

**PIERCE TRANSIT**  
Comprehensive Annual Financial Report  
Year Ended December 31, 2007  
Pierce County, Washington

**Lynne M. Griffith**  
Chief Executive Officer

Prepared by  
The Finance, Audit & Administration Department

**Wayne Fanshier**  
Vice President, Finance, Audit & Administration

**Kathy Sullivant**  
Director of Finance

**Liz Passmore**  
Assistant Finance Manager

Pierce Transit provides service to a wide variety of customers, including teens. Our "Summer Youth Pass" gives convenient, economical mobility to those 18 years of age or younger. In 2007, young people purchasing passes were encouraged to write about riding the bus. The winning essays are included in this report. You may be surprised at the role Pierce Transit plays in their lives.



**Pierce Transit**  
**Comprehensive Annual Financial Report**  
**Year Ended December 31, 2007**

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June 30, 2008

Board of Commissioners  
Pierce County Public Transportation  
Benefit Area Corporation

## **I. TRANSMITTAL OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

Pierce Transit's Comprehensive Annual Financial Report for the year ending December 31, 2007 is presented herein. Management assumes full responsibility for the completeness and reliability of the information contained in this reports, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal controls should not outweigh their benefits, Pierce Transit's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that its financial statements will be free from material misstatement. We believe the data, including management's discussion and analysis, the financial statements, supporting schedules and statistical tables, as presented, is accurate in all material aspects and that adequate internal controls are in place to ensure that it presents fairly the financial position and results of the operations of Pierce Transit. All disclosures necessary to enable the reader to gain the maximum understanding of Pierce Transit's business have been included.

The Washington State Auditor's Office has issued an unqualified ("clean") opinion on Pierce Transit's financial statements for the year ended December 31, 2007. The independent auditor's report is located at the front of the financial section of this report.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis of the basic financial statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A.

Pierce Transit's Board of Commissioners has adopted reserve policies in order to ensure that financial resources are managed in a prudent manner. An operating reserve, an insurance reserve and a capital reserve policies have been adopted. More information on these reserve policies can be found in the MD&A section of this report.

## **II. PROFILE OF THE AGENCY**

The Pierce County Public Transportation Benefit Area Corporation, AKA "Pierce Transit," was formed in 1979 when voters passed a 0.3 % sales tax to fund public transportation. By authorizing this taxing authority, a municipal corporation (Pierce Transit), was formed under Chapter 36.57A of the revised Code of Washington. In February 2002, Pierce County voters approved a ballot measure increasing local sales tax support from .3% to .6%. Sales tax collections based on the new tax rate began in July 2002. This additional sales tax revenue was used to restore service cut as a result of the loss of motor vehicle excise tax (MVET) revenues.

Pierce Transit is a single enterprise that uses the same accrual method of accounting as a private enterprise. Under this method of accounting, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received.

Pierce Transit's services are provided over a 414 square mile radius to an estimated population of 732,435. Pierce Transit's service area includes the cities and towns of Bonney Lake, Buckley, Dupont, Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Orting, Pacific, Puyallup, Ruston, Steilacoom, Sumner, Tacoma, and University Place along with extensive unincorporated areas of Pierce County. A Board of Commissioners governs the Agency. The Board is comprised of three members of the Tacoma City Council, two members of the Pierce County Council, the Pierce County Executive or his delegate, a member of the City of Lakewood council, one member selected by the City Councils of the cities of Puyallup and University Place, and an elected official chosen by the remaining small cities and towns. Appointments are based on three-year terms.

The Chief Executive Officer (CEO) is responsible for implementation of the policies legislated by the Board of Commissioners. In order to provide overall management for the Agency, six departments have been established, Executive, Transportation Services, Policy, Planning & Public Affairs, Human Resources, Finance, Audit and Administration, and Capital Development.

The Agency began a strategic positioning process in 2006. This organizational strategy was used to develop a long-range vision for Pierce Transit and to prepare for a wide array of possible future scenarios. The process sought input from the Board of Commissioners, staff and community and business leaders. On March 7, 2008 the Board of Commissioners defined the following strategic goals for the Agency:

“Pierce Transit is a nationally recognized leader in the transportation industry and is committed to results. Emphasizing innovation, good stewardship of public dollars, and a desire to move the organization from “Good to Great”, Pierce Transit will provide....

- Effective and innovative services that respond to change and growth,
- A safe and attractive system that draws riders,
- Services that benefit the community and are embraced by our citizens,
- A system that is efficient, fiscally responsible, and uses resources effectively,
- A work environment that develops its employees and rewards innovation and high performance,
- A continued commitment to green technologies and strategies that respond to climate change, and
- A business approach that uses technology and best practices ensuring continual progress in moving its performance from “Good to Great.”

In response to the Boards goals, the Agency will be review its mission statement, and develop goals, objectives and metrics to support the Boards strategic direction. This process is continuing through 2008.

Pierce Transit provides fixed route, demand response, vanpool, rideshare, Bus PLUS, and inter-county express service to Seattle and Olympia. In addition, rideshare matching services and commute trip reduction assistance is provided to local and regional employers.

Pierce Transit's local fixed route bus service is provided along more than 52 routes throughout Pierce County. This service is centered on a network of transit center hubs and park and ride lots. Pierce Transit supports regional express bus service in cooperation with Sound Transit, Puget Sound's Regional Transit Authority. Since 1999, the popular Seattle Express service from Tacoma to Seattle was funded by Sound Transit, and operated by Pierce Transit. Pierce Transit operates 8 routes for Sound Transit service. In 2007, all local and express fixed route services combined (including Sound Transit services) carried 15.4 million passengers.

Specialized transportation services, commonly known as SHUTTLE, provide transportation to individuals in the community, who, due to a disability, are unable to use fixed route bus services. SHUTTLE is provided directly by Pierce Transit employees and through contracts with local transportation providers. In 2007, total ridership was 423,183.

The Agency's vanpool program was added to the mix of services in 1986. Since its inception, the vanpool program has expanded to 320 vans with over 3,077 daily weekday riders. The vanpool program accounted for 5.4% of the Agency's total ridership in 2007 (excluding Sound Transit ridership), with 788,868 passenger boardings.

More people than ever look to Pierce Transit as an integral community partner. This year, we provided more than 198,480 rides in support of special events including the Puyallup Fair, Sound to Narrows Run, Mariners' games, Seahawk Games, and the 4<sup>th</sup> of July Freedom Fair.

### **Major Initiatives**

- A project to replace Pierce Transit's mobile communication system is currently underway. The current radio system has exceeded its useful life and does not provide adequate radio coverage. This project will implement a mobile communication system that will enable reliable voice and data communication to all vehicles. In addition to replacing the current radio system, the system will be upgraded to include computer aided dispatch, mobile data, automatic vehicle location and other Intelligent Transportation System (ITS) capabilities. These new radio technologies will provide the opportunity to dramatically improve system safety and productivity. The project was approximately 50% complete at the end of 2007. Significant milestones included construction at eight remote sites for towers, installation of radio servers and fixed radio equipment, design work for Computer Aided Dispatch and Automatic Vehicle Location (CAD/AVL), and design for on-board equipment. CAD/AVL factory testing and installation of the CAD/AVL servers and fixed equipment also occurred in 2007. The cost of the project is currently estimated at approximately \$37 million. Project completion is anticipated in 2009.
- Pierce Transit is planning for an additional park and ride lot in Gig Harbor. Design and property acquisition for the park and ride is underway. The Phase I project cost is estimated at approximately \$15 million.
- Pierce Transit continues to work with six other Central Puget Sound transit agencies to develop a regional smart card fare collection system. When implemented, the Smart Card system will replace the current Puget Pass regional fare program. Smart cards will enable transit agencies to offer new transit fare options, reduce fare media confusion, and improve interagency fare revenue reconciliation. The system completed beta testing in 2007 and the system is expected to be implemented by the end of 2008 or the first quarter of 2009. The cost of the project is currently estimated at approximately \$4.5 million.

### **III. ECONOMIC CONDITION AND OUTLOOK**

Local economic conditions play a major part in sales tax revenue which is Pierce Transit's primary operating revenue source. Pierce Transit's sales tax rate of 6/10ths of 1% is anticipated to generate over \$82 million dollars in sales tax revenue in 2008. Sales tax has become an increasingly important component of Pierce Transit's operating revenues since the loss of Motor Vehicle Excise Tax (MVET) in 2000. In 2000, sales tax

represented 41% of operating revenues. In 2008, sales tax is expected to account for 68% of Pierce Transit's operating revenues.

In creating the long-term financial plan and preparing the annual budget, local conditions and issues are closely examined. Pierce County's economy provides a stable base for economic growth. Growth in the local economy has a significant positive impact on Pierce Transit's sales tax revenues. Major manufacturers such as Boeing and Intel, along with other employers such as the Port of Tacoma and service employers like the Franciscan Health System and Multicare Medical Center give Pierce County a diversified economic base. A weaker economy is expected in 2008. This will be seen in a slowdown in retail sales activity. Much of the slowdown in consumer spending is expected to be in response to record gas prices, a weaker job market and dropping home prices. However, Pierce County's economy is still expected to grow, although at a slow pace than last year, and this growth is expected to support Pierce Transit's six-year financial plan.

#### **IV. AWARDS AND ACKNOWLEDGEMENTS**


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pierce Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2006. In order to be awarded a Certificate of Achievement, a governmental unit must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to conform to Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Grateful acknowledgement is made to the staff of the entire Finance, Audit and Administration Department for their assistance in the preparation of this report. Special acknowledgement is also made to the willingness of the Office of the State Auditor to provide a timely audit and opinion so that this comprehensive annual financial report could be submitted to the Government Finance Officers Association for their review and evaluation in accordance with that organization's deadlines. Finally, we wish to thank the members of the Pierce Transit Board of Commissioners for their support and assistance in the development of a strong financial system.



Lynne Griffith  
Chief Executive Officer



Wayne Fanshier  
Vice President, Finance and Administration

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pierce Transit  
Washington

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Charles S. Cox*

President

*Jeffrey R. Emery*

Executive Director

# Organizational Chart

**Lynne Griffith**  
Chief Executive Officer

**Sam Desue**  
Vice President, Transportation Services

**Treva Percival, CMC**  
Assistant to the CEO/Clerk of the Board

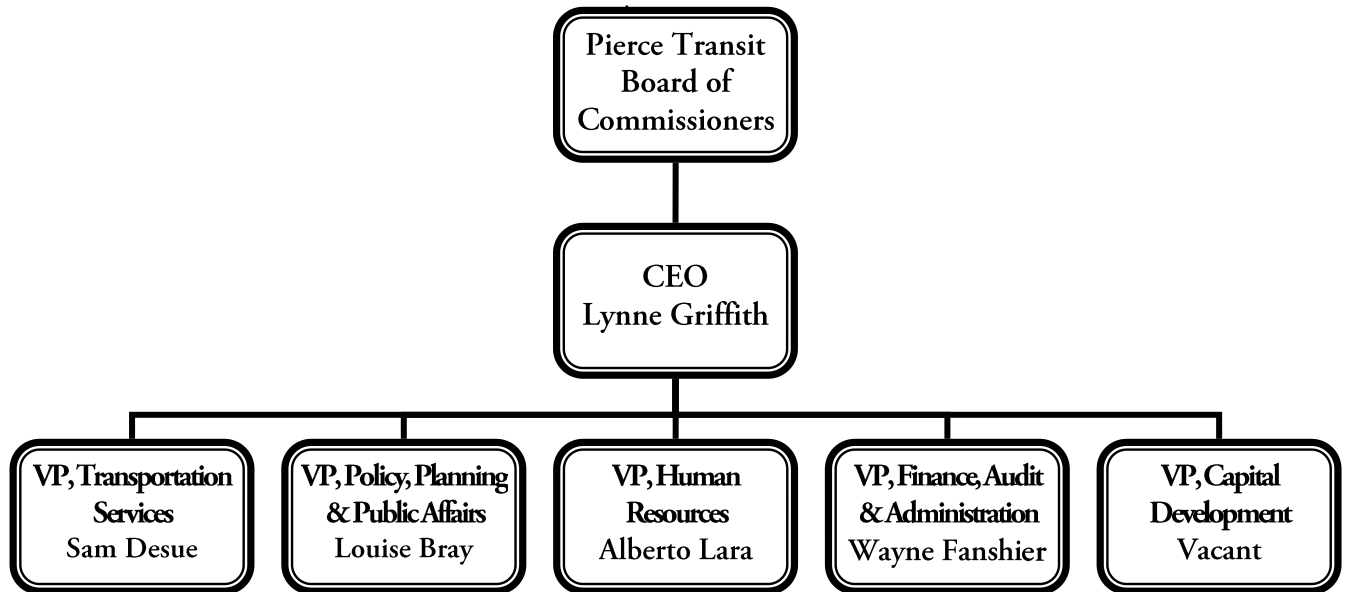
**Alberto Lara**  
Vice President, Human Resources

