,757</u>	<u>\$ 645,061,381</u>		
Net Assets:					
Invested in Capital Assets,					
Net of Related Debt					
				683,028	683,028
Restricted for Operating					
& Maintenance Reserve					
				2,565,733	2,565,733
Restricted for Transportation					
				15,988,681	15,988,681
Restricted for Debt Services					
				6	6
Unrestricted					
				(1,641,933)	(1,641,933)
Total Net Assets				<u>\$ 17,595,515</u>	<u>\$ 17,595,515</u>

The accompanying notes are an integral part of the financial statements.

Washington State System of Eligible Toll Facilities
Statement of Revenues, Expenditures and Changes in Fund Balance / Activities
Year Ended June 30, 2012

	SR 520 Corridor Account	Toll Facility Bond Retirement Account	Total	Adjustments (Note 4)	Statement of Activities
REVENUE					
Tolling Revenue	\$ 26,103,958	\$ -	\$ 26,103,958	\$ -	\$ 26,103,958
Transponder Sales	1,320,036	-	1,320,036	-	1,320,036
Toll Vendor Contractual Damages	2,564,839	-	2,564,839	849,039	3,413,878
Toll Bill Reprocessing Fee Revenue	776,102	-	776,102	-	776,102
Interest Income	(736,612)	6	(736,606)	-	(736,606)
Miscellaneous Revenue	225,352	-	225,352	-	225,352
Total Revenues	<u>30,253,675</u>	<u>6</u>	<u>30,253,681</u>	<u>849,039</u>	<u>31,102,720</u>
EXPENDITURES					
Current:					
Personal Service Contracts	138,350	-	138,350	-	138,350
Goods and Services	5,684,020	-	5,684,020	2,451,992	8,136,012
Salaries and Benefits	533,446	-	533,446	-	533,446
Cost of Financing	3,923,588	-	3,923,588	-	3,923,588
Capital Outlays	432,372,569	-	432,372,569	(432,372,569)	-
Debt Service - Interest	-	15,253,527	15,253,527	(15,253,527)	-
Total Expenditures	<u>442,651,973</u>	<u>15,253,527</u>	<u>457,905,500</u>	<u>(445,174,104)</u>	<u>12,731,396</u>
Excess (Deficiency) of Revenues over Expenditures	(412,398,298)	(15,253,521)	(427,651,819)	446,023,143	18,371,324
Other Financing Sources/Uses:					
Bond Issuance	1,019,175,000	-	1,019,175,000	(1,019,175,000)	-
Original Issue Premium	149,849,482	-	149,849,482	(149,849,482)	-
Transfers-Internal Activities	(17,422,278)	17,422,278	-	-	-
Excess (Deficiency) of Revenues and Transfers In over Expenditures and Transfers Out	<u>1,151,602,204</u>	<u>17,422,278</u>	<u>1,169,024,482</u>	<u>(1,169,024,482)</u>	<u>-</u>
Change in Fund Balances/Net Assets	739,203,906	2,168,757	741,372,663	(723,001,339)	18,371,324
Fund Balances/Net Assets:					
Beginning of The Year	(174,471,834)	-	(174,471,834)	173,696,025	(775,809)
End of The Year	<u>\$ 564,732,072</u>	<u>\$ 2,168,757</u>	<u>\$ 566,900,829</u>	<u>\$ (549,305,314)</u>	<u>\$ 17,595,515</u>

The accompanying notes are an integral part of the financial statements.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

1. Reporting Entity

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

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

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

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

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (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 project toll revenues are determined to be available if received within 12 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Fund Structure

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

State Route Number 520 Corridor Account – Established August 2009, pursuant to RCW 47.56.875. The State Route Number 520 Corridor Account was created in the state treasury for the purpose to assist financing the replacement and operations of the State Route 520 Floating Bridge and necessary landings. This account is administered by the WSDOT and is classified as a Special Revenue Fund. Pursuant to RCW 47.56.820, toll revenue is restricted to use.

