Financial Report
of the
Operations of the System
Fiscal Year 2016

November 8, 2016

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Exhibit I

Audited Financial Statements

Washington State
Department of Transportation

WASHINGTON STATE
SYSTEM OF ELIGIBLE TOLL FACILITIES
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

Washington State Department of Transportation

Presented By

Washington State Department of Transportation

Accounting and Financial Services Division

Good To Go!

Washington State Department of Transportation

Washington State Department of Transportation

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Washington State
Department of Transportation

INTRODUCTORY SECTION

Washington State
Department of Transportation

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October 28, 2016

Roger Millar, Secretary
Washington State Department of Transportation
Olympia, WA 98504

Dear Secretary Millar:

The Accounting and Financial Services Division is pleased to present to you and the citizens of Washington State the Annual Financial Report for the Washington State System of Eligible Toll Facilities (the System), for fiscal year ended June 30, 2016. 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 65% to $293.4 million during Fiscal Year 2016. Tolling Revenue increased 8.45% to $69.4 million over the prior year, due to an additional one million tolled trips across the State Route 520 Bridge. Total expenditures also decreased by 66% primarily due to a $253.7 million reduction in capital outlays. In September 2016, the state of Washington issued $90.4 million Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2017C, for the purpose of providing funds to pay for the SR 520 Bridge Replacement and HOV Program.

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.

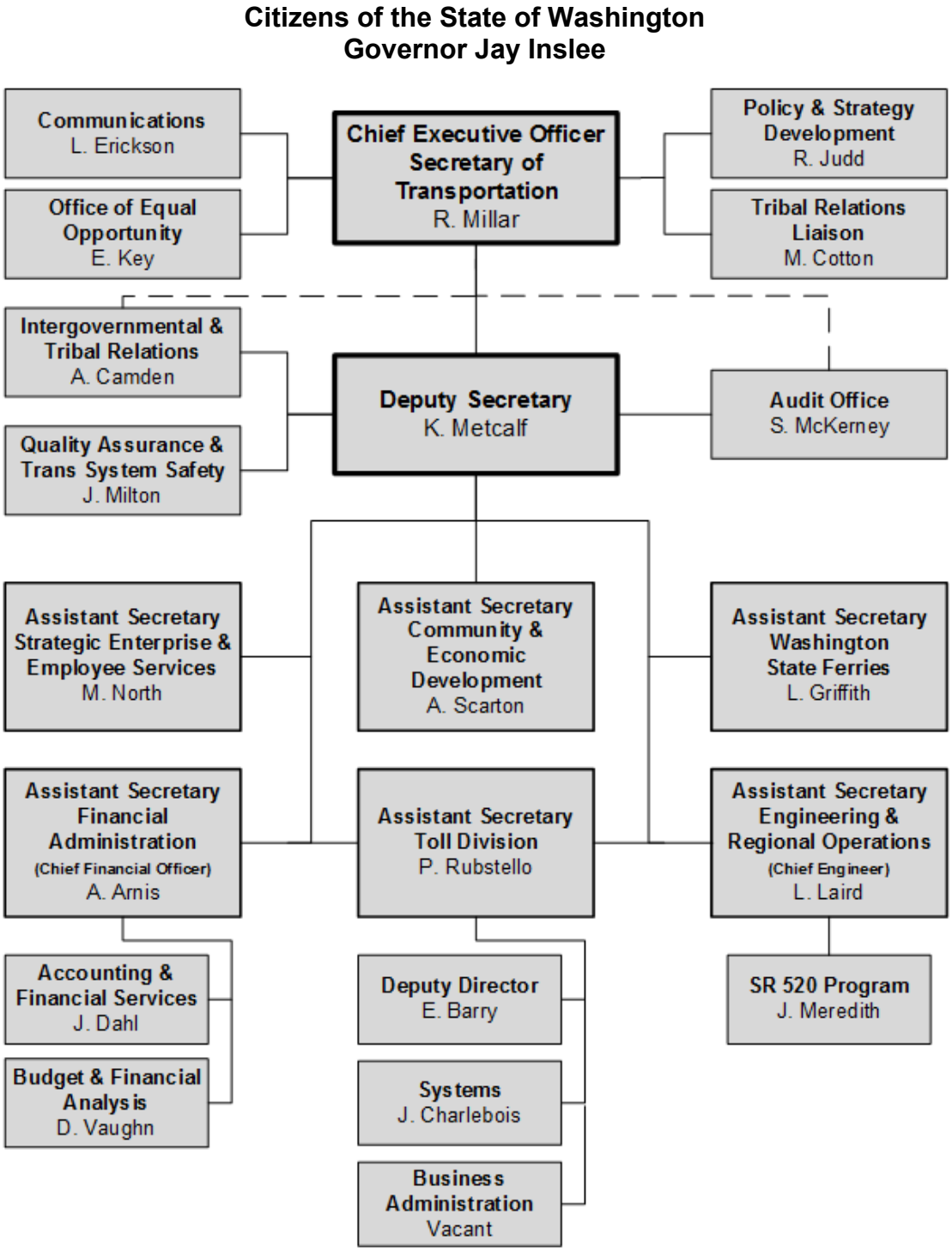
This Annual Financial Report is divided into an Introductory Section and Financial Section to facilitate a thorough understanding of the financial position of the System. Management's Discussion and Analysis (MD&A) can be found in the Financial Section and provides a narrative overview and analysis of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

Washington State Department of Transportation's Organization as of October 16, 2016



Profile of Washington State System of Eligible Toll Facilities

SR 520 Bridge

The SR 520 Floating Bridge, also known as the Evergreen Point Floating Bridge, was built to last 50 years, designed to carry 65,000 vehicles a day and expected to handle a 100-year storm. Nearing the end of its expected life, it was carrying an average of 93,000 vehicles a day, had withstood damage from a colliding gravel barge, had endured the 1993 “Inaugural Day Storm,” and had undergone various repairs and reinforcements to weather high winds. Growing concerns about safety and increased travel sparked discussions around bridge replacement and SR 520 improvements.