**Tom Wolfendale**  
General Counsel

**Wayne Fanshier, CPA**  
Vice President, Finance, Audit &  
Administration

**Louise Bray**  
Vice President, Policy, Planning & Public  
Affairs

**Vacant**  
Vice President, Capital Development





# Board of Commissioners

**John Ladenburg**

Chairman of the Board  
Pierce County Executive  
Term Expires 5/08

**Dave Enslow**

Vice Chairman of the Board  
Small Cities/Towns  
Term Expires 5/10

**Bill Baarsma**

Mayor of Tacoma  
Term Expires 5/10

**Tom Stenger**

Tacoma Councilmember  
Term Expires 5/08

**Terry Lee**

Pierce County Councilmember  
Term Expires 5/10

**Tim Farrell**

Pierce County  
Councilmember  
Term Expires 5/09

**Gerald Gehring**

Puyallup/University Place  
Councilmember  
Term Expires 5/09

**Rick Talbert**

Tacoma Councilmember  
Term Expires 5/09

**John Arbeeny**

Lakewood Councilmember  
Term Expires 5/08

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**Washington State Auditor  
Brian Sonntag**

**INDEPENDENT AUDITOR'S REPORT**

June 16, 2008

Board of Commissioners  
Pierce Transit  
Tacoma, Washington

We have audited the accompanying basic financial statements of Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pierce Transit, Pierce County, Washington, as of December 31, 2007 and 2006, and the changes in financial position and, where applicable, cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 11 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Transit. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

**Pierce Transit**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2007 and 2006**

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Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the years ended December 31, 2007 and 2006. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

**Financial Highlights**

- Net income for 2007, before contributions, was \$8.1 million, compared to \$12.9 million for 2006 and \$8.7 million in 2005. The 2007 decrease in net income was a result of a 9.4 percent increasing in operating expenses. \$8.1 million in net income and capital contributions of \$8.1 million accounted for the \$16.2 million increase in net assets in 2007.
- Pierce Transit's assets exceeded its liabilities at December 31, 2007 by \$240.1 million (net assets) compared to \$223.9 million in 2006 and \$205.5 million in 2005. These increases in net assets as a result of operations indicate an improved financial position. Investments in capital assets increased by \$4.1 million, \$7 million and \$9.2 million in 2007, 2006 and 2005 respectively. Unrestricted net assets increased by \$12 million in 2007, \$17.7 million in 2006 and \$13.8 million in 2005. These reserves will be used to fund operating and capital commitments over the next six years.
- No additional debt was issued during the last three years.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to Pierce Transit's basic financial statements. The notes to the financial statements contain more detail on the information presented in the financial statements.

Pierce Transit's financial statements report information about the Agency using accounting methods similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. The Comparative Statement of Net Assets presents information on Pierce Transit's assets and liabilities, with the difference between assets and liabilities reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether Pierce Transit's financial position is improving or deteriorating.

The Comparative Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Agency's net assets changed during the current and prior fiscal years. All changes to net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Comparative Statement of Cash Flows presents information on Pierce Transit's cash receipts, cash payments, and net changes in cash and cash equivalents for the most recent two fiscal years. Generally Accepted Accounting Principles require that cash flows be classified into one of four categories:

- Cash flows from operating activities
- Cash flows from non-capital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities

**Pierce Transit**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2007 and 2006**

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Pierce Transit's financial statements can be found on page 21 to 24 of this report.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided with the financial statements. The Notes to the Financial Statements can be found on page 26 to 44 of this report.

**Financial Statement Analysis**

As noted earlier, net assets may serve as a useful indication of the Agency's financial position. Total net assets exceed liabilities by \$240.1 million, \$223.9 million and \$205.5 million in 2007, 2006 and 2005 respectively.

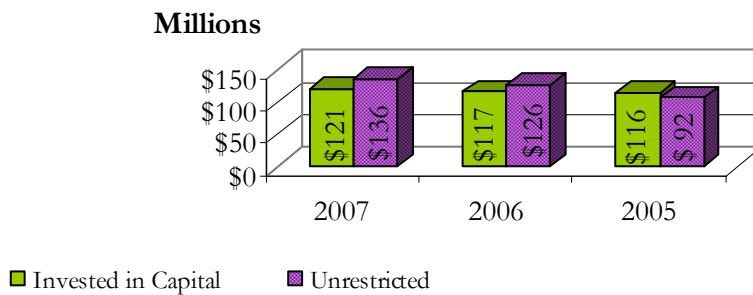
**Summary Statement for Net Assets**  
**For the years ending December 31, 2007, 2006 and 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Current Assets	\$ 80,271,449	\$ 74,503,799	\$ 53,787,701
Other Non-Current Assets	56,156,298	51,872,141	53,602,590
Capital Assets (net)	<u>120,825,987</u>	<u>116,669,627</u>	<u>115,927,548</u>
Total Assets	<u>\$ 257,253,734</u>	<u>\$ 243,045,567</u>	<u>\$ 223,317,839</u>
<b>Liabilities:</b>			
Current Liabilities	\$ 11,602,677	\$ 12,661,532	\$ 12,448,807
Other Non-Current Liabilities	<u>5,556,042</u>	<u>6,456,504</u>	<u>5,397,552</u>
Total Liabilities	<u>17,158,719</u>	<u>19,118,036</u>	<u>17,846,359</u>
<b>Net Assets:</b>			
Invested in Capital Assets, net of related debt	119,075,987	114,524,627	113,402,548
Net Assets	<u>121,019,028</u>	<u>109,402,904</u>	<u>92,068,932</u>
Total Net Assets	<u>240,095,015</u>	<u>223,927,531</u>	<u>205,471,480</u>
Total Liabilities and Net Assets	<u>\$ 257,253,734</u>	<u>\$ 243,045,567</u>	<u>\$ 223,317,839</u>

**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2007 and 2006**

A large majority of Pierce Transit's 2007 net capital assets (\$120.8 million) reflect its investment in capital assets (e.g. revenue vehicles, passenger facilities, and shop equipment). The Agency uses these capital assets to provide transportation to the community. These are committed assets and this portion of the net asset balance is not available for future spending. A portion (\$53.4 million) of the remaining net asset balance of \$119.2 million has been restricted or designated by Board action (e.g., capital, workers' compensation and liability self-insurance programs) or by bond covenants. The remainder of \$65.8 million is available to support future obligations for transportation operations.

**Net Assets by Type**



Following is a summary of the Comparative Statement of Revenues, Expenses and Changes in Net Assets for the last three years:

**Comparative Statement of Revenues, Expenses and Changes in Net Assets  
For the years ended December 31, 2007, 2006 & 2005**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 30,083,334	\$ 27,700,692	\$ 24,787,446
Operating Expenses	(95,459,298)	(87,266,403)	(81,949,100)
Depreciation	(15,745,786)	(13,681,147)	(12,567,124)
Operating Loss	(81,121,750)	(73,246,858)	(69,728,778)
Operating Subsidies	84,075,867	81,622,203	76,582,094
Non-Operating Revenues	7,100,600	5,415,907	3,749,902
Non-Operating Expenses	(1,985,607)	(865,324)	(1,893,611)
Net Non-Operating Income	89,190,860	86,172,786	78,438,385
Net Income (Loss) Before Contributions	8,069,110	12,925,928	8,709,607
Capital Grants	8,098,374	5,530,123	14,308,399
Change in Net Assets	<u>\$ 16,167,484</u>	<u>\$ 18,456,051</u>	<u>\$ 23,018,006</u>

**Pierce Transit**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2007 and 2006**

A description of operating & non-operating revenues follows:

<b>Operating Revenues</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Passenger Fares	\$ 12,372,165	\$ 11,515,007	\$ 9,096,278
Advertising	816,563	1,094,081	851,602
Regional Transit Service	16,894,606	15,091,604	14,839,566
<b>Total Operating Revenues</b>	<b>30,083,334</b>	<b>27,700,692</b>	<b>24,787,446</b>
<b>Non-Operating Revenues</b>			
Operating Subsidies:			
Sales Tax	77,156,577	74,593,386	69,126,119
Operating Grants	6,919,290	7,028,817	7,455,975
Other Non-Operating Revenues:			
Investment Income	5,590,687	4,161,786	2,393,870
Miscellaneous Income	1,509,913	1,254,121	1,356,032
<b>Total Non-Operating Revenues</b>	<b>91,176,467</b>	<b>87,038,110</b>	<b>80,331,996</b>
<b>Total Revenues</b>	<b>\$ 121,259,801</b>	<b>\$ 114,738,802</b>	<b>\$ 105,119,442</b>

Revenue highlights for 2007 include:

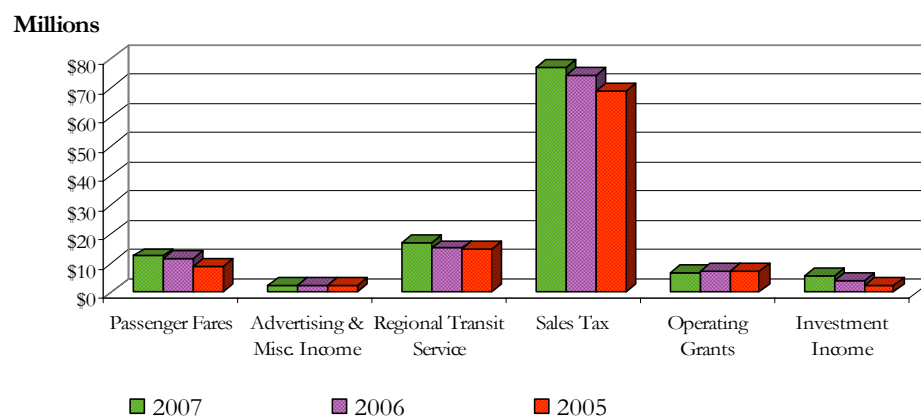
- Pierce Transit's passenger fares consist of revenues from the sale of passes and tickets as well as cash fares collected on-board revenue vehicles. Fare revenues increased in 2007 by \$.9 million to \$12.4 million due to an increase in ridership of .9 million. Fare revenues in 2006 and 2005 were \$11.5 million and \$9.1 million respectively. Fare revenues increased in 2006 over 2005 levels because of an increase in ridership and a fare increase implemented in March 2006.
- Advertising revenues were \$.8 million in 2007, \$1.1 million in 2006 and \$.8 million in 2005. These fluctuations were due to the timing of contractual guarantees.
- Regional transit service is the fixed route express service provided for Sound Transit, Puget Sound's Regional Transit Authority. An inter-local agreement between Pierce Transit and Sound Transit has been established for the operation of this service. The agreement is for a period of five years. The current operating agreement ends on December 31, 2009. Revenues generated from this regional transit service were \$16.9 million in 2007, an increase of 11% over 2006. Regional transit service revenues were \$15.1 million and \$14.8 million in 2006 and 2005 respectively. These increases were a result of a change in the number of service hours as well as the rate Pierce Transit charges for providing this service.
- Sales tax, accounting for nearly 63% of Pierce Transit's total revenue (excluding capital), grew by \$2.6 million, an increase of 3.4% over 2006. Sales tax revenues have been steadily increasing with sales tax revenues of \$77.1 million in 2007, \$74.6 million in 2006 and \$69.1 million in 2005. These increases are a result of a strong local economy.



**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2007 and 2006**

- The majority of operating grant revenue is received from the Federal Transit Administration (FTA). Operating grants received in 2007 totaled \$6.9 million compared to \$7.0 million in 2006 and \$7.4 million in 2005. The changes in grant revenues are because operating grant contracts are awarded on an annual basis and vary from year to year.
- Investment income increased nearly 34% from 2006 earnings. 2007 investment earnings were \$5.6 million compared to \$4.1 million in 2006 and \$2.4 million in 2005. These increases are primarily due to a larger investment portfolio and higher interest rates.