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

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Accounts Receivables

Accounts Receivable of the System consist primarily of toll and fee receivables from the State Route 520 toll facility, net of related allowance for doubtful accounts. As described in the Revenue Recognition & Unearned Revenue section below, customers have a Pay-by-Mail option when crossing the toll facility. When the toll bills are sent 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 charged. For toll bills unpaid after 80 days, the amount due is no longer considered a toll bill, and becomes a Notice of Civil Penalty (NOCP). When this occurs, the toll bill receivable and toll revenue are transferred out of the State Route Number 520 Corridor Account to a separate account established by the Washington State Legislature (RCW 47.56.876), specifically for State Route 520 Corridor Notice of Civil Penalty (NOCP) Account for adjudication and collection.

As of June 30, 2012, approximately \$425,653 of toll bill receivables have been unpaid for more than 80 days, and may become NOCPs. To ensure the integrity of the NOCPs issued during this first year of implementation, WSDOT has established additional quality controls to ensure only valid NOCPs are issued to customers, causing some transactions to go beyond the typical schedule for receivable progression. Until these toll bills fully process through the additional controls, they remain as toll bill receivables in the State Route Number 520 Corridor Account, with final disposition pending.

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 this category of receivables is calculated at 10% of the monthly accounts receivable activity. Because this is the first year of pay-by-mail tolling operations, WSDOT determined the 10% allowance percentage based upon a review of similar toll operations in other states.

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Accounts Receivables (continued)

At the end of fiscal year 2012, as a result of WSDOT and ETCC financial reconciliation activities, it was determined that approximately \$686,000 in unbilled receivables for transactions dating back to January 2012 had yet to be processed by the ETCC system. WSDOT and ETCC are investigating and taking actions to ensure appropriate processing of transactions, but until the final disposition of these transactions can be determined, we have established a 100% allowance for doubtful accounts against this balance. Of these transactions that are determined to be viable and processed within the ETCC system, related revenue will be recognized in the subsequent fiscal year.

Capital Assets

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

Retainage Payable

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

Pension and Other Post Employment Benefits

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

Compensated Absences

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

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Compensated Absences (continued)

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

With no limit on accumulation, sick leave is earned at 12 days per year. Sick leave is not vested. Sick leave that is not used for paid time off is only payable upon employees' death or retirement, at which time the SR 520 Corridor Account would be liable for 25 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 assets.

Restricted Net Assets

Restricted Net Assets of the System represent bond proceeds and reserves set aside pursuant to requirements within the Bond Covenants. The Bond Covenants require the following amounts to be set aside: Restricted for Unspent Bond Proceeds, Restriction for Unspent GARVEE Bond Proceeds, Restricted for Operating & Maintenance Reserve, and Restricted for Third Tier Debt Service. The remaining fund balances in the System accounts are restricted within the balance entitled "Restricted for Transportation" or "Restricted for Debt Service" 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 – Beginning of Year Deficit Fund Balance

The State Route Number 520 Corridor Account had a deficit beginning fund balance of \$174,471,834 at June 30, 2011. The prior year deficit fund balance was eliminated by issuance of bonds in the current year.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Toll Revenue

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

Revenue Recognition & Unearned Revenue

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

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

Common Toll Revenue and Toll Expenditure Allocation Methodology

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

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

2. Summary of Significant Accounting Policies (Continued)

Transfers between System Accounts

For fiscal year 2012, 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 \$17,422,278. The purpose of these operating transfers was to provide funds for the scheduled debt service payments that the Toll Facility Bond Retirement Account makes on behalf of the State Route Number 520 Corridor Account. The transfer between accounts is eliminated and not displayed within the Statement of Activities because all accounts of the System are combined and displayed as one column within the government-wide Statement of Activities, thereby eliminating the interfund activity.