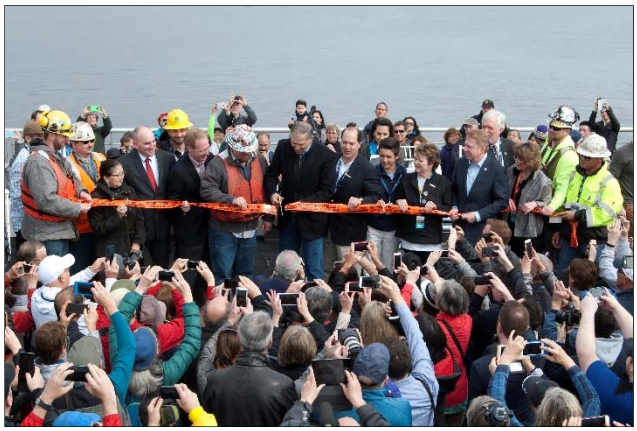
A Tolling Implementation Committee was formed in 2008 to work with the public on different tolling scenarios to finance the 520 Bridge Replacement and High Occupancy Vehicle (HOV) program. In May 2009, Governor Gregoire and the Washington State Legislature approved the SR 520 Bridge Replacement and HOV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

Construction began in 2011 to replace the Evergreen Point floating bridge with a new 75 year floating bridge, capable of carrying more traffic and surviving stronger storms. The new bridge opened to traffic in late April 2016.

Crews closed the highway the weekend of April 23, 2016 and then transitioned drivers onto the new bridge's eastbound lanes on Monday morning, April 25, 2016. 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. The old SR 520 Floating Bridge is expected to be taken apart and removed from the lake by the end of 2016.

Grand Opening

The SR 520 Floating Bridge Grand Opening was announced in early January 2016. The 520 Program reached out to the community as a whole and was organized as a family friendly event. The bridge was closed to traffic April 2-3, 2016 to provide an opportunity to appreciate the hard work and dedication that went into this extraordinary bridge and all that it has to offer the community.



Events scheduled for the grand opening included a fun run/walk, interactive exhibits, food trucks, displays showcasing the engineering involved in building the world's longest floating bridge and a bike ride. During the ribbon-cutting ceremony on April 2, Michael Empric, a representative of Guinness World Records, presented WSDOT's Secretary Roger Millar, with a certificate designating the new floating bridge – at 7,708.494 feet, end to end – as the world's longest. Earlier in the day, more than 12,000 people participated in a 10K run/walk from Husky Stadium, across the bridge, and back to the stadium. On Sunday, April 3, 7,000 bicyclists closed the celebration with a 20-mile "Emerald City Bike Ride" across the bridge and through car-free downtown Seattle streets. More than 50 corporations and organizations, including Delta Air Lines and Microsoft, helped sponsor the weekend celebration.

Financing the New SR 520 Bridge

The State issued $518.8 million in Triple Pledge Bonds in October 2011, $500.4 million in GARVEE bonds in June 2012, a $300.0 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.

Improvements funded and under construction include:

- 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.

In July 2015, Governor Inslee signed into law the project's final installment of $1.64 billion, bringing the total investment for the SR 520 Bridge Replacement and HOV Program to $4.56 billion. This funding was part of the Connecting Washington package, a balanced and multimodal transportation investment package that fixes hundreds of bridges, funds thousands of miles of roadway, and authorizes Sound Transit to expand light rail north to Everett, south to Tacoma, east to Redmond, and within Seattle between Ballard and West Seattle.

Funding Received to Date	Amount (in billions)
State Funding (primarily gas tax)	$ 0.61
State Funding (Connecting WA)	1.64
SR 520 Account (Tolling/ future Federal Funding)	1.65
Federal TIFIA Loan	0.30
Other Federal Funding	0.20
Deferred Sales Tax	0.16
Total	**$4.56**

The Connecting Washington package funds the remaining SR 520 planned improvements, known as the “Rest of the West”.

The expected benefits from this funding are:

- A seismically stronger Portage Bay Bridge to replace the existing bridge, which is vulnerable to earthquakes.

- Community-connecting highway lids at Montlake Boulevard and 10th Avenue East / Delmar Drive East.

- A new, seismically stronger West Approach Bridge South to carry three lanes of eastbound traffic past Montlake Boulevard to the new floating bridge.

- A new, second bascule bridge across the Montlake Cut to provide additional capacity and safer north-south travel on Montlake Boulevard.

- A landscaped, 30-foot-wide bicycle and pedestrian shared-use path over I-5.

- Related mitigation and trail-improvement projects in Seattle parks, natural areas and communities.

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/.

Sustainability and Environmental Stewardship

WSDOT is committed to environmental stewardship and promoting sustainability. 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. New storm water management systems along the corridor collect and filter highway runoff which improves water quality in local streams and Lake Washington.

Additionally, WSDOT is committed to providing alternatives to driving alone (carpooling and transit), encouraging bike and pedestrian modes of transportation, reducing the number of passenger vehicles on the roads, which decreases traffic congestion and greenhouse gas emissions. Examples include:

- A new cross-lake bicycle and pedestrian path that provides better connections to bus and light-rail stops, other local bike paths, and provides a scenic, non-motorized way to cross Lake Washington. Bicyclists and pedestrians don't pay a toll to cross the bridge.

- Improved traffic movement and increased transit ridership which is projected to result in a reduction in greenhouse gas emissions.

- Montlake connection to neighborhoods, providing better transit connections and increase community green space.

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, Legislature has also delegated the State Transportation Commission, the tolling authority for the state (the "Tolling Authority"), legal power to set, review and adjust tolls on Eligible Toll Facilities identified by 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 2nd 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 *Good To Go!* Customer Service Center (CSC) that supports customer service account management, payment processing, and customer service.
CliftonLarsonAllen LLP (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 2016 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 toll authorized is charged only for travel on the floating bridge portion of the SR 520 Corridor and is used to meet obligations for the repayment of debt and operating cost of the facility. WSDOT began tolling the east high-rise section of SR 520 bridge on December 29, 2011 and will continue to collect tolls until the bond obligations are satisfied.

The SR 520 Bridge is an electronic tolling facility that uses transponders and cameras to capture transactions. Tolls are charged in both directions of the bridge and vary in price by the time of day and for weekend and holidays. Motorcycles pay the same toll as larger two axle vehicles and vehicles with more than two axles pay a higher prorated toll. The average weekday toll paid in Fiscal Year 2016 was $3.00 and the average weekend toll rate in Fiscal Year 2016 was $2.04. 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 with auto-replenishment when the account balance drops below a predefined level. These accounts are charged the lowest toll rate.