**Operating Revenue by Source**



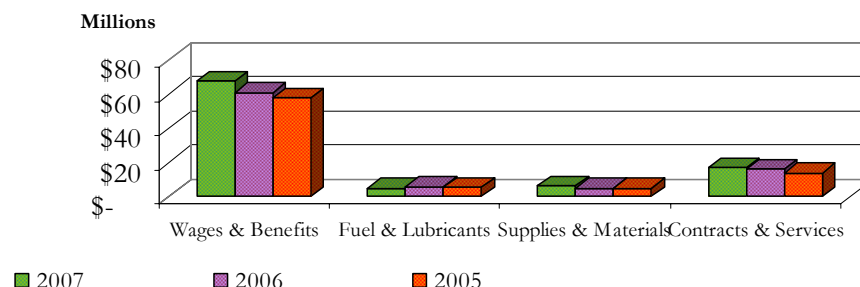
**Operating Expenses**

Total 2007 operating expenses, excluding depreciation and capital, totaled \$95.4 million and increased by 9.4% over 2006 levels. Operating expenses for 2006 and 2005 were \$87.3 million and \$81.9 million. Several factors, including contractual wage and benefit increases as well as service levels contributed to the rise in operating expenses. 7

<b>Operating Expenses:</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Wages & Benefits	\$ 67,667,670	\$ 60,736,926	\$ 57,785,602
Fuel & Lubricants	4,763,794	5,917,776	5,386,453
Supplies & Materials	5,962,609	4,636,844	4,851,849
Contracts & Services	17,065,225	15,974,856	13,925,196
Depreciation & Amortization	15,745,786	13,681,147	12,567,124
<b>Total Operating Expenses</b>	<b>111,205,084</b>	<b>100,947,550</b>	<b>94,516,224</b>
<b>Non Operating Expenses:</b>			
Items Previously Deferred	132,357	50,590	61,865
Grant Exchange Funds	1,758,451	711,191	1,714,333
Interest Expense	94,799	103,543	117,413
<b>Total Non-Operating Expenses</b>	<b>1,985,607</b>	<b>865,324</b>	<b>1,893,611</b>
<b>Total Expenses</b>	<b>\$ 113,190,691</b>	<b>\$ 101,812,873</b>	<b>\$ 96,409,835</b>

**Pierce Transit  
Management's Discussion and Analysis  
Years Ended December 31, 2007 and 2006**

**2007 Operating Expenditures by Type**



Wages and benefits for 2007 of \$67.7 million make up 71% of operating expenses and increased by 11.4% over 2006 levels. Contractual wage increases of 3% on July 1, 2007, a 2.4% increase in the PERS retirement rate, and the increase in the number of service hours accounted for the change in 2007 operating costs. Wages and benefits for 2006 and 2005 were \$60.7 million and \$57.8 million respectively and increased by 5.1% between 2005 and 2006. This increase was driven by a contractual wage increase of 2.25%, a 51% increase in the PERS retirement rate and an increase in the number of service hours operated.

Total operating expenses, exclusive of depreciation and capital, are most directly impacted by the number of service hours Pierce Transit operates. Service hours include drive time while in service, deadhead and layover. Following is a table representing the number of service hours by type of service for 2007, 2006 and 2005:

<b>Service Hours:</b>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Fixed Route Pierce Transit	629,591	601,655	580,073
Fixed Route Sound Transit	161,334	157,062	172,410
Demand Response	238,392	216,361	186,147
Vanpool	143,932	121,386	104,239
<b>Total</b>	<u>1,174,639</u>	<u>1,096,464</u>	<u>1,042,869</u>

**Capital Assets**

Capital assets include revenue vehicles, support vehicles, projects in progress, land, buildings, shop equipment, passenger facilities, and other assets having a life of more than one year with an acquisition value of more than \$5,000. Pierce Transit's investment in capital assets as of December 31, 2007 totaled \$120.8 million, net of accumulated depreciation. This compared to a 2006 net investment in capital assets of \$116.7 million and a 2005 net investment in capital assets of \$115.9 million. Net 2007 capital assets increased by 3.6 percent, or \$4.1 million during the year. This is the net result of the addition of \$12.8 million in assets and \$8.7 million in depreciation for 2007. Net 2006 capital assets increased by less than one percent, or \$.8 million and by \$9 million, or 9 percent, in 2005. These changes in the rate of increase in net capital assets in largely driven by the acquisition and disposal of revenue vehicles.

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Capital contributions in 2007 totaled \$8.1 million. Capital grants funded 40% of Pierce Transit's capital acquisitions in 2007. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 1I.

Capital acquisitions during 2007 totaled \$19.9 million and included the following major capital assets:

- \$6.9 million for vehicles including 10 CNG buses, 64 Vanpool Vans, 1 SHUTTLE vehicle, 10 Bus PLUS vehicles and additional support vehicles
- \$.5 million for property improvements and building improvements, including replacement bus wash
- \$4.1 million for transit center development including continuation of work on a new Peninsula Park and Ride and improvements to multiple locations throughout Pierce County
- \$8.4 million for the continuation of work on a major radio system replacement and a regional Smart Card project.

#### **Debt Administration**

Pierce Transit has adopted a debt policy which governs debt issuance, the use of debt, types of debt and debt limitations. Pierce Transit is in compliance with this debt policy.

Outstanding bond debt as of December 31, 2007 totaled \$1,750,000. It consists of limited sales tax general obligation bonds issued in 1999 with varying interest rates between 3.0% to 4.3% and maturities ranging from November 1, 1999 through November 1, 2011. This debt has been rated Aaa by Moody's Investors Service and is insured by Financial Guaranty Insurance Company (FGIC). A more detailed description of Pierce Transit's debt activity is found in footnote 4 and 9 of the financial section of this report.

Pierce Transit's authorized debt limit without a vote of the people is .375 percent of the value of the taxable property within its boundaries. The estimated non-voted debt capacity is \$159,182,301. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25 percent of assessed valuation, or \$531,942,166. This estimate is based on the assessed value of the cities and towns of Tacoma, Puyallup, Lakewood, University Place, Dupont, Orting, Steilacoom, Gig Harbor, Fircrest, Ruston, Fife, Milton, Sumner, Edgewood, Bonney Lake and Buckley, which are served by Pierce Transit. This estimate does not include any of the assessed valuation from the unincorporated areas of Pierce County within Pierce Transit's jurisdiction. As of December 31, 2007, Pierce Transit has a remaining total debt capacity of 99.7% and a remaining voted debt capacity of 98.9%.

#### **Reserve Policies**

Pierce Transit's Board of Commissioners has adopted reserve policies in order to ensure that financial resources are managed in a prudent manner. These policies address the basic principles needed to promote sound accounting, auditing, and financial practices. A summary of these policies follows:

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Years Ended December 31, 2007 and 2006**

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- **Operating Reserve:** Pierce Transit will maintain the Operating Reserve at a minimum of two months of Agency operating expenditures. The Operating Reserve will be maintained at a level to provide sufficient working capital, to provide an adequate cash balance to finance cash flow requirements, to offset unanticipated downturns in revenues and to provide funds for emergency expenditure requirements.
- **Insurance Reserve:** The Insurance Reserve will be set at a level to adequately protect the Agency from self-insurance risks.
- **Capital Reserve:** The minimum amount of the Capital Reserve will be set at a level equal to ten percent of the six-year average annual capital expenditures and fifty percent of the average annual grant funding programmed in the Six-Year Financial Plan. The capital reserve has been set at a level to enable the Agency to respond to urgent unanticipated capital expenditure requirements as well as to protect Pierce Transit from the uncertainty of Federal and State grant funding.
- Pierce Transit complied with its reserve policies during 2007.

## **Factors Affecting Financial Condition**

### **Local Economy**

- According to the chief economist for Washington State Employment security in April, 2008, “while difficult to forecast, figures do confirm projections of slower economic growth this year compared with 2007.” Retail merchants are facing a slew of obstacles to improving sales: record gas prices, rising food costs, a weaker job market, and slumping home prices all of which might not dissipate soon. Consumers appear to be buying what they need. According to the Conference Board, a business-backed group, consumer confidence is at its lowest in 28 years which may account for the slowdown in retail sales activity. Sales tax revenue for Pierce Transit in January and February of 2008 showed little or no growth over the same months in 2007. This slowdown could significantly impact sales tax revenue for Pierce Transit if the decline continues throughout the year.
- Overall, Washington and Pierce County tend to be faring better than most of the nation in many areas, including job growth, housing prices and exports. Paul Turek, the local employment economist for the State's Employment Security Department advised, “As with most things economic, we may not know the answer until it has already happened.” However, the fact that the state and county still have job growth bodes well. Job growth indicates hiring, and hiring leads to spending, which then affects retailers and sales tax revenue.

### **Long Term Financial Outlook**

- Pierce Transit expects to increase fixed route service hours approximately 11% by 2013. Current revenue and expenditure projections support this level of increase. Pierce Transit has identified schedule reliability adjustments and more direct services to popular destinations as the most critical service needs for the next six years.

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- Pierce Transit has developed a financial plan that relies upon sales tax revenues, fare revenues, regional transit service revenues from Sound Transit, and grant funds. In order to keep pace with inflation, two fare increases are planned over the next six years.
- Throughout the next six years, capital spending will focus on maintaining existing facilities and equipment and expanding facilities and equipment in order to improve customer service and support service expansion objectives. To do this, Pierce Transit will purchase replacement and expansion vehicles, expand base facilities, place shelters at existing stops and implement new technologies that provide better customer information and service. Two major projects are planned. Pierce Transit radio system will be replaced at a cost of \$37 million. This radio system will include a 700 MHz trunked voice and data radio system with Computer Aided Dispatch/Automated Vehicle Location (CAD/AVL). Phase I and II of the Peninsula Park and Ride lot will also be constructed. This park and ride lot will accommodate increased demand for transit services associated with the second Tacoma Narrows Bridge.
- Pierce Transit will support operating expenses of \$821 million and capital expenses of \$175 million over the next six years. The planned expenses totaling \$996 million with modest fund balances will provide prudent reserves to help manage future uncertainties.

**Request for Information**

This financial report is designed to provide a general overview of Pierce Transit's finances for all those who have an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President of Finance, Audit & Administration, PO Box 99070, Lakewood, WA 98496-0070 or [piercetransit.org](http://piercetransit.org).

End of Management's Discussion and Analysis

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**Pierce Transit  
Financial Statements  
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Pierce Transit

**Comparative Statement of Net Assets**

December 31, 2007 and 2006

<b>CURRENT ASSETS</b>	<b>2007</b>	<b>2006</b>
Cash & Cash Equivalents	\$ 4,731,076	\$ 8,009,216
Investments	54,946,596	43,500,143
Accounts Receivable	175,544	248,759
Interest Receivable	130,359	220,502
Sales Tax Receivable	13,536,917	13,541,527
Due From Other Governments	3,773,266	6,593,688
Prepaid Expenses	290,101	239,456
Inventories	2,687,590	2,150,508
<b>TOTAL CURRENT ASSETS</b>	<b>80,271,449</b>	<b>74,503,799</b>
<b>CURRENT RESTRICTED ASSETS</b>		
Cash & Cash Equivalents	105,211	106,059
Investments	54,296,651	46,348,216
Accounts Receivable	278,628	386,715
Interest Receivable	212,501	165,407
Due From Other Governments	1,263,307	4,865,744
<b>TOTAL CURRENT RESTRICTED ASSETS</b>	<b>56,156,298</b>	<b>51,872,141</b>
<b>TOTAL CURRENT ASSETS</b>	<b>136,427,747</b>	<b>126,375,940</b>
<b>CAPITAL ASSETS</b>		
Land	17,339,804	17,339,804
Work in Progress	17,214,808	5,770,407
Structures & Improvements	68,568,084	68,727,699
Site Improvements	47,030,011	46,510,031
Machinery & Equipment	97,626,335	96,575,639
Less: Accumulated Depreciation	(126,953,055)	(118,253,953)
<b>TOTAL CAPITAL ASSETS</b>	<b>120,825,987</b>	<b>116,669,627</b>
<b>TOTAL ASSETS</b>	<b>\$ 257,253,734</b>	<b>\$ 243,045,567</b>

See accompanying notes to the financial statements.