Use of Estimates

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

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

“Total fund balances” of the System governmental funds, \$566,900,829, differs from “net assets” of governmental activities, \$19,725,796, on the Governmental Funds Balance Sheet/Statement of Net Assets. This difference primarily results from the long-term economic focus of the statement of net assets 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 assets includes those capital assets among the assets of the System.

Capital Assets	\$	656,586,143
Accumulated Amortization		(206,082)
Net capital Assets, June 30, 2012	\$	<u>656,380,061</u>

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

3. Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets (Continued)

- b. Interest payable is the amount of bond interest accrued from bond issuance or debt service payment date through June 30, 2012:

Interest payable	<u>\$ (3,810,684)</u>
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- c. Deferred revenue is associated with the long-term receivable that is due from WSDOT's toll vendor – ETCC. While this revenue is considered "deferred" for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, this amount was removed from the statement of assets and appears as revenue in the statement of activities. It should be noted that the language contained within the vendor contract with ETCC indicates that the amount due in future years becomes invalid and any amount outstanding will no longer be due to WSDOT if the contract is terminated prior to 2018.

Deferred revenue due from toll vendor	<u>\$ 849,039</u>
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- d. 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 assets. Balances as of June 30, 2012 were:

Compensated Absences Payable	\$ (42,931)
Deferred Sales Tax Payable	(35,764,347)
Bond Premium Payable	(147,741,452)
Bond Principal Payable	<u>(1,019,175,000)</u>
Total	<u>\$ (1,202,723,730)</u>

- e. Invested in Capital Assets, Net of Related Debt is comprised of the following amounts:

Capital Assets Balance, June 30, 2012	\$ 656,380,061
Less:	
Deferred Sales Tax Payable	(35,764,347)
Bonds Premium	(147,741,452)
Bond Principal Payable	<u>(1,019,175,000)</u>
	<u>(1,202,680,799)</u>
Add:	
Restricted for Unspent Bond Proceeds	29,588,816
Restricted for Unspent GARVEE Bond Proceeds	<u>517,394,950</u>
	<u>546,983,766</u>
Invested in Capital Assets, net of Related Debt	<u>\$ 683,028</u>

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

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

The “net change in fund balances” for governmental funds, \$741,372,663, in the Statement of Governmental Fund Revenues Expenditures, and Changes in Fund Balances/Statement of Activities differs from the “change in net assets” for governmental activities of \$18,371,324. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of each of the differences is described below:

- a. As described in Note 3c above, the governmental funds reflect deferred revenue associated with the long-term receivable that is due from WSDOT’s toll vendor – ETCC. While this revenue is considered “deferred” for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 2 above. Therefore, this amount was removed from the statement of assets and appears as revenue in the statement of activities. It should be noted that the language contained within the vendor contract with ETCC indicates that this amount due in future years becomes invalid and any amount outstanding will no longer be due to WSDOT if the contract is terminated prior to 2018.

Revenue recognized, associated with long-term due from toll vendor \$ 849,039

- 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	\$ (1,191)
Depreciation Expense	(206,082)
Capital Outlay Expenses, Not Capitalized	<u>(2,244,719)</u>
Net Change in Operating Expense Accruals	\$ <u>(2,451,992)</u>

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

Capital Outlays \$ 432,372,569

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

4. Explanation of Differences between Governmental Funds Operating Statements and the Statements of Net Activities (Continued)

- d. Interest expense was removed from the expense section and has been capitalized and added to the construction-in-progress asset value because the debt issued is being used to finance construction of the new infrastructure asset:

Debt Service – Interest Expense	\$ <u>15,253,527</u>
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- e. Bond issuance proceeds and bond original issuance premiums 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 assets.

Bond Issuance	\$ (1,019,175,000)
Original Issue Bond Premium	<u>(149,849,482)</u>
Total	\$ <u>(1,169,024,482)</u>

5. Detailed Notes on Account Balances

Cash and Investments Held By State Treasury

All monies of the System are deposited with the State Treasurer’s Office (OST) as part of the State’s treasury and are considered cash. OST is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The State of Washington’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012 should be referred to for disclosures required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements)*, and *Reverse Repurchase Agreements* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). Please refer to said report which may be obtained from the Internet at <http://www.ofm.wa.gov/cafr/default.asp>.