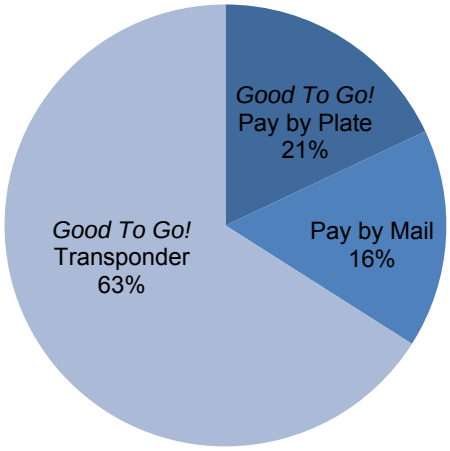
Pay by Plate – This account does not require a transponder, but does require a license plate number registered with a *Good to Go!* account. Accounts can be set up to be replenished automatically. Customers are charged the *Good to Go!* toll rate plus a $0.25 fee per toll transaction.

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 2016, the proportion of *Good to Go!* (i.e., account based) transactions was 84%, with 63% of the transactions using a transponder and 21% 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

Payment Method (June 2015 to May 2016)



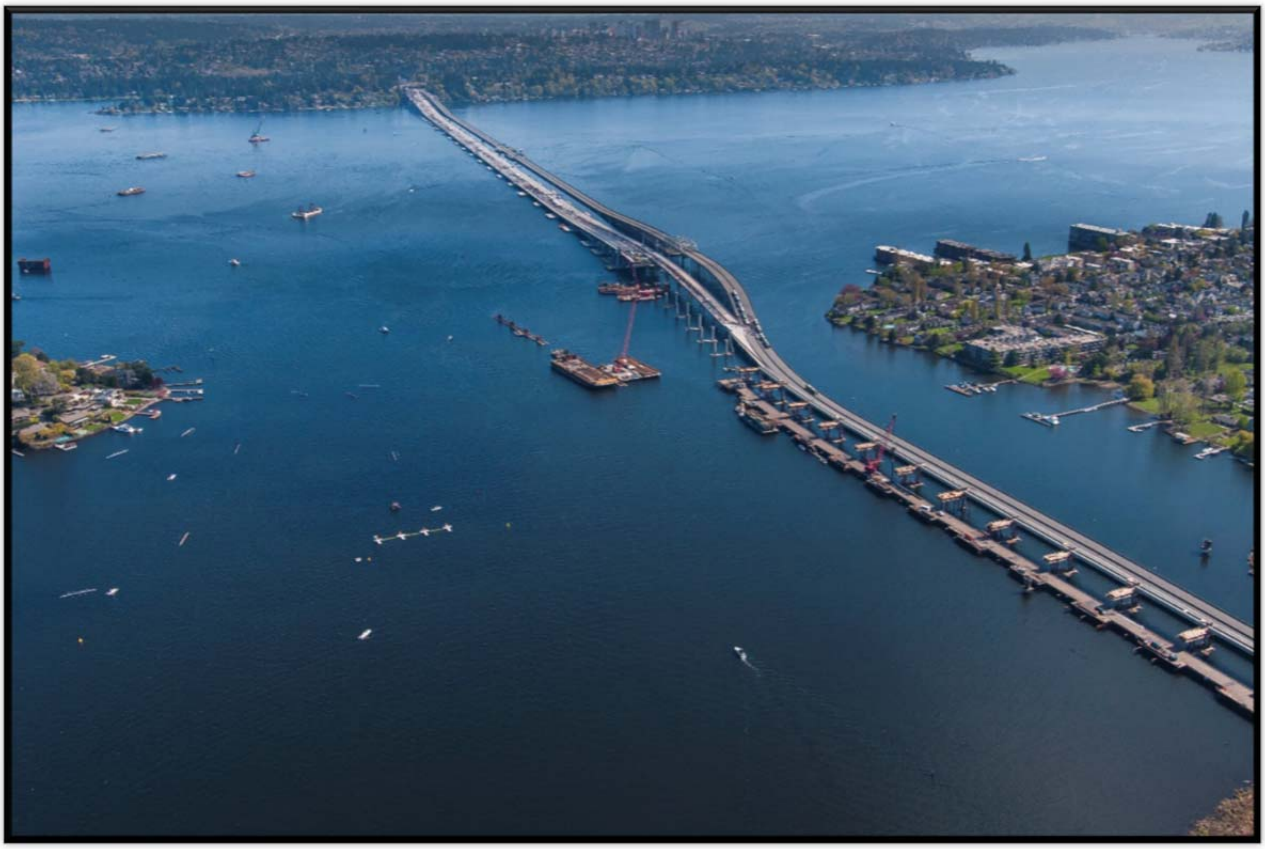
Toll rates are established by the Washington State Transportation Commission (WSTC). For the SR 520 Bridge, tolls vary by time of day and for weekends and holidays. WSTC works with WSDOT and the public to establish toll rates. WSTC reviews traffic and revenue each year to determine whether new toll rates 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 two audits (2015 and 2016) 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

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Washington State System of Eligible Toll Facilities
Olympia, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Washington State System of Eligible Toll Facilities, a project of the Department of Transportation of the State of Washington as of and for the year ended June 30, 2016, 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, 2016, 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, 2016 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 17 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 20, 2016, except for Note 9 to the financial statements for which the date is October 28, 2016

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, 2015 and 2016. Please read it in conjunction with the financial statements and notes to the financial statements, which begin on page 23.

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, 2015 and June 30, 2016.

- *Revenues*

  Government-wide revenues were $105,971,928 for Fiscal Year 2015 and $171,185,984 for Fiscal Year 2016, representing an increase of $65,214,056. The increase is largely due to $61,049,100 increase in Federal Highway Administration funds received in Fiscal Year 2016.

  Total governmental fund revenues were $105,833,312 for Fiscal Year 2015 and $172,467,219 for Fiscal Year 2016. This includes tolling revenues of $63,950,226 and $69,352,818 for Fiscal Years 2015 and 2016, respectively.

  Total Toll Facility Bond Retirement revenues were $28,909 for Fiscal Year 2015 and $47,006 for Fiscal Year 2016. Source of revenue for debt service consists of Interest Income.

- *Expenditures*

  Government-wide expenditures were $54,624,282 for Fiscal Year 2015 and $56,447,933 for Fiscal Year 2016, representing an increase of $1,823,651.

  Total governmental fund expenditures were $444,166,567 for Fiscal Year 2015 and $253,342,489 for Fiscal Year 2016. This includes capital outlays of $366,112,908 and $112,378,154 for Fiscal Year 2015 and Fiscal Year 2016, respectively.

  In Fiscal Year 2016, total governmental fund expenditures decreased by $190,824,078. This is predominantly due to a decrease in Capital Outlays and Debt Service Interest as compared to the prior year. In addition, $62,600,000 for Debt Service principal was expensed from the Toll Bond Retirement Account in 2016.