Pierce Transit

**Comparative Statement of Net Assets**

December 31, 2007 and 2006

<b>CURRENT LIABILITIES</b>	<b>2007</b>	<b>2006</b>
Checks Payable	\$ 121,631	\$ 1,554,750
Accounts Payable	3,838,749	2,677,388
Unearned Revenue	117,026	61,990
Wages and Benefits Payable	2,631,238	2,602,686
Employee Leave Payable	4,486,771	3,935,058
Due to Other Governments	406,043	1,809,492
Retainage Payable	1,219	20,168
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,602,677</u>	<u>12,661,532</u>
 <b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Checks Payable	366,773	179,756
Accounts Payable	102,396	956,811
Interest Payable	218,457	212,380
Retainage Payable	19,890	116,990
Provision for Uninsured Claims	1,657,062	1,491,050
Bonds Payable-Current Portion	415,000	395,000
<b>TOTAL RESTRICTED LIABILITIES</b>	<u>2,779,578</u>	<u>3,351,987</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>14,382,255</u>	<u>16,013,519</u>
 <b>LONG-TERM LIABILITIES</b>		
Employee Leave Payable	1,602,964	1,556,392
Bonds Payable-Non-Current Portion	1,335,000	1,750,000
Unamortized Bond Refunding Gain	(161,500)	(201,875)
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>2,776,464</u>	<u>3,104,517</u>
<b>TOTAL LIABILITIES</b>	<u>17,158,719</u>	<u>19,118,036</u>
 <b>NET ASSETS</b>		
Invested in Capital Assets, net of related debt	119,075,987	114,524,627
Unrestricted Net Assets	121,019,028	109,402,904
<b>TOTAL NET ASSETS</b>	<u>240,095,015</u>	<u>223,927,531</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 257,253,734</u>	<u>\$ 243,045,567</u>

See accompanying notes to the financial statements.

Pierce Transit

**Comparative Statement of Revenues, Expenses and Changes in Net Assets**

Years ended December 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
<b>OPERATING INCOME</b>		
Passenger Fares	\$ 12,372,165	\$ 11,515,007
Advertising	816,563	1,094,081
Regional Transit Service	16,894,606	15,091,604
<b>TOTAL OPERATING REVENUE</b>	<u>30,083,334</u>	<u>27,700,692</u>
<b>OPERATING EXPENSES</b>		
Operations	56,763,155	47,015,359
Maintenance	17,210,481	16,790,669
Non-Vehicle Maintenance	4,837,850	4,636,652
General & Administration	16,647,812	18,823,723
Depreciation & Amortization	15,745,786	13,681,147
<b>TOTAL OPERATING EXPENSES</b>	<u>111,205,084</u>	<u>100,947,550</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(81,121,750)</u>	<u>(73,246,858)</u>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Operating Subsidies:		
Sales Tax	77,156,577	74,593,386
Operating Grants	6,919,290	7,028,817
Other:		
Expense of Items Previously Deferred	(132,357)	(50,590)
Investment Income	5,590,687	4,161,786
Grant Exchange Funds	(1,758,451)	(711,191)
Miscellaneous Non-Operating Income	1,401,198	969,860
Gain (Loss) on Disposal of Assets	108,715	284,261
Interest Expense	(94,799)	(103,543)
<b>NET NON-OPERATING INCOME</b>	<u>89,190,860</u>	<u>86,172,786</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	8,069,110	12,925,928
Capital Contributions	8,098,374	5,530,123
<b>NET INCOME (LOSS) AFTER CONTRIBUTIONS</b>	<u>16,167,484</u>	<u>18,456,051</u>
<b>NET ASSETS-BEGINNING</b>	223,927,531	205,471,480
<b>NET ASSETS-ENDING</b>	<u>\$ 240,095,015</u>	<u>\$ 223,927,531</u>

See accompanying notes to the financial statements.

**Comparative Statement of Cash Flows**

Years ended December 31, 2007 and 2006

<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received From Customers	\$ 30,407,708	\$ 27,392,904
Cash Payments to Suppliers for Goods & Services	(28,050,694)	(39,061,191)
Cash Payments to Employees for Services	(67,639,118)	(47,920,257)
<b>Net Cash Used By Operating Activities</b>	<u>(65,282,104)</u>	<u>(59,588,544)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Sales Tax Received	77,161,187	73,775,955
Operating Grants Received	8,072,502	6,714,103
Miscellaneous Non-Operating Income	1,401,198	-
Grant Exchange Funds	(1,758,451)	-
<b>Net Cash Provided By Noncapital Financing Activities</b>	<u>84,876,436</u>	<u>80,490,058</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and Construction of Capital Assets	(20,516,840)	(15,627,775)
Capital Grants and Contributions	12,093,562	1,025,219
Principal Paid on Debt	(395,000)	(380,000)
Interest Paid on Debt	(88,722)	(96,149)
Proceeds From Sale of Equipment	(164,537)	546,017
<b>Net Cash Used By Capital and Related Financing Activity</b>	<u>(9,071,537)</u>	<u>(14,532,688)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Investment Securities	(144,448,768)	(100,322,217)
Proceeds from Maturities of Investment Securities	125,013,249	92,399,853
Interest on Investments	5,633,736	4,165,779
<b>Net Cash Used By Investing Activities</b>	<u>(13,801,783)</u>	<u>(3,756,585)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,278,988)	2,612,241
Cash and Cash Equivalents at Beginning of Year	8,115,275	5,503,034
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 4,836,287</u>	<u>\$ 8,115,275</u>

See accompanying notes to the financial statements.

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (81,121,750)	\$ (73,246,858)
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**ADJUSTMENTS TO RECONCILE OPERATING TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Depreciation and Amortization	15,745,786	13,681,147
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**CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:**

(Increase) Decrease in Receivables	73,215	4,081,631
(Increase) Decrease in Inventories	(537,082)	(106,265)
(Increase) Decrease in Prepaid Expenses	(50,645)	12,719
(Increase) Decrease in Due from Other Governments	1,274,459	(5,687,341)
Increase (Decrease) in Warrants Payable	(1,449,289)	354,321
Increase (Decrease) in Accounts Payable	1,129,702	(400,973)
Increase (Decrease) in Unearned Revenue	55,036	-
Increase (Decrease) in Wages and Benefits Payable	626,837	153,574
Increase (Decrease) in Due to Other Governments	(1,078,336)	1,395,597
Increase (Decrease) in Retainage Payable	(116,049)	-
Increase (Decrease) in Provision for Uninsured Claims	166,012	173,904
<b>TOTAL ADJUSTMENTS</b>	<u>15,839,646</u>	<u>13,658,314</u>
<b>Net Cash Used By Operating Activities</b>	<u>\$ (65,282,104)</u>	<u>\$ (59,588,544)</u>

See accompanying notes to the financial statements.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Pierce County Public Transportation Benefit Area Corporation, AKA Pierce Transit, was authorized to begin operation of a public transportation system in 1980. On January 1, 1980, Pierce Transit assumed the operations of the City of Tacoma Transit System.

The accounting policies of Pierce Transit (the Agency) conform to generally accepted accounting principles applicable to governmental units. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

**A. ENTITY** - The Pierce County Public Transportation Benefit Area Corporation, AKA Pierce Transit, is a municipal corporation formed under the authority of Chapter 36.57A of the Revised Code of Washington. Pierce Transit operates fixed route, Bus PLUS, specialized transportation (SHUTTLE), and vanpool transportation services in the urbanized area of Pierce County. In addition, rideshare matching services and commute trip reduction assistance is provided to the local and regional employers.

The Pierce Transit Board of Commissioners is responsible for governance of the Agency. The nine member Board consists of three members of the Tacoma City Council, two members of the Pierce County Council, the Pierce County Executive (or delegate), a member of the Lakewood City Council, a member shared by Puyallup and University Place, and an elected official chosen by the remaining small cities and towns within Pierce Transit's jurisdiction.

Pierce Transit has a separately elected governing body, is legally separate from other entities, and is fiscally independent of other state and local government entities. The criteria, set forth in the Government Accounting Standards Board (GASB) Statement 14, indicate that Pierce Transit is a primary government for reporting purposes and that there are no additional entities or funds for which the Agency has reporting responsibilities.

**B. BASIS OF ACCOUNTING** - Pierce Transit is a single proprietary fund. Proprietary funds are accounted for on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. Revenues and expenses are categorized as operating or non-operating. Operating revenues and expenses are those directly associated with the provision of transportation service. Non-operating revenues and expenses are those ancillary to the provision of transportation service. Certain reclassifications for 2006 occurred for comparability with 2007.

In accordance with Government Accounting Standards Board (GASB) Statement 20, the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principals Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement 34, "Basic Financial Statements" and related standards. This statement provides for significant changes in terminology and includes recognition of capital grants in the Comparative Statement of Revenues, Expenses and Changes in Net Assets; a presentation of net assets; as well as an inclusion of a management discussion and analysis and other changes. Pierce Transit adopted this statement effective for the period ended December 31, 2002.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**C. BUDGET AND SPENDING CONTROLS** - Pierce Transit uses a budget that serves a variety of functions including planning, control, and information. As a planning tool, the budget is used to quantify the financial implications of planned operations and evaluate fiscal alternatives. As a control document, the budget assists in the day-to-day financial operations by providing fiscal control for individual purchases. As an information source, the budget provides financial information about the Agency's expected fiscal position.

The modified accrual basis is used for budgeting. Under this method, operating revenues and expenses are budgeted on the accrual basis. Modified accrual budgeting is used for non-operating revenues and expenditures, which include capital grant receipts and expenditures, as well as debt service principal. Unencumbered operating appropriations lapse at year-end.

Capital expenditures and grant reimbursements are budgeted on a project basis. Projects are budgeted in their entirety when approved, regardless of anticipated expenditure dates. Each year thereafter, the remaining portion of the project, as well as related grant reimbursements are carried over to the following year.

Pierce Transit adopts an annual budget in December of the preceding fiscal year following five months of analysis by staff and the Board of Commissioners. The budget is based on Agency-wide goals and divisional programs and objectives.

The first step in developing an Agency budget is the development of the Agency goals. These goals then act as a focus for the development of programs and objectives. Concurrently with the development of programs and objectives, revenues for the coming year are estimated. The estimate of the following year's operating revenues is then used as a guide for the Agency to determine the amount of service to be provided in the following year. The emphasis is placed on operating revenues and expenses as other expenditures are tied to resolutions, contractual agreements, and separately approved spending plans. Washington State law requires a balanced budget. The budget is balanced when adequate reserves are available to cover any excess of expenditures over current revenues.

Following the receipt of the preliminary budget request, the Executive Team reviews the programs, objectives, and expenditure requests to balance the total budget with the projected revenues and service requirements and priorities. Once the preliminary budget is balanced, the Board of Commissioners reviews the budget requests. During this period, the Board holds a public hearing on the budget proposals. When the budget review and final adjustments are complete, the budget is adopted by resolution.

During the fiscal year, periodic budget reviews of actual expenditures and revenues are made. Should any significant budget variances in either expenses or revenues occur, budget amendments, if required, are made by resolution by the Board of Commissioners. Individual department budgets are monitored for authorized expenditures on a department total rather than a line-item basis. With the exception of personnel costs, travel and training, and capital acquisitions, department and division managers may exercise their judgment in exceeding line item appropriations so long as they do not exceed their total appropriations. Any overruns for the Agency as a whole must be authorized by resolution by the Board of Commissioners.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

A schedule of budgeted versus actual revenues and expenses for the periods ended December 31, 2007 and 2006, is as follows:

**SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2007**

	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>FAVORABLE (UNFAVORABLE) VARIANCE</b>
Passenger Fares	\$ 11,717,200	\$ 12,372,165	\$ 654,965
Advertising	837,500	816,563	(20,937)
Regional Transit Service	15,518,400	16,894,606	1,376,206
Interest Income	4,564,413	5,590,687	1,026,274
Sales Tax	79,366,200	77,156,577	(2,209,623)
Operating Grants	5,969,100	6,919,290	950,190
Capital Grants	14,340,594	8,098,374	(6,242,220)
Miscellaneous Revenues	1,392,100	1,401,198	9,098
Gain on Disposal of Assets	-	108,715	108,715
<b>TOTAL*</b>	<b>\$ 133,705,507</b>	<b>\$ 129,358,175</b>	<b>\$ (4,347,332)</b>

**SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL**  
**Year Ended December 31, 2007**

	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>FAVORABLE (UNFAVORABLE) VARIANCE</b>
Personnel	\$ 70,593,630	\$ 67,667,670	\$ 2,925,960
Fuel and Lubricants	6,933,763	4,763,794	2,169,969
Supplies and Materials	5,481,757	5,962,609	(480,852)
Contracts and Services	17,377,836	17,065,225	312,611
Depreciation and Amortization	-	15,745,786	(15,745,786)
Expense of Items Previously Deferred	-	132,357	(132,357)
Capital Acquisitions	86,954,326	20,005,358	66,948,968
Interest Expense	89,000	94,799	(5,799)
Grant Exchange Funds	861,200	1,758,451	(897,251)
Bond Principal	395,000	395,000	-
<b>TOTAL*</b>	<b>\$ 188,686,512</b>	<b>\$ 133,591,049</b>	<b>\$ 55,095,463</b>

\*Expenditures in excess of revenues, if any, were funded by reserves. See accompanying notes to the financial statements.