All monies of the System are deposited with the State Treasurer’s Office (OST) as part of the State’s Cash Balances for the System were as follows:

	Balance
	June 30, 2012
SR 520 Corridor Account Cash and Cash Equivalents	\$ 630,861,515
Toll Facility Bond Retirement Account Cash and Cash Equivalents	<u>2,168,751</u>
Total System Account Cash and Cash Equivalents	\$ <u>633,030,266</u>

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

5. Detailed Notes on Account Balances (Continued)

Accounts Receivable

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2012:

	Balance June 30, 2012
Toll Bill Accounts Receivable	\$ 2,619,050
Toll Bill Allowance for Doubtful Accounts	(1,053,884)
Net Toll Bill Accounts Receivable	1,565,166
Toll Bill Reprocessing Fee Receivable	452,518
Toll Bill Allowance for Doubtful Accounts	(86,830)
Net Toll Bill Reprocessing Fee Receivable	365,688
Toll Receivable	7,964
NSF Fee Receivable	3,365
Transponder Fee Receivable	39,518
520 Bridge Program Receivable	2,792
Subtotal	53,639
Total Accounts Receivable (Net)	\$ 1,984,493

6. Capital Assets

Capital Assets of the System consist of Land and Construction-in-Progress related to the replacement of the SR 520 Floating Bridge and Eastside plus the West Approach Bridge, as well as IT intangible assets capitalized pursuant with GASB No. 51. Interest associated with payment of debt service on bonds and amortized bond premium used to fund construction of this System were capitalized and included in the total construction-in-progress value.

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

6. Capital Assets (Continued)

Total Capital Assets increased by \$476,687,511 in fiscal year 2012.

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 21,344,632	\$ 1,696,360	\$ -	\$ 23,040,992
Infrastructure				
Construction-in-Progress	<u>158,347,919</u>	<u>472,518,171</u>	<u>-</u>	<u>630,866,090</u>
Total Capital Assets, Not Being Depreciated	<u>179,692,551</u>	<u>474,214,531</u>	<u>-</u>	<u>653,907,082</u>
Capital Assets, Being Amortized:				
Intangible Asset (IT)	-	2,679,061	-	2,679,061
Less: Amortization	<u>-</u>	<u>(206,082)</u>	<u>-</u>	<u>(206,082)</u>
Amortization	<u>-</u>	<u>2,472,979</u>	<u>-</u>	<u>2,472,979</u>
Total Net Capital Assets	<u>\$ 179,692,551</u>	<u>\$ 476,687,510</u>	<u>\$ -</u>	<u>\$ 656,380,061</u>

7. Long-Term Liabilities

a. Long-term liabilities of the System consist of the items described below. Total long-term liabilities increased by \$1,198,835,235 in fiscal year 2012.

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due in</u> <u>One Year</u>
Compensated Absences	\$ 41,740	\$ 1,191	\$ -	\$ 42,931	\$ -
Deferred Sales Tax Payable	5,954,785	29,809,562	-	35,764,347	-
Premiums on Bonds Payable	-	149,849,482	(2,108,030)	147,741,452	-
Bonds Payable	<u>-</u>	<u>1,019,175,000</u>	<u>-</u>	<u>1,019,175,000</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 5,996,525</u>	<u>\$ 1,198,835,235</u>	<u>\$ (2,108,030)</u>	<u>\$ 1,202,723,730</u>	<u>\$ -</u>