- *Net Position*

  The System reported a total net position of $177,869,869 in Fiscal Year 2015 and $293,422,920 in Fiscal Year 2016, representing an increase of $115,553,051.

  The System's governmental combined funds reported a combined ending fund balance of $50,195,752 for Fiscal Year 2015 and $74,936,118 for Fiscal Year 2016.

- *Construction in Progress*

  Total cost for Construction-in-Progress was $377,885,885 for Fiscal Year 2015 and $127,040,530 for Fiscal Year 2016. The total cost of Construction in Progress as of June 30, 2016 is $1,976,068.990.

- *Capital Assets*

  The value of land remains at $50,083,897 for Fiscal Year 2016. The net value of equipment was $18,921 for Fiscal Year 2015 and $2,928 for Fiscal Year 2016, as a result of disposed assets valuing $6,202 and increased depreciation of $9,791.

  The depreciated value of System assets for Fiscal Year 2016, excluding Construction-in-Progress, total $50,911,152 including Intangible Software of $824,327.

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 and the Toll Facility Bond Retirement Account. Both the accounts are categorized as Special Revenue Accounts and 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 that reconciles the noted differences. This combined statement can be found on page 23 of this report.

- *Statement of Revenues, Expenditures and Changes in Fund Balances / Statement of Activities*

  The first three columns of the combining statement present the Revenues, Expenditures, and Changes in Fund Balance, while the last column presents the Statement of Activities. The fourth column provides information that reconciles the noted differences. This combined statement can be found on page 24 of this report.

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 25-45 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, 2015 and Fiscal Year ended June 30, 2016.

CONDENSED STATEMENT OF NET POSITION			
	2015	2016	% Change
Assets			
Current and Other Assets	$ 74,916,768	$ 99,814,657	33.2%
Capital Assets, Net	1,900,367,768	2,026,980,142	6.7%
Total Assets	1,975,284,536	2,126,794,799	7.7%
Liabilities			
Current and Other Liabilities	38,213,438	118,277,691	209.5%
Noncurrent Liabilities	1,759,201,229	1,715,094,188	-2.5%
Total Liabilities	1,797,414,667	1,833,371,879	2.0%
Net Investment in Capital Assets	141,204,555	232,258,764	64.5%
Restricted Net Position	36,665,314	61,164,156	66.8%
Net Position, end of the Year	$ 177,869,869	$ 293,422,920	65.0%

During Fiscal Year 2016, Current and Other Assets increased considerably, primarily due to a $25,889,560 increase in Cash and Cash Equivalents. Such amounts are primarily attributable to a corresponding increase in restricted net position for funds received for debt service not yet paid.

CONDENSED STATEMENT OF ACTIVITIES					
		2015		2016	% Change
Revenue					
Tolling Revenue	$	63,950,226	$	69,352,818	8.45%
Other Revenue		42,021,702		101,833,166	142.33%
Total Revenue		105,971,928		171,185,984	61.54%
Expenses					
Personnel Service Contracts		1,587,467		1,692,886	6.64%
Goods and Services		11,757,547		13,530,247	15.07%
Other Expenditures		42,513,083		41,224,800	-3,03%
Total Expenses		55,858,097		56,447,933	1.05%
Other Financing Sources/Uses		886,000		815,000	-8.01%
Change in Net Position		50,999,831		115,553,051	126.58%
Net Position, Beginning of the Year		126,870,038		177,869,869	40.20%
Net Position, end of the Year	$	177,869,869	$	293,422,920	64.97%

Tolling Revenue for Fiscal Year 2016 is $69,352,818. This represents an increase of $5,402,592 over Fiscal Year 2015. The increase in Other Revenue is largely due to an increase in Debt Service Reimbursement. In Fiscal Year 2016, Debt Service Reimbursement from the Federal Highway Administration totaled $100,144,175, as compared to $39,095,675 received in Fiscal Year 2015.

The System's fund balance consists of Unassigned, Committed and Restricted. The Unassigned fund deficit is a result of restricting funds for bond debt obligations, the fund balance in Committed for Debit Service includes Interest Income of $47,006 for FY16 and the impact of Master Bond Resolution 1117 Section 6.12 f(iii) and h(iii) requirements.

The fund balances are restricted to any proper purpose of the System's operations, in accordance with State Legislation and 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. Master Bond Resolution 1117 Section 6.12 f(iii) and h(iii) requires the department deposit one twelfth of the principle payment of the bonds coming due in the next twelve months for both the third tier and fourth tier debt service. Based on the debt service schedule from the 2012 TIFIA Loan Agreement, the department would begin paying debt service in December 2016; therefore, the department was required to begin transferring funds to the fourth tier debt service account. Additionally, the department begins paying principle ($10.8 million) on the third tier debt service in June 2017; therefore, one twelfth of $10.8 million was transferred into the third tier debt service account. These requirements caused the transfer amount to be greater than the debt service payments, resulting in $2.22 million net change to fund balance reported in Committed for Debt Service, and a $2.13 million deficit in unrestricted fund balance.

Restrictions for fiscal year ended June 30, 2016 are as follows:

RESTRICTED NET POSITION	2015	2016
Restricted for Operating/Maintenance Reserve	$ 7,798,635	$ 9,048,353
Restricted for Repair/Replacement Reserve	3,402,768	2,925,163
Restricted Revenue Stabilization	-	22,068,796
Restricted for Transportation	23,236,966	22,764,829
Restricted for Third Tier Debt Service	2,226,945	3,172,436
Restricted for Fourth Tier Debt Service	-	1,184,579
	$ 36,665,314	$ 61,164,156

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 $1,976,068,990 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" include 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.

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 million to be reimbursed from tolling revenue. As of June 30, 2016, $300 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, 2016