Pierce Transit  
Notes to Financial Statements  
Years Ended December 31, 2007 and 2006

**SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL**  
Year Ended December 31, 2006

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	\$ 10,862,600	\$ 11,515,007	\$ 652,407
Advertising	897,000	1,094,081	197,081
Regional Transit Service	15,260,500	15,091,604	(168,896)
Interest Income	2,111,800	4,161,786	2,049,986
Sales Tax	72,177,600	74,593,386	2,415,786
Operating Grants	5,959,200	7,028,817	1,069,617
Capital Grants	15,055,400	5,530,123	(9,525,277)
Bonds	10,000,000	-	(10,000,000)
Miscellaneous Revenues	1,907,100	969,860	(937,240)
Gain on Disposal of Assets	-	284,261	284,261
<b>TOTAL*</b>	<b>\$ 134,231,200</b>	<b>\$ 120,268,925</b>	<b>\$ (13,962,275)</b>

**SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL**  
Year Ended December 31, 2006

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Personnel	\$ 64,338,300	\$ 60,736,927	\$ 3,601,373
Fuel and Lubricants	6,375,157	5,917,776	457,381
Supplies and Materials	4,977,943	4,636,806	341,137
Contracts and Services	15,928,000	15,974,894	(46,894)
Depreciation and Amortization	-	13,681,147	(13,681,147)
Expense of Items Previously Deferred	-	50,590	(50,590)
Capital Acquisitions	72,946,201	14,426,046	58,520,155
Interest Expense	104,000	103,543	457
Grant Exchange Funds	691,900	711,191	(19,291)
Bond Principal	380,000	380,000	-
<b>TOTAL*</b>	<b>\$ 165,741,501</b>	<b>\$ 116,618,920</b>	<b>\$ 49,122,581</b>

\*Expenditures in excess of revenues, if any, were funded by reserves. See accompanying notes to the financial statements.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

Following is a reconciliation of the revenues and expenditures shown on the Budget vs. Actual Schedule and the Comparative Statement of Revenues, Expenses and Changes in Net Assets:

**REVENUES FROM THE COMPARATIVE STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS:**

	<u>2007</u>	<u>2006</u>
Passenger Fares	\$ 12,372,165	\$ 11,515,007
Advertising	816,563	1,094,081
Regional Transit Service	16,894,606	15,091,604
Investment Income	5,590,687	4,161,786
Misc. Non-Operating Revenue	1,401,198	969,860
Operating Subsidies	84,075,867	81,622,203
Gain on Disposal of Assets	108,715	284,261
<b>TOTAL</b>	<u>121,259,801</u>	<u>114,738,802</u>

**Revenues From the Budget vs. Actual Schedule:**

Capital Grants	8,098,374	5,530,123
<b>TOTAL</b>	<u>129,358,175</u>	<u>120,268,925</u>
<b>GRAND TOTAL</b>	<u>\$ 129,358,175</u>	<u>\$ 120,268,925</u>

**EXPENSES FROM THE COMPARATIVE STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN NET ASSETS:**

	<u>2007</u>	<u>2006</u>
Operations	\$ 56,763,155	\$ 47,015,359
Maintenance	17,210,481	16,790,669
Non-Vehicle Maintenance	4,837,850	4,636,652
General & Administration	16,647,812	18,823,723
Depreciation and Amortization	15,745,786	13,681,147
Expense of Items Previously Deferred	132,357	50,590
Interest Expense	94,799	103,543
Grant Exchange Funds	1,758,451	711,191
<b>TOTAL</b>	<u>113,190,691</u>	<u>101,812,874</u>

**Expenses From the Budget vs. Actual Schedule**

Capital Acquisitions	20,005,358	14,426,046
Bond Principal Payment	395,000	380,000
<b>TOTAL</b>	<u>20,400,358</u>	<u>14,806,046</u>
<b>GRAND TOTAL</b>	<u>\$ 133,591,049</u>	<u>\$ 116,618,920</u>



**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**D. ENCUMBRANCES** - Pierce Transit encumbers all expenses for management information. Encumbrances do not, however, constitute a legal reduction of appropriations. Accounts encumbered but not expended by the end of the budget year become an encumbrance of the following year's appropriations. Encumbrances outstanding on December 31, 2007 total \$24,526,531 compared to \$33,310,561 on December 31, 2006. The majority of the encumbrances for 2007 result from large capital projects in progress including base facility expansion, a mobile communications project, and passenger facilities improvements. Encumbrances are not shown on the financial statements.

**E. CASH AND CASH EQUIVALENTS** - For purposes of the Comparative Statement of Cash Flows, Pierce Transit considers all highly liquid investments and deposits (including restricted assets) with a maturity period of three months or less when purchased to be cash equivalents.

**F. INVESTMENTS** - Investments are carried at fair value based on quoted market prices. Pierce Transit adopted GASB Statement 40, Deposit and Investment Risk Disclosures, effective January 1, 2005.

**G. INVENTORIES** - Inventory consists of fuel, lube and oil, antifreeze, transmission fluid, and repair parts held for consumption. Purchases are recorded as increases to inventory. Expenses are recorded as the materials are used. Inventory is valued on the moving, weighted average cost method.

**H. RESTRICTED ASSETS** - Proceeds from bond issues and monies set aside for future payment of capital, debt service, and insurance claims are classified as restricted assets when their use is limited by bond covenants, grant restrictions, or resolutions. Interest earnings on investment of these monies are also restricted.

**I. CAPITAL ASSETS** - Property, plant, and equipment are stated as historical cost or at fair market value as of the date contributed. Replacements that improve or extend property life are capitalized.

Assets are capitalized if they have individual values of at least \$5,000 and the useful life extends over more than one fiscal year.

Pierce Transit capitalizes miscellaneous expenses incurred in the acquisition, construction, or completion of capital assets. Repairs and maintenance are expended as incurred.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

The Summary of Changes in Capital Assets for the years ended December 31, 2007 and 2006, respectively, follows:

**Summary of Changes in Capital Assets**  
**Year Ended December 31, 2007**

Description	Balance January 1, 2007	Additions	Retirements	Adjustment	Balance December 31, 2007
<b>Capital assets not being depreciated:</b>					
Land	\$ 17,339,804	\$ -	\$ -	\$ -	\$ 17,339,804
Work in Progress	5,770,407	19,873,001		(8,428,600)	17,214,808
Total capital assets not being depreciated	<u>23,110,211</u>	<u>19,873,001</u>	<u>-</u>	<u>(8,428,600)</u>	<u>34,554,612</u>
<b>Depreciable capital assets:</b>					
Structures	68,727,699	-	-	(159,615)	68,568,084
Site Improvements	46,510,031	-	-	519,980	47,030,011
Machinery & Equipment	96,575,639	-	(7,017,537)	8,068,235	97,626,337
Total depreciable capital assets at cost	<u>211,813,369</u>	<u>-</u>	<u>(7,017,537)</u>	<u>8,428,600</u>	<u>213,224,432</u>
Total Capital Assets (gross)	<u>234,923,580</u>	<u>19,873,001</u>	<u>(7,017,537)</u>	<u>-</u>	<u>247,779,044</u>
<b>Less accumulated depreciation for:</b>					
Structures	(34,039,365)	(4,270,351)	-	-	(38,309,716)
Site Improvements	(37,439,489)	(1,168,373)	-	-	(38,607,862)
Machinery & Equipment	(46,775,099)	(10,266,687)	7,017,537	(11,230)	(50,035,479)
Total accumulated depreciation	<u>(118,253,953)</u>	<u>(15,705,411)</u>	<u>7,017,537</u>	<u>(11,230)</u>	<u>(126,953,057)</u>
Total Capital Assets (net)	<u>\$116,669,627</u>	<u>\$ 4,167,590</u>	<u>\$ -</u>	<u>\$ (11,230)</u>	<u>\$120,825,987</u>

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**Summary of Changes in Capital Assets**  
**Year Ended December 31, 2006**

<b>Description</b>	<b>Balance January 1, 2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Adjustment</b>	<b>Balance December 31, 2006</b>
<b>Capital assets not being depreciated:</b>					
Land	\$ 17,339,804	\$ -	\$ -	\$ -	\$ 17,339,804
Work in Progress	5,017,323	14,426,046	-	(13,672,962)	5,770,407
Total capital assets not being depreciated	<u>22,357,127</u>	<u>14,426,046</u>	<u>-</u>	<u>(13,672,962)</u>	<u>23,110,211</u>
<b>Depreciable capital assets:</b>					
Structures	66,626,356	-	-	2,101,343	68,727,699
Site Improvements	43,918,591	-	-	2,591,440	46,510,031
Machinery & Equipment	94,067,431	-	(6,449,281)	8,957,489	96,575,639
Leasehold Improvements	79,250	-	(79,250)	-	-
Total depreciable capital assets at cost	<u>204,691,628</u>	<u>-</u>	<u>(6,528,531)</u>	<u>13,650,272</u>	<u>211,813,369</u>
Total Capital Assets (gross)	<u>227,048,755</u>	<u>14,426,046</u>	<u>(6,528,531)</u>	<u>(22,690)</u>	<u>234,923,580</u>
<b>Less accumulated depreciation for:</b>					
Structures	(29,955,455)	(4,083,910)	-	-	(34,039,365)
Site Improvements	(37,218,394)	(221,095)	-	-	(37,439,489)
Machinery & Equipment	(43,868,108)	(9,328,373)	6,449,281	(27,899)	(46,775,099)
Leasehold Improvements	(79,250)	-	79,250	-	-
Total accumulated depreciation	<u>(111,121,207)</u>	<u>(13,633,378)</u>	<u>6,528,531</u>	<u>(27,899)</u>	<u>(118,253,953)</u>
Total Capital Assets (net)	<u>\$115,927,548</u>	<u>\$ 792,668</u>	<u>\$ -</u>	<u>\$ (50,589)</u>	<u>\$116,669,627</u>

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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Work in progress as of 12/31/07 consists of the following projects:

Buildings & Site Improvements	\$ 777,870
Equipment	11,901,885
Park and Ride Lots/Transit Centers	4,535,053
Total Work in Progress	<u>\$ 17,214,808</u>

A number of projects were in process at the end of 2007. Commitments on capital projects as of 12/31/07 totaled \$24,265,757 and are itemized as follows: buildings and site improvements \$334,529, equipment \$23,065,581 and park and Ride lots/transit centers \$865,647. Projects underway on 12/31/07 included base facility expansion, passenger facilities improvements, a mobile communications project, and a regional fare coordination project (Smart Card).

**J. DEPRECIATION** - Depreciation is computed upon the straight-line method over established useful lives of individual assets. Individual useful lives are assigned to new assets as follows:

Land	Not Depreciated
Site Improvements	10 years
Buildings	10 to 20 years
Buses	6 to 12 years
Machinery, Equipment, and Furniture	3 to 5 years
Other Vehicles	5 years

Assets acquired as used are assigned a useful life of one-half the new life. Pierce Transit does not use salvage values in the calculation of depreciation.

Costs incurred in planning and designs of projects are deferred until programs are approved or abandoned. At that time, the related costs are transferred to the asset accounts or charged to expense as appropriate. Items of plant and equipment, which are incomplete, unclassified, or otherwise not in service, and therefore not subject to depreciation, are deferred until they are placed in service.

Costs of bond and note issues are capitalized and amortized over the life of the issue. Organization costs are amortized over 5 years. Amortization of bond, note, and organization costs is recorded as a reduction to the respective asset account rather than accumulated amortization.

**K. UNEARNED REVENUE** - Revenues are recorded when earned. Unearned revenue as of December 31, 2007 and 2006 was \$117,026 and \$61,990, respectively.