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

7. Long-Term Liabilities (Continued)

b. Bonds Payable

Series 2012 Bonds

In October 2011, the State of Washington issued \$518,755,000 Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2012C, for the purpose of providing funds to pay and reimburse state expenditures for a portion of the SR 520 Floating Bridge and Eastside Project. The Series 2012C Bonds are general obligations of the state and, as provided by the Series 2012C Bond Resolution, the full faith, credit and taxing power of the state are pledged irrevocably to the payment of general obligation bonds. The Series 2012C Bonds are first payable from Toll Revenue and Motor Vehicle Fuel Taxes. Bonds issued under the Series 2012C Bond Resolution have a right, pledge and preference to payment from Toll Revenue in the following order of priority: (1) First Tier Bonds, (2) Second Tier Bonds, (3) Third Tier Bonds, and (4) Fourth Tier Bonds. The Series 2012C Bonds are issued as Third Tier Bonds with respect to Toll Revenue. Interest on the Series 2012C Bonds is payable semiannually on each June 1 and December 1, beginning June 1, 2012. The principal of the Series 2012C Bonds is payable each June 1, starting in June 2017, and continuing to June 2041.

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

Bonds Outstanding

The following is a summary of the bonds payable as of June 30, 2012 (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

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

7. Long-Term Liabilities (Continued)

As of June 30, 2012, debt service requirements to maturity for the Series 2012C and Series 2012F bonds were as follows (dollars in thousands):

Year Ending June 30,	Series 2012C		
	Principal	Interest	Total
2012	\$ -	\$ 15,254	\$ 15,254
2013	-	26,025	26,025
2014	-	26,025	26,025
2015	-	26,025	26,025
2016	-	26,025	26,025
2017	10,835	26,025	36,860
2018-2021	49,025	109,921	158,946
2022-2025	59,585	76,325	135,910
2026-2029	72,650	74,776	147,426
2030-2033	88,460	58,971	147,431
2034-2037	107,525	39,908	147,433
2038-2041	130,695	16,735	147,430
Total	\$ 518,775	\$ 522,015	\$ 1,040,790

Year Ending June 30,	Series 2012F		
	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	18,282	18,282
2014	-	24,836	24,836
2015	-	24,836	24,836
2016	39,860	23,853	63,713
2017	41,830	21,835	63,665
2018-2021	189,085	65,007	254,092
2022-2025	229,625	23,466	253,091
2026-2029	-	-	-
2030-2033	-	-	-
2034-2037	-	-	-
2038-2041	-	-	-
Total	\$ 500,400	\$ 202,115	\$ 702,515

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

7. Long-Term Liabilities (Continued)

Year Ending June 30,	Principal	Combined Interest	Total
2012	\$ -	\$ 15,254	\$ 15,254
2013	-	44,307	44,307
2014	-	50,861	50,861
2015	-	50,861	50,861
2016	39,860	49,878	89,738
2017	52,665	47,860	100,525
2018-2021	238,110	174,928	413,038
2022-2025	289,210	99,791	389,001
2026-2029	72,650	74,776	147,426
2030-2033	88,460	58,971	147,431
2034-2037	107,525	39,908	147,433
2038-2041	130,695	16,735	147,430
Total	\$ 1,019,175	\$ 724,130	\$ 1,743,305

c. Deferred Sales Tax Payable

The 2008 Legislature passed Chapter 270, Section 7 of the Laws of 2008 (RCW 47.01.412) allowing a deferral of state and local sales and use taxes on the site preparation, project construction, and acquisition and rental of equipment for use in the SR 520 replacement project. On December 11, 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 deferred sales tax as of June 30, 2012 is \$35,764,347. Per the RCW, repayment is to begin five years after the replacement bridge is complete and opened to traffic, and is to be repaid in equal payments over a ten year period.

8. Pensions

The State of Washington offers several retirement programs. However, WSDOT employees are only covered under PERS (Public Employee Retirement System), a cost-sharing multiple-employer retirement system comprised of defined benefit plans (Plans 1 and 2), and defined contribution plans (Plan 3). Participants who joined the System by September 30, 1977 are Plan 1 members. The others are Plan 2 members, unless they exercise an option to transfer their membership to Plan 3. Participants joining PERS on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees are reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

8. Pensions (Continued)

Additional information on PERS, including Plan descriptions, funding policies and a schedule of employer contributions required and paid for defined benefit plans plus historical trend information showing each System's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012.