	Toll Facility				
	SR 520 Corridor Account	Bond Retirement Account	Total	Adjustments (Note 2)	Statement of Net Position
Assets					
Cash and Cash Equivalents	$ 74,572,837	$ 4,444,761	$ 79,017,598	$ -	$ 79,017,598
Cash Held with Escrow Agents	16,370,147	-	16,370,147	-	16,370,147
Accounts Receivable (Net)	2,218,042	-	2,218,042	-	2,218,042
Due from Other Governments	-	-	-	-	-
Due from Other Funds/Agencies	1,699,643	682	1,700,325	-	1,700,325
Due from Toll Vendor	508,545	-	508,545	-	508,545
Capital assets, not being depreciated (Note 6)	-	-	-	2,026,152,887	2,026,152,887
Capital assets, being depreciated (Note 6)	-	-	-	2,928	2,928
Intangible assets, being amortized (Note 6)	-	-	-	824,327	824,327
TOTAL ASSETS	**95,369,214**	**4,445,443**	**99,814,657**	**2,026,980,142**	**2,126,794,799**
Liabilities					
Accounts Payable	1,664,871	-	1,664,871	-	1,664,871
Retainage Payable	16,725,350	-	16,725,350	-	16,725,350
Due to Other Funds/Agencies	4,958,692	-	4,958,692	-	4,958,692
Due to Other Governments	-	-	-	-	-
Unearned Revenue	1,037,484	-	1,037,484	-	1,037,484
Debt Service Interest Payable	-	-	-	14,226,294	14,226,294
Current Portion of Long Term Debt				79,665,000	79,665,000
Long-term Liabilities (Note 7)		-	-		
Compensated Absences Payable	-	-	-	37,808	37,808
Sales Tax Payable	-	-	-	149,074,737	149,074,737
Premiums on Bonds Payable	-	-	-	103,156,643	103,156,643
Bond Principal Due After One Year	-	-	-	1,165,945,000	1,165,945,000
TIFIA Loan Principal Due After One Year	-	-	-	296,880,000	296,880,000
TOTAL LIABILITIES	**24,386,397**	**-**	**24,386,397**	**1,808,985,482**	**1,833,371,879**
Deferred Inflows of Resources					
Unavailable Revenue-Toll Vendor	254,812	-	254,812	(254,812)	-
Unavailable Revenue-Reprocessing Fee	237,330	-	237,330	(237,330)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	492,142	-	492,142	(492,142)	-
FUND BALANCES/NET POSITION					
Fund Balances					
Restricted for Unspent					
GARVEE Bond Proceeds	-	-	-	-	-
Restricted for Operating & Maintenance Reserve	9,048,353	-	9,048,353	(9,048,353)	-
Restricted for Repair & Replacement	2,925,163	-	2,925,163	(2,925,163)	-
Restricted for Transportation	36,448,363	-	36,448,363	(36,448,363)	-
Restricted for Revenue Stabilization	22,068,796		22,068,796	(22,068,796)	-
Restricted for Third Tier Debt Service	-	3,172,436	3,172,436	(3,172,436)	-
Restricted for Fourth Tier Debt Service	-	1,184,579	1,184,579	(1,184,579)	-
Committed for Debt Service	-	2,218,558	2,218,558	(2,218,558)	-
Unassigned	-	(2,130,130)	(2,130,130)	2,130,130	-
TOTAL FUND BALANCES	**70,490,675**	**4,445,443**	**74,936,118**	**(74,936,118)**	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	**$ 95,369,214**	**$ 4,445,443**	**$ 99,814,657**		
Net Position:					
Net Investment in Capital Assets				232,258,764	232,258,764
Restricted for Operating & Maintenance Reserve				9,048,353	9,048,353
Restricted for Repair & Replacement Reserve				2,925,163	2,925,163
Restricted for Revenue Stabilization				22,068,796	22,068,796
Restricted for Transportation				22,764,829	22,764,829
Restricted for Third Tier Debt Service				3,172,436	3,172,436
Restricted for Fourth Tier Debt Service				1,184,579	1,184,579
TOTAL NET POSITION				**$ 293,422,920**	**$ 293,422,920**

See accompanying Notes to Financial Statements.

Washington State System of Eligible Toll Facilities
Statement of Revenues, Expenses, and Changes in Fund Balance / Statement of Activities
Year Ended June 30, 2016

	Toll Facility				
	SR 520 Corridor Account	Bond Retirement Account	Total	Adjustments (Note 4)	Statement of Activities
REVENUE					
Tolling Revenue	$ 69,352,818	$ -	$ 69,352,818	$ -	$ 69,352,818
Debt Service Reimbursement -					
- Federal Highway Administration	100,144,175	-	100,144,175	-	100,144,175
Transponder Sales	830,499	-	830,499	-	830,499
Toll Vendor Contractual Damages	270,893	-	270,893	(254,797)	16,096
Toll Bill Reprocessing Fee Revenue	1,339,872	-	1,339,872	(1,026,438)	313,434
Interest Income	423,875	47,006	470,881	-	470,881
Miscellaneous Revenue	58,081	-	58,081	-	58,081
TOTAL REVENUES	**172,420,213**	**47,006**	**172,467,219**	**(1,281,235)**	**171,185,984**
EXPENDITURES					
Current:					
Personal Service Contracts	1,692,886	-	1,692,886	-	1,692,886
Goods and Services	11,831,652	-	11,831,652	427,948	12,259,600
Salaries and Benefits	1,270,647	-	1,270,647	-	1,270,647
Capital Outlay	112,378,154	-	112,378,154	(112,378,154)	-
Debt Service - Principal	-	62,600,000	62,600,000	(62,600,000)	-
Debt Service - Interest	-	63,569,150	63,569,150	(22,344,350)	41,224,800
TOTAL EXPENDITURES	**127,173,339**	**126,169,150**	**253,342,489**	**(196,894,556)**	**56,447,933**
EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	**45,246,874**	**(126,122,144)**	**(80,875,270)**	**195,613,321**	**114,738,051**
Other Financing Sources/Uses:					
TIFIA Loan Proceeds	104,800,636	-	104,800,636	(104,800,636)	-
Transfers-External Activities	815,000	-	815,000	-	815,000
Transfers-Internal Activities	(128,340,642)	128,340,642	-	-	-
EXCESS (DEFICIENCY) REVENUES AND TRANSFER IN OVER EXPENDITURES AND TRANSFER OUT	**(22,725,006)**	**128,340,642**	**105,615,636**	**(104,800,636)**	**815,000**
Change in Fund Balances/Net Position	22,521,868	2,218,498	24,740,366	90,812,685	115,553,051
Fund Balances/Net Position:					
Beginning of The Year	47,968,807	2,226,945	50,195,752	127,674,116	177,869,869
END OF YEAR	**$ 70,490,675**	**$ 4,445,443**	**$ 74,936,118**	**$ 218,486,801**	**$ 293,422,920**

See accompanying Notes to Financial Statements.

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, TIFIA 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, 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.

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.

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 in the 2015-2017 Biennium, the Legislature provided authority in Chapter 14, Laws of 2016 (ESHB 2524).

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. In Fiscal Year 2016, the allowance for doubtful accounts for the $5 reprocessing fee was increased from 10% to 31% of the accounts receivable balance based on collectability data to date. Allowance percentages are based upon review of similar toll operations and WSDOT historical experience.

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's 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 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.