**L. NET ASSETS** - Net assets are increased when revenues are greater than expenses and decreased when expenses exceed revenues. Net assets are reserved or designated to the extent that restricted assets exceed liabilities payable from those assets. See Note 5 for details of reserved and designated net assets.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**Net assets include the following subsidies of operations:**

Sales Tax - In February 2002, Pierce County voters approved a ballot measure increasing the local sales tax support from .3% to .6%. The sales tax increase went into effect July 1, 2002. The sales tax increase replaces funding that was lost when the Motor Vehicle Excise Tax (MVET) was eliminated in 2000. The sales tax collected in 2007 totaled \$77,156,577 resulting in a three percent increase over 2006 sales tax revenue of \$74,593,386.

Motor Vehicle Excise Tax (MVET) - A tax of .7824% of the fair market value of motor vehicles registered in Pierce County. In November 1999, the passage of Initiative 695 (I-695) and subsequent legislative action eliminated this tax. Therefore, no MVET was collected after 2000.

Federal Operating Assistance - Federal operating grants.

State Operating Assistance - Operating grants from the State of Washington.

Capital Contributions - Donated assets or grants for the acquisition of capital assets.

**VACATION AND SICK LEAVE** - Employees accrue vacation by reason of tenure at annual rates ranging from 12 to 30 days per year. Employees are not allowed to accumulate more than 2 years of vacation leave accrual at any point in time. Total vacation accruals are listed as follows:

	<u>2007</u>	<u>2006</u>
Vacation-Current	\$ 2,863,779	\$ 2,374,179
Vacation-Non-Current	286,378	263,798
<b>Total Vacation Leave Liability</b>	<u>\$ 3,150,157</u>	<u>\$ 2,637,977</u>

Employees accumulate sick leave at the rate of 8 hours per month with no maximum accumulation specified. Total sick leave accruals as of December 31, 2007 and 2006 were \$6,873,276 and \$6,613,509 respectively. Sick leave is recorded as an expense at the time of payment, which occurs upon usage or termination. Fifty percent of the value is paid upon retirement or death of the employee, 20% is paid upon termination for any other reason. The estimated liability for these sick leaves payouts is as follows:

	<u>2007</u>	<u>2006</u>
Current Liability based on usage or terminations	\$ 1,622,992	\$ 1,560,879
Non-current Liability based on expected future payoffs	1,316,586	1,292,594
<b>Total Sick Leave Liability</b>	<u>\$ 2,939,578</u>	<u>\$ 2,853,473</u>

The portion of the accrued vacation and sick leave benefits estimated to be paid more than 12 months from year-end is recorded as a long-term liability. A reconciliation of current and long-term employee leave payable follows:

	<u>2007</u>	<u>2006</u>
Balance beginning of year	\$ 3,935,038	\$ 3,997,809
Employee leave earned	4,138,001	3,310,500
Employee leave paid	(3,586,268)	(3,373,271)
<b>Current Employee Leave Payable</b>	<u>\$ 4,486,771</u>	<u>\$ 3,935,038</u>

**Pierce Transit**  
**Notes to Financial Statements**  
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	<u>2007</u>	<u>2006</u>
Balance beginning of year	\$ 1,556,392	\$ 1,486,334
Employee leave earned	1,327,818	1,404,253
Employee leave paid	<u>(1,281,246)</u>	<u>(1,334,195)</u>
<b>Long-term Employee Leave Payable</b>	<u><u>\$ 1,602,964</u></u>	<u><u>\$ 1,556,392</u></u>

## 2. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as of December 31, 2007 and 2006, respectively as follows:

Composition of Cash and Cash Equivalents:

	<u>2007</u>	<u>2006</u>
Demand Deposits	\$ 1,760,399	\$ 1,535,805
Investments having original maturities of less than 3 months	3,075,888	6,579,470
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 4,836,287</u></u>	<u><u>\$ 8,115,275</u></u>

All bank deposits are entirely insured.

The investment practices of Pierce Transit are governed by an investment policy adopted by the Board of Commissioners. The policy addresses interest rate risk, credit risk, and concentration of credit risk. Allowable investments are limited as follows:

- Obligations of the United States Treasury.
- Obligations of agencies of the Federal Government.
- Certificates of deposit issued by commercial banks and thrift institutes that are public depositories of the State of Washington.
- Repurchase agreements collateralized by liquid, marketable securities having a market value of at least 102% of the repurchase price.
- Banker's acceptance issued by any qualified depository in the State of Washington or by the 30 largest foreign banks and the 30 largest domestic banks as listed by the American Banking Association.
- Washington State Local Government Investment Pool. The Washington State Investment Board regulates pool investments. The fair value of the shares in the investment pool is the same as the value of the pool shares.
- Commercial paper limited to 15% of the total portfolio, with no more than 5% with any one individual issuer.

During 2007 and 2006, Pierce Transit's portfolio complied with the investment policies discussed above. Management intends to hold time deposits and securities until maturity. Investments are stated at fair value on the balance sheet. Changes in fair value are included as revenue in the financial statements. The fair value of securities is based on quoted market prices. The fair value of the position in the Washington Local Government Investment Pool is the same as the value of the pool shares. No investment losses occurred during 2007 or 2006.

**Pierce Transit**  
**Notes to Financial Statements**  
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In 2005, Pierce Transit implemented GASB Statement 40 – Deposit and Investment Risk Disclosures (an amendment to GASB Statement 3), which modifies and expands existing disclosure requirements for deposits and investments.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity of its fair value to changes in market interest rates. Pierce Transit’s investment policy is designed to manage the exposure to interest rate risk through diversification and by purchasing a combination of shorter and longer term investments that mature evenly over time. Pierce Transit’s policy does not allow any investments over two years in maturity. Pierce Transit’s weighted average maturity for December 31, 2007 and 2006 was 99 days and 97 days, respectively.

Information of the sensitivity of fair values of investments to interest rate fluctuations is provided by the following table showing maturities of all investments held by Pierce Transit as of December 31, 2007 and 2006.

Investment Type	Fair Value	2007 Investment Maturities (in months)				
		0-3	4-6	6-12	12-24	Total
Local Government						
Investment Pool	\$ 85,525,043	\$ 85,525,043	\$ -	\$ -	\$ -	\$ 85,525,043
Repurchase Agreement	2,036,567	2,036,567	-	-	-	2,036,567
Banker's Acceptances	2,579,462	2,481,349	98,113	-	-	2,579,462
U. S. Agencies	22,178,064	2,772,242	5,483,895	1,933,507	11,988,420	22,178,064
	<u>\$112,319,136</u>	<u>\$ 92,815,201</u>	<u>\$ 5,582,008</u>	<u>\$ 1,933,507</u>	<u>\$ 11,988,420</u>	<u>\$112,319,136</u>

Investment Type	Fair Value	2006 Investment Maturities (in months)				
		0-3	4-6	6-12	12-24	Total
Local Government						
Investment Pool	\$ 68,685,118	\$ 68,685,118	\$ -	\$ -	\$ -	\$ 68,685,118
Repurchase Agreement	5,580,780	5,580,780	-	-	-	5,580,780
Banker's Acceptances	623,369	623,369	-	-	-	623,369
U. S. Agencies	21,538,562	3,494,255	5,116,934	6,954,864	5,972,509	21,538,562
	<u>\$ 96,427,829</u>	<u>\$ 78,383,522</u>	<u>\$ 5,116,934</u>	<u>\$ 6,954,864</u>	<u>\$ 5,972,509</u>	<u>\$ 96,427,829</u>

**Disclosures Relating to Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignments of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. As of December 31, 2007, eighteen percent of Pierce Transit’s investments are in the following U.S. Agencies: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), and Federal Farm Credit Banks (FFCB). All the U.S. Agencies held by Pierce Transit have an AAA rating from Standard & Poor’s and Aaa from Moody’s.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**Concentration of Credit Risk**

Pierce Transit's investment policy requires diversification of investments across security types, financial institutions, and maturities as follows:

- No more than 50% of the Agency's total portfolio may be invested in a single type of security.
- No more than 50% of the Agency's total portfolio may be purchased from a single financial institution with the exception of the Washington State Local Government Investment Pool.
- No more than 25% of the Agency's total portfolio may be invested in any given issue on a specific maturity. Investment maturities may not exceed two years.

**Custodial Credit Risk**

Custodial credit risk for investments generally applies to direct investments in marketable securities. With the exception of the Washington State Local Government Investment Pool, Pierce Transit's marketable securities are insured, registered, or held by Pierce Transit or its agent in Pierce Transit's name. Pierce Transit's overnight repurchase agreements are collateralized by liquid, marketable securities having a market value of at least 102% of the repurchase price. Custodial credit risk does not apply to Pierce Transit's indirect investment in securities through the use of the local government investment pool.

**3. RECEIVABLES**

Amounts due to Pierce Transit for year ended December 31, 2007 and 2006 (net of uncollectible) are detailed as follows:

**UNRESTRICTED RECEIVABLES**

	<b>2007</b>	<b>2006</b>
Accounts Receivable	\$ 175,544	\$ 248,759
Interest Receivable	130,359	220,502
Sales Tax Receivable	13,536,917	13,541,527
Total Receivables	13,842,820	14,010,788
Due from Other Governments:		
FTA Operating Grants	-	1,132,225
Other Operating Partnerships	75,797	96,784
Fuel Tax Refund	467,837	79,839
Regional Transit Service Revenues	3,229,632	5,284,840
Total Due from Other Governments	3,773,266	6,593,688
Total Unrestricted Receivables	17,616,086	20,604,476



**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

**RESTRICTED RECEIVABLES**

Accounts Receivable	278,628	386,715
Interest Receivable	<u>212,501</u>	<u>165,407</u>
Total Receivables	<u>491,129</u>	<u>552,122</u>
Due from Other Governments:		
Capital Grants	265,644	3,727,237
Other Capital Partnerships	42,606	576,201
Regional Transit Service Revenues	<u>955,057</u>	<u>562,306</u>
Total Restricted Due from Other Governments	<u>1,263,307</u>	<u>4,865,744</u>
Total Restricted Receivables	<u>1,754,436</u>	<u>5,417,866</u>
Total Receivables	<u>\$19,370,522</u>	<u>\$26,022,342</u>

**4. BONDS PAYABLE**

In 1999, Pierce Transit issued \$3,795,000 of limited sales tax general obligation bonds. This debt has been rated Aaa by Moody's Investors Service and is insured by Financial Guaranty Insurance Company (FGIC). These bonds were issued to advance refund bonds issued in 1992 for construction of capital facilities with maturity dates between 2003 and 2011 (see Note 9). Bond payments are made from sales tax revenues. On December 31, 2007 the total outstanding debt was \$1,750,000 of which \$415,000 in recorded as a current liability and \$1,335,000 in recorded as a non-current bond payable liability.

The schedule of future debt service requirements is as follows:

Year Ended Dec 31	1999 Bonds Principal	1999 Bonds Interest	Total Limited Obligation Debt Service
2008	415,000	72,923	487,923
2009	430,000	56,322	486,322
2010	445,000	38,693	483,693
2011	460,000	19,780	479,780
<b>Total</b>	<b>\$ 1,750,000</b>	<b>\$ 187,718</b>	<b>\$ 1,937,718</b>

**5. RESERVED AND DESIGNATED NET ASSETS**

Pierce Transit's Board of Commissioners has established reserve policies for Pierce Transit's capital and insurance programs. The net asset amount designated for insurance is set at a level to adequately protect the Agency from self-insurance risks. The amount designated for capital is set at a level equal to ten percent of the six year average annual capital expenditures plus fifty percent of the average annual grant funding programmed in the six year financial plan. Funds designated for capital are intended to fund currently approved capital projects and to replace capital equipment and facilities as they wear out. The Board of Commissioners as a part of the budget process reviews the level of the self-insurance and capital designations annually. Amounts set aside for debt service are determined by bond covenants.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**A. DESIGNATED FOR CAPITAL** - Net assets designated for capital were \$48,865,697 for 2007 and \$43,438,373 for 2006.

**B. DESIGNATED FOR INSURANCE** - Pierce Transit's Board of Commissioners established a self-insurance fund in 1982 (See Note 8). Net assets designated for unemployment, liability self-insurance, and workers compensation for the periods ended December 31, 2007 and 2006 were \$5,023,808 and \$5,573,358, respectively.

**C. RESTRICTED FOR DEBT SERVICE** - Cash, investments, and receivables restricted for debt service total \$129,655 for 2007 and \$115,803 for 2006. Current liabilities payable from these assets as of December 31, 2007 and 2006, were \$633,457 and \$607,380, respectively, leaving (\$503,802) and (\$491,577) current net assets restricted for debt service. The net asset balance is negative because bond covenants provide that debt service may be funded monthly such that total funds available equal the debt service payment on the due date; however, the current portion of the debt service payment is recorded in one lump sum.