The CAFR can be found on the web at <http://www.ofm.wa.gov/cafr/default.asp>.

9. Other Post Employment Benefits

The System participates in the State of Washington's (the State) other post employment benefit plan, an agent multiple-employer plan administered by the Public Employees Benefits Board (PEBB). This Plan pays for a portion of the cost of medical insurance for eligible retired employees. As the State is ultimately liable for all employees of the Authority, the State recognizes a cost for these benefits in the State's Comprehensive Annual Financial Report (CAFR). The cost of the State's contribution is recognized in the year it is made. Additional information on the Plan including plan description, the funded status, as well as actuarial methods and assumptions is presented in the State of Washington's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The CAFR can be found on the web at <http://www.ofm.wa.gov/cafr/default.asp>.

10. Commitments, Contingencies and Subsequent Events

Commitments

Construction Commitments – As June 30, 2012, the System had in process uncompleted construction projects with remaining balances totaling approximately \$950,000,000.

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

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

Prior to the close of fiscal year 2013, the State Route Number 520 Corridor Account is required to transfer out \$57,913 for expenditures incurred by the WSDOT Motor Vehicle Account on behalf of the State Route Number 520 Corridor Account.

Washington State System of Eligible Toll Facilities

Notes to the Financial Statements

June 30, 2012

10. Commitments, Contingencies and Subsequent Events (Continued)

Contingencies

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

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

SR 520 Geotechnical Design Issues: There are currently two disputes pending on the State Route 520 Eastside Project involving geotechnical issues. The first dispute involves a material found on the project site referred to as Qpgl clay. As part of the contract, the Design-Builder is required to build a number of retaining walls on and around this material. The second issue involves the seismic stability analysis that the Design-Builder performed on a wall being designed for one of the interchanges. The parties are proceeding with negotiations of both matters and mediation has been scheduled to take place January 7, 2013, should the current negotiations be unsuccessful. Each claim individually would be considered material.

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.

Subsequent Events

Fisher, et al. v. WSDOT: Fisher is a consolidation of inverse condemnation actions by six property owners, based upon the taking of non-possessory restrictive covenants. Trial was held on two of the six lots in June 2012. In September, WSDOT and all six property owners executed a settlement agreement under which WSDOT has dismissed its appeal and will pay judgments in the amount of \$2,130,281 (plus some post-judgment interest) by November 3, 2012. This amount has been included in accounts payable at June 30, 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. There are 12 more property owners that may bring suit or file claims against WSDOT under the same legal theories.

State v. Petrisor: In this condemnation case, a petition was filed to acquire airspace in fee and a temporary construction easement. Both parties agreed that the value of the entire property before the acquisition was \$2.6 million. The owners proposed that WSDOT acquire the entire property. WSDOT agreed to purchase the entire property for \$2.6 million. The payment will be made before the end of the year.

Washington State System of Eligible Toll Facilities
Notes to the Financial Statements
June 30, 2012

10. Commitments, Contingencies and Subsequent Events (Continued)

TIFIA Loan Discussions: WSDOT is in negotiations with the United States Department of Transportation (USDOT) to secure a \$300 million loan to advance capital improvements within the State Route 520 Program. If successful, the loan will allow WSDOT to advance the design and construction of the west-bound half of a new West Approach Bridge. The West Approach Bridge connects the Floating Bridge to the Montlake interchange. It would improve mobility by expanding the HOV system and improve safety by replacing a seismically deficient structure. The loan and negotiations is expected to conclude in fall 2012.

No additional events occurring subsequent to the balance sheet date came to our attention which require adjustments to, or disclosure in, the financial statements.