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 Operating and Maintenance Reserve, Restricted for Repair and Replacement Reserve, Restricted for Revenue Stabilization, Restricted for Third Tier Debt Service, and Restricted for Fourth 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.

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 four WSDOT Toll facilities – The Tacoma Narrows Bridge, State Route Number 167 High Occupancy Toll (HOT) Lanes, the Interstate 405 Express Toll 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 and reasonable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers Between System Accounts

For Fiscal Year 2016, there was an operating transfer out of the State Route Number 520 Corridor Account of $127,525,642 and an additional transfer of $815,000 from the penalties collected in a fund outside of the System funds with corresponding operating transfers in to the Toll Facility Bond Retirement Account of $128,340,642. 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. In the 2015-17 biennium, the Legislature provided authority in Chapter 14, Laws of 2016 to transfer $1,631,000, 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, $74,936,118, differs from "net position" of governmental activities, $293,422,920 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	$ 2,028,853,622
Accumulated Amortization and Depreciation	(1,873,480)
Capital Assets Net , as of June 30, 2016	$ 2,026,980,142

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, 2016.

Interest Payable, June 30, 2016	$	14,226,294

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, 2016

LONG TERM LIABILITIES		
Compensated Absences Payable	$	(37,808)
Deferred Sales Tax Payable		(149,074,737)
Bond Premium Payable		(103,156,641)
Bond Principal Payable		(1,242,490,000)
TIFIA Loan Principal Payable		(300,000,000)
Total Long Term Liabilities, as of June 30, 2016	$	(1,794,759,186)

d. Deferred inflows of resources is associated with: (a) the long-term portion of receivable that is due from WSDOT's toll vendor, ETCC and (b) the long-term receivable portion of the reprocessing fee receivable estimated to be collected after 12 months. While this revenue is considered "unavailable" for governmental fund accounting, it is considered earned revenue in the entity-wide financial statements due to the differences in revenue recognition criteria that are described in Note 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	$	254,812.00
Revenue – Reprocessing Fee		237,330.00
Total Deferred Inflows/Outflows, as of June 30, 2016	$	492,142.00

NOTE 3 - NET INVESTMENT IN CAPITAL ASSETS

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

CAPITAL ASSETS		
Net Capital Assets Balance	$	2,026,980,142
Less:		
Deferred Sales Tax Payable		(149,074,737)
Bonds Premium		(103,156,643)
Bond Principal Payable		(1,242,490,000)
TIFIA Loan Payable		(300,000,000)
		(1,794,721,378)
Net Investment in Capital Assets, as of June 30, 2016	$	232,258,764

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 $24,740,366 and Change in Net Position for governmental activities of $115,553,845 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. In Fiscal Year 2016, the rate for $5 Reprocessing Fee Allowance for Doubtful Accounts increased from 10% to 31% resulting in a reclassification of unavailable revenue to allowance. The impact of the allowance rate increase resulted in a negative adjustment to Fiscal Year 2016 $5 Reprocessing Fee revenue in the net amount of $1,026,437.

Revenue previously recognized, Toll Vendor Contractual Damages	$	(254,796)
Impact of $5 Fee Allowance for Doubtful Accounts	$	(1,026,438)

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

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:

STATEMENT OF ACTIVITIES RECONCILIATION		
Compensated Absences Expense	$	208
Amortization Expense - Intangible Asset		(412,163)
Depreciation Expense		(9,791)
Assets Disposed in FY 2016		(6,202)
Net Change in Interest Payable		1,039,504
Total Net Change Operating Expense Accruals, for the year ended June 30, 2016	$	611,556

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 Outlay for the year ended June 30, 2016	$	112,378,154

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 for the year ended June 30,2016	$	(104,800,636)
Bond Premium Amortization for the year ended June 30, 2016		21,304,846

e. Payment of debt principal is an expenditure in the governmental funds, but reduces a liability in the Statement of Net Position.

Payment of Bond Principal for the year ended June 30, 2016	$	62,600,000

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, 2016 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.

CASH BALANCE		
State Route Number 520 Corridor Account Cash and Cash Equivalents	$	74,572,837
Toll Facility Bond Retirement Account Cash and Cash Equivalents		4,444,761
Total System Account Cash and Cash Equivalents, as of June 30, 2016	$	79,017,598

Accounts Receivable

The following is a summary of the System's accounts receivable balances and related allowances as of June 30, 2016:

ACCOUNTS RECEIVABLE		
Toll Bill Accounts Receivable	$	2,031,370
Toll Bill Allowance for Doubtful Accounts		(303,541)
Net Toll Bill Accounts Receivable		1,727,829
Toll Bill Reprocessing Fee Receivable		2,951,218
Toll Bill Reprocessing Fee Allowance for Doubtful Accounts		(2,537,213)
Net Toll Bill Reprocessing Fee Receivable		414,005
Toll Receivable		40,932
NSF Fee Receivable		19,662
Transponder Fee Receivable		15,614
Other Receivables Subtotal		76,208
Total Accounts Receivable (Net), as of June 30, 2016	$	2,218,042

NOTE 6 - CAPITAL ASSETS

Capital Assets of the System increased $127,040,530 in Fiscal Year 2016, and decreased $6,202 for disposals, $9,791 for depreciation, and $412,163 for amortization of intangible assets. 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. Because the State Route Number 520 Corridor Account operates as a governmental fund, starting Fiscal Year 2014 interest associated with payment of debt service on bonds and amortized bond premium used to fund construction of this System were not capitalized and included in the total construction-in-progress value. Below is a table of the System's total assets by category as of June 30, 2016.

CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated:				
Land	$ 50,083,897	$ -	$ -	$ 50,083,897
Infrastructure	-	-	-	-
Construction-in-Progress	1,849,028,460	127,040,530	-	1,976,068,990
Total	$1,899,112,357	127,040,530	$ -	$ 2,026,152,887
Capital Assets, Depreciated:				
Equipment	27,876		(6,202)	21,674
Less Depreciation	(8,955)	(9,791)	-	(18,746)
Total	$ 18,921	$ (9,791)	$ (6.202)	$ 2,928
Capital Assets, Amortized:				
Intangible Asset (IT)	2,679,061	-	-	2,679,061
Less Amortization	(1,442,571)	(412,163)	-	(1,854,734)
Total	$ 1,236,490	$ (412,163)	$ -	$ 824,327
Total Capital Assets (Net)	$1,900,367,768	$126,618,576	$ (6,202)	$ 2,026,980,142

NOTE 7 - LONG-TERM LIABILITIES

The System's long-term liabilities consist of the items described below. Total long term liabilities increased by $119,463,094 in Fiscal Year 2016. There are $79,665,000 long–term liabilities due within one year. Below are the System's long-term liabilities itemized as of June 30, 2016.