**6. EMPLOYEE BENEFITS**

**A. RETIREMENT** - Pierce Transit contributes monthly to two separate retirement systems. Both systems are cost sharing multi-employer public employee retirement systems. The Agency contributions, as well as employee contributions, are based on the gross pay of an employee. Tacoma Transit employees electing to retain Tacoma Employees' Retirement System (TERS) when Pierce Transit took over the operations of Tacoma Transit in 1980 are covered by TERS. The Public Employees Retirement System (PERS) covers all other employees. Pierce Transit participates in PERS Plan 1, PERS Plan 2, and PERS Plan 3. The PERS system is comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Employees joining PERS after 10/1/77 are members of Plan 2 or Plan 3. As of September 1, 2002 employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. This option must be exercised within 90 days of employment. An employee is enrolled in Plan 2 until a choice is made. Employees who fail to make a choice within 90 days of employment default to PERS Plan 3. PERS is mandatory for all regular employees except for personnel working less than 70 hours per month in five months in a calendar year.

Information regarding the Public Employees Retirement System (PERS) is presented in the State Department of Retirement Systems Annual Financial Report. A copy of the report may be obtained by contacting the Department of Retirement Systems, 6825 Capital Boulevard, P.O. Box 48380, Olympia, WA 98504-8389. Information regarding the Tacoma Employees' Retirement System can be found in its annual report and may be obtained by writing to the Tacoma Employees' Retirement System, 747 Market Street, and Room 1544, Tacoma, WA 98402. Ten year historical trend information showing the retirement systems' progress in accumulating sufficient assets to pay benefits when due is presented in the PERS and TERS Comprehensive Annual Financial Report of June 30, 2007 and December 31, 2007 respectively.

The payroll for Pierce Transit employees covered by these retirement systems was \$49,689,936 for the year ended December 31, 2007; Pierce Transit's total payroll for 2007, was \$51,919,793. Payroll for Pierce Transit employees covered by retirement systems as of December 31, 2006 was \$46,192,385, with a total payroll of \$48,398,319. Employees covered by the Tacoma Employees Retirement Systems (TERS) are required by State statute and City ordinance to contribute 6.44% of gross wages to the plan; employees covered by the Public Employees Retirement System (PERS) are required by State statute to contribute 6% of gross wages for Plan 1 participants. Pierce Transit is required by the same authority to contribute the remaining amounts necessary to pay benefits when due. The employer's contribution for PERS employees was 3.69% through

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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June 30, 2007, increasing to 6.12% through December 31, 2007. PERS Plan 3 employees can contribute 5% to 15% of their gross wages. Pierce Transit does not provide any benefits for early retirement, post-retirement, or either voluntary or involuntary terminations.

A summary of each plan's provisions and requirements follows:

	<b>TERS</b>
Vesting	5 years
Retirement Eligibility	Age 60, regardless of service credit Age 57, with 10 years of service credit Age 50, with 20 years of service credit Any age with 30 years of service credit
Retirement Benefits	2% of highest consecutive 24 month average final compensation (AFC) multiplied by years of service, up to 60% of AFC
Other Benefits	Death and Disability

	<b>PERS</b>		
	<b>PLAN 1</b>	<b>PLAN 2</b>	<b>PLAN 3</b>
Vesting	5 years	5 years	10 years
Retirement Eligibility	Age 60, regardless of service credit Age 55, with 25 years of service credit Any age with 30 years of service credit	Age 65, with 5 years of service credit Age 55 with 20 years of service credit	Age 65, with 10 years of service credit Age 55 with 10 years of service credit
Retirement Benefits	2% of highest consecutive month average final compensation (AFC) multiplied by years of service, up to 60% of AFC	2% of highest consecutive 60 month average final compensation (AFC) multiplied by years of service. Benefits on retirements prior to age 65 are actuarially reduced	1% of highest consecutive 60 month average final compensation (AFC) multiplied by years of service. Benefits on retirements prior to age 65 are actuarially reduced
Benefits	Death and Disability	Death and Disability	Death and Disability

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

During 2005, 2006, and 2007, Pierce Transit and its employees made the required contributions. Contribution amounts and rates expressed as a percentage of the covered payroll for the three years ended December 31 are as follows:

	PERS Plan 1		PERS Plan 2		PERS Plan 3		TERS	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Employee	6.00%	\$ 96,238	2.25%	\$ 677,661	5-15%	\$ 146,828	6.44%	\$ 65,695
Employer	2.44%	30,695	2.44%	754,594	2.44%	47,253	7.56%	77,716
Total 2005		<u>\$ 126,933</u>		<u>\$ 1,432,255</u>		<u>\$ 194,081</u>		<u>\$ 143,411</u>
Employee	6.00%	\$ 101,401	3.50%	\$ 1,173,658	5-15%	\$ 142,682	6.44%	\$ 52,713
Employer	3.69%	51,622	3.69%	1,252,112	3.69%	71,170	7.56%	61,646
Total 2006		<u>\$ 153,023</u>		<u>\$ 2,425,770</u>		<u>\$ 213,852</u>		<u>\$ 114,359</u>
Employee	6.00%	\$ 111,777	4.15%	\$ 1,692,319	5-15%	\$ 163,769	6.44%	\$ 45,275
Employer	6.12%	106,101	6.12%	2,535,978	6.12%	157,198	7.56%	53,403
Total 2007		<u>\$ 217,878</u>		<u>\$ 4,228,297</u>		<u>\$ 320,967</u>		<u>\$ 98,678</u>

**B. DEFERRED COMPENSATION PLAN** - Pierce Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Pierce Transit contributes from 1% to 5.5% of the annual salary of all participating employees. In 2007, Pierce Transit contributed \$1,163,286. Pierce Transit contributed \$1,046,621 to this plan in 2006. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Beginning in fiscal year 1998, existing assets in the plan are held in a qualified custodial account. The custodian holds the Plan's assets for the exclusive benefit of participants and beneficiaries. The Plan's assets are not the legal property of Pierce Transit and are not subject to claims of the Agency's creditors. Therefore, deferred compensation funds are not shown on the balance sheet.

**7. CONTINGENT LIABILITIES**

On September 12, 2006, a former employee filed a \$10 million claim for wrongful discharge pursuant to Chapter 4.96 RCW. The Agency denied the claim and no lawsuit has been filed as of the date of the financial statements. Therefore, no reasonable estimate of any potential settlement can be determined.

Pierce Transit has received several federal grants for specific purposes that are subject to review and audit. Such audits could lead to requests for reimbursements for expenditures disallowed under the terms of the grants. In the opinion of management, such disallowances, if any, will be immaterial and will not have any significant affect of the financial position on Pierce Transit.

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**8. INSURANCE**

On July 1, 2001, Pierce Transit became an associate member of the Washington State Transit Insurance Pool (WSTIP) that includes 25 other State Transit Agencies and the Ohio State Transit Insurance Pool. By becoming a member of WSTIP, the agency is able to take advantage of WSTIP's competitive insurance rates for excess general liability. In addition, WSTIP membership includes access to a comprehensive claims database and other risk management services. As of January 1, 2006, Pierce Transit's self-insurance retention was \$1,000,000 with an excess insurance policy of \$16,000,000.

Property and fire risk exposures are covered by commercial insurance policies. Settled claims have not exceeded coverage in any of the last three years. Pierce Transit is entirely self-insured for unemployment compensation claims and errors and omissions exposures and vanpool auto/liability. A listing of Pierce Transit's commercial insurance policies follows:

<b>RISK</b>	<b>COVERAGE</b>
General Liability	\$16,000,000 excess of \$1,000,000 retention.
Workers Compensation	\$25,000,000 excess of \$1,100,000 retention.
Vanpool Auto/Liability	\$60,000 uninsured motorists.
Fleet and Fire	Actual cost value, \$10,000 deductible.
Building Fire/Office	Property damage: replacement cost coverage with a policy limit of
Contents/Earthquake/Flood	\$100,000,000; \$10,000 deductible; \$100,000 minimum deductible for earthquake with \$30,000,000 limit; \$100,000 deduction for flood with \$45,000,000 limit; \$2,000,000 for data processing.
Fidelity Bonds	Public employees blanket bond in the amount of \$1,000,000 with \$100,000 deductible.
Money & Securities	\$1,000,000 for wrongful abstractions by employees of money & securities; \$30,000 limit for abstractions of money & securities by third parties.
Pollution Liability	\$1,000,000 subject to \$10,000 deductible for headquarters underground tanks only.

On December 31, 2007, the self-insurance assets totaled \$6,806,342, of which a liability of \$1,657,062 is recorded as liability for all accident and workers compensation claims for which it may be ultimately liable, including a provision for claims incurred but not yet reported. As of December 31, 2006 Pierce Transit's self-insurance assets totaled \$7,237,709 of which a liability of \$1,491,050 was recorded as a provision for liability claims. These liabilities are Pierce Transit's best estimate of claims based upon available information. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of claimants.

A reconciliation of claims liabilities follows:

	<u>2007</u>	<u>2006</u>
Balance beginning of year	\$ 1,491,050	\$ 1,317,416
Provision for incurred claims	2,617,555	2,193,732
Payments made for claims	(2,451,543)	(2,020,098)
Claims liabilities year ended	<u>\$ 1,657,062</u>	<u>\$ 1,491,050</u>

**Pierce Transit**  
**Notes to Financial Statements**  
**Years Ended December 31, 2007 and 2006**

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**9. DEBT**

In 1999, Pierce Transit issued \$3,795,000 of limited sales tax general obligation bonds dated February 1, 1999. These bonds carry interest rates between 3.0% and 4.3% and were used to advance refund \$3,415,000 of Pierce Transit's limited sales tax general obligation bonds maturing on December 1 in years 2003 through 2011. The 1992 bonds were issued to fund construction of capital facilities. The net proceeds of \$4,763,430 were deposited in an irrevocable trust with an escrow agent to be held to their call date of December 1, 2002, at which time they were called at par.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. The unamortized bond refunding gain as of December 31, 2007 and 2006 was \$161,500 and \$201,875, respectively. This difference is being amortized through the year 2011. The Agency completed the advance refunding to reduce its total debt service payments over the next 11 years.

Pierce Transit did not have any short-term debt as of December 31, 2007.

**End of Notes to the Financial Statements**

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

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This part of Pierce Transit's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Pierce Transit's overall financial health. This information presented in this section has not been audited.

<b><u>Contents</u></b>	<b><u>Page</u></b>
Financial Trends	
These schedules contain trend information to assess how Pierce Transit's financial performance and well-being have changed over time.	46-47
Revenue Capacity	
These schedules contain information on Pierce Transit's revenue sources and their fluctuations over time.	48-49
Debt Capacity	
These schedules present information to assist the reader in assessing the affordability of Pierce Transit's current level of outstanding debt and the ability to issue additional debt in the future.	50
Demographic and Economic Information	
These schedules offer demographic and economic indicators regarding the environment within which Pierce Transit's financial activities take place.	51-52
Operating Information	
These schedules contain information about services Pierce Transit provides and the activities it performs.	53-57
Grant Information	
This schedule provides a summary of capital grant activity for Federal, State and Local sources.	58

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant years.

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Financial Trends  
Net Assets by Component  
1998 - 2007**

	Invested in		
	Capital Assets	Unrestricted	Total
1998	88,788,997	51,080,434	139,869,431
1999	92,723,710	56,615,781	149,339,491
2000	113,698,531	64,880,857	178,579,388
2001	106,704,681	45,275,117	151,979,798
2002 *	105,264,761	45,517,812	150,782,573
2003	97,750,689	63,775,883	161,526,572
2004	106,752,212	75,701,262	182,453,474
2005	115,927,548	89,543,932	205,471,480
2006	116,669,627	107,790,306	224,459,933
2007	120,825,987	119,269,028	240,095,015

\* Pierce Transit adopted GASB statement No.34 in 2002 which required reclassification of certain balances, including the presentation of net assets formerly labeled retained earnings and contributed capital.