LONG TERM LIABILITIES

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
Compensated Absences	$ 38,017	$ 82	$ (291)	$ 37,808	$ -
Deferred Sales Tax Payable	134,412,361	14,662,376	-	149,074,737	-
Premiums on Bonds Payable	124,461,488	-	(21,304,845)	103,156,643	-
Bonds Payable	1,305,090,000	-	(62,600,000)	1,242,490,000	76,545,000
TIFIA Loan Payable	195,199,364	104,800,636		300,000,000	3,120,000
Total	$ 1,759,201,230	$ 119,463,094	$(83,905,136)	$1,794,759,188	$79,665,000

Bonds Payable

a. Series 2012 Bonds

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

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

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.

b. TIFIA Bonds

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 $300,000,000 to be reimbursed from toll revenue. All $300,000,000 has been drawn on the TIFIA Bond. The Bonds are "toll revenue" bonds under the Bond Act that are payable solely from toll receipts. Based on the October 2012 debt schedule, principal and interest payments would begin December 1, 2016, payable every six months through June 1, 2051. This debt schedule is currently being updated to reflect a change in when payments would begin due to modifying the substantial completion date and when funds were drawn on the TIFIA loan.

c. Series 2014 Bonds

In September 2013, the State of Washington issued $285,915,000 in Federal Highway Grant Anticipation Revenue (GARVEE) Bonds, referred to as Series 2014C Bonds. These bonds were issued to finance a portion of the construction costs of the SR 520 Floating Bridge and Eastside plus West Approach Bridge Project, and 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. Interest on the Series 2014C Bonds is payable semiannually on each March 1 and September 1, beginning March 1, 2014. The principal of the Series 2014C Bonds is payable on each September 1, starting in September 2015, and continuing to September 2024.

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Bonds Outstanding

The following is a summary of the bonds payable as of June 30, 2016 (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	$460,540	9/1/2015 to 9/1/2024	$41,830 to $61,665
TIFIA	$300,000	12/1/2016 to 6/1/2051	$3,120 to $21,236
Series 2014C	$263,175	9/1/2015 to 9/1/2024	$23,880 to $35,250

As of June 30, 2016, 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 $300 million of the TIFIA amount has been drawn as of June 30, 2016:

Series 2012C

Year Ending June 30	Principal	Interest	Total
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	13,165	23,690	36,855
2022-2026	76,390	107,893	184,283
2027-2031	97,920	86,365	184,285
2032-2036	125,030	59,258	184,288
2037-2041	159,575	24,714	184,289
	$ 518,775	$ 402,659	$ 921,434

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Series 2012F

Year Ending June 30	Principal	Interest	Total
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	50,770	12,669	63,439
2022-2025	229,625	23,466	253,091
	$ 460,540	$ 110,307	$ 570,847

Series 2014C

Year Ending June 30	Principal	Interest	Total
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	29,010	7,268	36,278
2022-2025	131,260	13,482	144,742
	$ 263,175	$ 63,303	$ 326,478

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

TIFIA Loan

Year Ending June 30	Principal	Interest	Total
2017	$ 3,120	$ 9,436	$ 12,556
2018	3,202	9,355	12,557
2019	3,298	9,258	12,556
2020	3,386	9,171	12,557
2021	3,511	9,045	12,556
2022-2026	19,145	43,637	62,782
2027-2031	22,208	40,575	62,783
2032-2036	25,751	37,031	62,782
2037-2041	29,890	32,892	62,782
2042-2046	86,338	26,748	113,086
2047-2051	100,151	12,936	113,087
	$ 300,000	$ 240,084	$ 540,084

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Combined

Year Ending June 30	Principal	Combined Interest	Total
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	96,456	52,673	149,129
2022-2026	456,420	188,479	644,899
2027-2031	120,128	126,940	247,068
2032-2036	150,781	96,289	247,070
2037-2041	189,465	57,606	247,071
2042-2046	86,338	26,748	113,086
2047-2051	100,151	12,936	113,087
	$ 1,542,490	$ 816,356	$ 2,358,846

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 Bridge Replacement and HOV Program. Effective December 10, 2009, the Washington State Department of Revenue provided the associated certificate (3096-09-001) for deferral of sales and use tax on the SR 520 Bridge Replacement and HOV Program. The amount of sales tax payable as of June 30, 2016 was $149.1 million. Per 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.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments

Construction Commitments – As of June 30, 2016, the System had in process uncompleted construction projects with remaining balances totaling approximately $108 million.

a. 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. 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. In April 2016, WSDOT opened the new SR 520 Floating Bridge to traffic. Construction continues along the SR 520 corridor with the deconstruction and removal of the existing floating bridge and building the new West Approach Bridge North to allow six travel lanes and a bicycle/pedestrian path to reach the Montlake area.

Contingencies

a. 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.

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 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, 2016, the remaining risk reserve is approximately $105 million. The details about significant program change orders are provided below.

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 a change order was executed in Fiscal Year 2015 to address both time and money. The change order 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. Several change orders were executed to address the design issues. With the new floating bridge open to traffic in April 2016, this matter was closed and all issues were settled with the design-build contractor.

e. Eastside Right of Way Litigation: *Fisher, et al v. WSDOT:* The Fisher lawsuit is a consolidation of inverse condemnation actions by six property owners, based upon the taking of non-possessory restrictive covenants. Trial was held on two of the six properties in June 2012. In September 2012, WSDOT and all six property owners executed a settlement agreement under which WSDOT has dismissed its appeal and paid judgments in the amount of $2,154,999 (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. Working with the Office of the Attorney General, negotiation of a settlement between WSDOT and the Fairweather Basin Boat Club regarding the future dredging fees is underway. We have reached settlement with 11 of the remaining 12 owners for a total cost of $2,022,741. The remaining owner is working through a bankruptcy issue and other private legal matters. Settlement with the remaining owner is on hold until his/her legal matter is resolved.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

f. Existing Floating Bridge Decommissioning: Immediately after opening the new SR 520 floating bridge in April 2016, design-build contractor KGM began demolition and removal of the old floating bridge from Lake Washington, as authorized under permits from state and federal agencies. The city of Kenmore, however, objected to KGM's plan for breaking up concrete from the old bridge to smaller pieces for handling at the Kenmore industrial site where KGM had built the new bridge's precast roadway deck and anchors. KGM and the site's owner filed suit, but later reached a settlement with the city under which the contractor breaks apart the old bridge's concrete and rebar on barges, offloads the materials onto trucks at the Kenmore site, and then transports the materials elsewhere for recycling. As bridge decommissioning proceeded, the city of Medina, two state legislators, and other lakeside residents objected, citing concerns that barge-based demolition could potentially harm water quality in Lake Washington and potentially cause dust emissions. WSDOT and the state Department of Ecology have provided critics of the decommissioning significant amounts of information about the work, including all the required permits, approvals and NEPA documentation. More discussions and information sharing are planned while construction progresses per schedule.

g. Bridge Noise: The new State Route 520 floating bridge opened to westbound traffic on April 11, 2016. Two weeks later, the bridge's eastbound lanes opened. Soon after the opening of the westbound lanes, Eastside residents living near the highway's east high-rise and landing began expressing concerns that traffic noise from the new bridge is louder than expected. More specifically, most said they hear a loud thumping or clanking noise, apparently as vehicles pass over the new expansion joints that connect the floating bridge and the fixed, east high-rise. Similar complaints, though fewer in number, were made by Madison Park residents living near the new bridge's west high-rise. The new floating bridge and its connecting on-land highway were built with various features designed to reduce noise levels to nearby homes and businesses. These include grooved, noise-abating pavement, sound walls along both sides of the Eastside corridor, and encapsulated expansion joints that muffle noise on the exposed underside of the east and west high-rises as vehicles pass between the floating bridge and the high-rises. (Sound walls along the south side of SR 520 near the Medina shoreline will be completed in the fall.) In response to the public's reports of unexpected noise levels from the new bridge, the SR 520 Construction office requested noise measurements to be collected during daytime and nighttime traffic conditions. The results of the noise tests, measured in decibels, showed that the new bridge's pavement and expansion joints both were quieter than the old bridge. WSDOT continues to meet with residents and city officials to discuss what might be done to address the noise issue.

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 in 2027. Preliminary design and Request for Proposal for the first project, West Approach Bridge South/Montlake Interchange, is underway.

In September 2016, the state of Washington issued $90.4 million Motor Vehicle Fuel Tax General Obligation Bonds (SR 520 Program – Toll Revenue), Series 2017C, for the purpose of providing funds to pay for the SR 520 Bridge Replacement and HOV Program. The Series 2017C Bonds are general obligations of the state and, as provided by the Series 2017C Bond Resolution, the full faith, credit and taxing power of the state are pledged. The Series 2017C are first payable from Toll Revenue and Motor Vehicle Fuel Tax.

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

Exhibit II

Projected Net Toll Revenues and Debt Service Coverage

SR 520 Floating Bridge and Eastside plus West Approach Bridge North Project
Projected Net Toll Revenue and Debt Service Coverage (Actuals through Fiscal Year 2016)
($ in millions)

				Third Tier Bonds				Fourth Tier Bonds	
Fiscal Year	**Net Toll Revenue[1,3]**	**Deposits to the Revenue Stabilization Subaccount**	**Net Toll Revenue for Coverage Purposes[2]**	**2012C Bonds Debt Service**	**2017C Bonds Debt Service**	**Third Tier (Triple Pledge) Debt Service**	**Third Tier (Triple Pledge) Debt Coverage**	**Fourth Tier (TIFIA) Debt Service**	**Fourth Tier (TIFIA) Debt Coverage**
2012	21.22	-	21.22	-	-	-	-	-	-
2013	47.02	-	47.02	26.02	-	26.02	1.81	-	1.81
2014	51.14	-	51.14	26.02	-	26.02	1.96	-	1.96
2015	54.91	-	54.91	26.02	-	26.02	2.11	-	2.11
2016	58.77	(22.07)	36.70	26.02	-	26.02	1.41	-	1.41
2017	64.28	(6.44)	57.84	36.86	4.96	41.82	1.38	-	1.38
2018	67.44	-	67.44	36.86	6.39	43.25	1.56	12.69	1.21
2019	68.30	-	68.30	36.86	6.39	43.25	1.58	12.69	1.22
2020	70.42	-	70.42	36.86	6.39	43.24	1.63	12.69	1.26
2021	73.20	-	73.20	36.86	6.38	43.24	1.69	12.69	1.31
2022	76.48	-	76.48	36.86	6.39	43.24	1.77	12.69	1.37
2023	80.14	-	80.14	36.86	6.39	43.24	1.85	12.69	1.43
2024	81.94	-	81.94	36.85	6.39	43.24	1.89	12.69	1.47
2025	83.58	-	83.58	36.86	6.39	43.24	1.93	12.69	1.49
2026	85.38	-	85.38	36.86	6.39	43.25	1.97	12.69	1.53
2027	86.71	-	86.71	36.86	6.38	43.24	2.01	12.69	1.55
2028	88.20	-	88.20	36.86	6.39	43.24	2.04	12.69	1.58
2029	88.85	-	88.85	36.86	6.38	43.24	2.05	12.69	1.59
2030	89.92	-	89.92	36.86	6.39	43.24	2.08	12.69	1.61
2031	91.22	-	91.22	36.86	6.39	43.25	2.11	12.69	1.63
2032	92.94	-	92.94	36.86	6.39	43.24	2.15	12.69	1.66
2033	92.21	-	92.21	36.86	6.38	43.24	2.13	12.69	1.65
2034	93.28	-	93.28	36.86	6.39	43.25	2.16	12.69	1.67
2035	93.66	-	93.66	36.86	6.39	43.25	2.17	12.69	1.67
2036	94.86	-	94.86	36.86	6.39	43.24	2.19	12.69	1.70
2037	94.89	-	94.89	36.86	6.39	43.25	2.19	12.69	1.70
2038	95.03	-	95.03	36.86	6.39	43.25	2.20	12.69	1.70
2039	94.98	-	94.98	36.86	6.38	43.24	2.20	12.69	1.70
2040	94.77	-	94.77	36.86	6.39	43.25	2.19	12.69	1.69
2041	94.13	-	94.13	36.86	6.38	43.24	2.18	12.69	1.68
2042	94.04	-	94.04	-	-	-	-	23.79	3.95

(1) Tolling began December 2011.

(2) Net Toll Revenue for coverage purposes excludes deposits made to the Revenue Stabilization Subaccount.

(3) Projections are based on 2015 Traffic and Revenue Study dated April 22, 2016, prepared by CDM Smith and Net Toll Revenue Report dated April 29, 2016, prepared by WSP | Parsons Brinckerhoff in collaboration with the SR 520 General Engineering Consultant Team and WSDOT. Projected numbers subject to change.