**Financial Trends  
Expense Comparisons by Type  
1998 – 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Personnel	\$36,176,231	\$39,874,327	\$37,874,327	\$41,180,072	\$44,656,262	\$49,732,380	\$53,276,898	\$57,785,602	\$60,736,927	\$67,667,670
Fuel & Lubricants	1,201,878	1,594,940	2,409,896	2,132,899	2,243,299	3,166,655	3,731,581	5,386,453	5,917,776	4,763,794
Supplies & Materials	3,228,496	3,017,864	2,663,933	3,572,809	3,625,479	4,050,431	4,944,439	4,851,849	4,636,806	5,962,609
Contracts & Services	9,691,496	11,627,076	9,775,987	9,859,752	12,326,267	11,606,002	13,770,279	13,925,196	15,974,894	17,065,225
Depreciation & Amortization	8,985,096	11,125,833	9,050,003	12,474,363	13,347,738	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786
Capital Acquisition	18,506,882	19,751,030	30,026,065	5,480,620	12,351,346	5,897,918	21,187,250	21,717,527	14,426,046	20,005,358
Loss on Disposal of Assets	2,317	-	-	425	-	-	-	-	-	-
Debt Service										
Principal	780,000	315,000	305,000	305,000	325,000	340,000	355,000	365,000	380,000	395,000
Lease Principal	325,029	109,252	-	-	-	-	-	-	-	-
Interest Expense	524,584	418,226	286,939	269,729	251,279	142,788	130,548	117,413	103,543	94,799
Previously Deferred Items	478	-	-	16,174	464,330	15,209	1,277	61,865	50,590	132,357
Grant Exchange Funds								1,714,333	711,191	1,758,451
<b>Total</b>	<b>\$79,422,487</b>	<b>\$87,491,053</b>	<b>\$92,392,150</b>	<b>\$75,291,842</b>	<b>\$89,591,000</b>	<b>\$88,437,217</b>	<b>\$109,672,134</b>	<b>\$118,492,362</b>	<b>\$116,618,920</b>	<b>\$133,591,049</b>



**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Financial Trends  
Changes in Net Assets  
1998-2007**

<b>Operating Revenue</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Passenger Fares	\$8,878,331	\$9,576,682	\$6,960,413	\$7,837,840	\$8,505,024	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165
Advertising	1,049,250	657,322	990,828	838,843	466,549	673,295	442,378	851,602	1,094,081	816,563
Regional Transit Service	610,810	2,626,172	8,458,643	10,475,947	11,246,071	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606
Total Operating Revenue	10,538,391	12,860,176	16,409,884	19,152,630	20,217,644	22,589,069	23,351,312	24,787,446	27,700,692	30,083,334
<b>Non-Operating Revenue</b>										
Sales Tax	22,550,155	24,218,060	25,788,866	26,677,899	41,138,256	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577
MVET	23,099,360	22,609,654	296,941	-	-	-	-	-	-	-
Operating Grants	984,069	620,713	16,833,392	9,190,891	5,540,152	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290
Investment Income	1,704,390	1,693,506	2,498,545	1,754,036	760,368	685,934	1,218,453	2,393,870	4,161,786	5,590,687
Miscellaneous Income Gain(Loss)on Disposal of Assets	84,192 (2,317)	419,886 602,547	52,412 366,356	711,483 (425)	704,771 65,597	779,793 89,504	947,521 91,584	1,005,346 350,686	969,860 284,261	1,401,198 108,715
Total Non-Operating Revenue	48,419,849	50,164,366	45,836,512	38,333,884	48,209,144	67,768,808	68,735,159	80,331,996	87,038,110	91,176,467
Total Revenue	58,958,240	63,024,542	62,246,396	57,486,514	68,426,788	90,357,877	92,086,471	105,119,442	114,738,802	121,259,801
<b>Operating Expense</b>										
Fixed Route	37,661,695	41,775,717	39,845,967	44,305,283	49,498,514	54,828,986	60,018,905	66,764,882	70,476,920	76,043,175
Demand Response	10,931,415	11,960,172	11,078,774	10,646,108	11,184,461	11,164,370	12,772,330	12,359,269	13,856,252	15,807,504
Vanpool	1,704,990	2,035,823	1,799,402	1,794,139	2,168,332	2,562,112	2,931,961	2,824,949	2,933,231	3,608,619
Depreciation & Amortization	8,985,095	11,125,833	9,050,003	12,474,363	13,347,738	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786
Total Operating Expense	59,283,195	66,897,545	61,774,146	69,219,893	76,199,045	82,041,302	87,998,058	94,516,224	100,947,550	111,205,084
<b>Non-Operating Expense</b>										
Expense of Deferred Items	478	-	-	16,174	464,330	15,209	1,277	61,865	50,590	132,357
Interest Expense	524,587	418,226	286,939	269,729	251,279	142,788	130,548	117,413	103,543	94,799
Grant Exchange Funds	-	-	-	-	-	-	-	1,714,333	711,191	1,758,451
Total Non-Operating Expense	525,065	418,226	286,939	285,903	715,609	157,997	131,825	1,893,611	865,324	1,985,607
Total Expense	59,808,260	67,315,771	62,061,085	69,505,796	76,914,654	82,199,299	88,129,883	96,409,835	101,812,874	113,190,691
Net Expense	(850,020)	(4,291,229)	185,311	(12,019,282)	(8,487,866)	8,158,578	3,956,588	8,709,607	12,925,928	8,069,110
Capital Grants	16,329,270	16,366,706	24,357,497	4,711,290	7,290,641	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374
Change in Net Assets	\$15,479,250	\$12,075,477	\$24,542,808	\$(7,307,992)	\$(1,197,225)	\$10,743,999	\$20,926,902	\$23,018,006	\$18,456,051	\$16,167,484

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Revenue Capacity  
Revenue and Subsidies Comparisons  
1998 - 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Passenger Fares	\$8,830,046	\$9,576,682	\$6,960,413	\$7,837,840	\$8,505,024	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165
School Service	48,286	-	-	-	-	-	-	-	-	-
Regional										
Transit Fares	610,810	2,626,172	8,458,643	10,475,947	11,246,071	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606
Advertising	1,049,250	657,322	990,828	838,843	466,549	673,295	442,379	851,602	1,094,081	816,563
Interest Income	1,704,390	1,693,506	2,498,545	1,754,036	760,368	685,934	1,218,453	2,393,870	4,161,786	5,590,687
Sales Tax	22,550,155	24,218,060	25,788,866	26,677,899	41,138,256	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577
MVET	23,099,360	22,609,654	296,941	-	-	-	-	-	-	-
Operating										
Subsidies	984,069	620,713	16,833,392	9,190,891	5,540,152	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290
Capital Grants	16,329,270	16,366,706	24,357,497	4,711,290	7,290,641	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374
Gain on										
Disposal of										
Assets	-	602,547	366,356	-	65,597	89,504	91,584	350,686	816,663	108,715
Miscellaneous	84,192	419,886	52,412	711,483	704,771	779,793	947,521	1,005,345	969,860	1,401,198
Total	\$75,289,828	\$79,391,248	\$86,603,893	\$62,198,229	\$75,717,429	\$92,943,298	\$109,056,786	\$119,427,840	\$120,801,327	\$129,358,175

**Revenue Capacity  
Fixed Route Farebox Recovery  
1998- 2007**

Year	Farebox Recovery
1998	0.21
1999	0.22
2000	0.18
2001	0.18
2002	0.19
2003	0.18
2004	0.16
2005	0.14
2006	0.17
2007	0.16

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Revenue Capacity  
Fare History  
1998- 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Cash Fares</b>										
Adult	\$ 0.90	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.50	\$ 1.50
Student/Seniors	0.90	1.00	1.00	1.00	1.25	1.25	1.25	1.25	1.50	1.50
SHUTTLE	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
Seattle Express	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Olympia Express	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
<b>Passes</b>										
Adult Pass	34.00	36.00	36.00	36.00	45.00	45.00	45.00	45.00	54.00	54.00
Senior/Disabled Pass	15.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	27.00	27.00
Olympia Express	50.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00
Seattle Express	75.00	90.00	90.00	90.00	90.00	90.00	90.00	90.00	108.00	108.00
Transfers	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free

**Revenue Capacity  
1998 & 2007 Taxable Sales Comparisons  
Pierce County**

	1998		2007	
	Taxable Sales	Sales Tax	Taxable Sales	Sales Tax
Retail Trade	\$ 4,267,973,286	\$ 12,803,920	\$ 6,083,032,333	\$ 37,441,002
Services	835,771,742	2,507,315	1,939,802,048	111,939,462
Contracting	937,959,721	2,813,879	2,414,312,687	14,860,070
Manufacturing	184,642,327	553,927	359,628,080	2,213,507
Transportation/Utilities	302,435,151	907,305	65,103,047	400,709
Wholesaling	699,130,966	2,097,393	776,469,806	4,779,164
Finance/Insurance/Real Estate	112,529,563	337,589	895,851,820	5,513,959
Other Business	76,275,505	228,827	1,414,167	8,704
<b>TOTAL</b>	<b>\$ 7,416,718,261</b>	<b>\$ 22,250,155</b>	<b>\$ 12,535,613,988</b>	<b>\$177,156,577</b>

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Debt Capacity  
Legal Debt Margin  
2007**

	Non-voted	Maximum Debt Capacity*
Assessed Valuation	\$42,915,280,146	\$42,695,373,268
Debt Limitation (%)*	.375%	1.250%
Debt Limitation (\$)	\$ 160,932,301	\$ 533,692,166
Less: Outstanding Debt	1,750,000	1,750,000
Debt Margin	\$ 159,182,301	\$ 531,942,166

\* The maximum debt capacity includes both non-voted and voted debt. All outstanding debt is non-voted.

**Debt Capacity  
Ratio of General Bonded Debt to Assessed Value and Net Bonded Debt per Capita  
1998 – 2007**

	December 31	Population	Assessed Value (In Thousands)	General Bonded Debt	% Ratio of Bonded Debt to Assessed Value	Bonded Debt Per Capita
1998		622,875	\$20,186,728	\$8,255,000	.04	\$13.25
1999		635,290	21,667,412	4,505,000	.02	7.09
2000		643,290	23,550,341	4,215,000	.02	6.55
2001		658,475	25,533,759	3,910,000	.02	6.07
2002		670,820	26,350,592	3,585,000	.02	5.35
2003		679,815	27,778,725	3,245,000	.02	4.78
2004		702,060	29,619,949	2,890,000	.01	4.11
2005		705,018	29,619,949	2,525,000	.01	3.58
2006		721,445	35,336,989	2,145,000	.01	2.97
2007		732,435	42,915,280	1,750,000	.01	2.38

**Debt Capacity  
Computation of Direct and Overlapping Debt  
2007**

	Net Bonded Debt Outstanding	Percentage Applicable*	Authority Share
Pierce Transit	\$ 1,750,000	100.00%	\$ 1,750,000
City of Tacoma	146,568,000	30.54%	44,761,867
Pierce County	127,077,169	42.27%	53,715,519
			\$102,227,386
PTBA Population			732,435
Direct and Overlapping Debt per Capita			\$ 139.57

\* Applicable percentage determined by the ratio of assessed valuation in overlapping unit to assessed valuation in Pierce Transit's service area.

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

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**Demographic and Economic Information  
Pierce Transit Employee by Function  
1998- 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Operations</b>	516	521	508	534	608	605	589	701	746	747
<b>Maintenance</b>	121	125	124	127	136	156	149	157	154	169
<b>Administration</b>	105	98	98	103	125	128	127	145	153	174

\*Contracted Employees not included in totals prior to 2005

**Demographic and Economic Information  
Pierce County Demographic and Economic Information  
1998-2007**

<b>Fiscal Year Dec 31</b>	<b>Pierce County Population</b>	<b>Median Household Income (1)</b>	<b>Personal Income (2) (In Thousands)</b>	<b>Per Capita Personal Income</b>	<b>School Enrollment (3)</b>	<b>Unemployment Rate (4)</b>
1998	686,800	\$44,317	\$17,184,196	\$25,021	134,212	3.9
1999	700,000	45,204	18,058,638	25,798	134,635	4.3
2000	701,000	47,586	1,941,674	27,699	135,476	5.0
2001	713,400	49,287	20,702,070	29,019	137,334	6.5
2002	725,000	50,127	21,502,845	29,659	139,759	8.1
2003	733,700	51,539	21,131,368	28,801	142,050	8.2
2004	744,000	53,661	23,273,083	31,281	140,626	7.1
2005	755,900	54,647	24,440,169	32,448	139,032	5.9
2006	773,500	55,361	N/A*	N/A	139,434	5.1
2007	790,500	56,789	N/A*	N/A	139,945	4.7

Sources: (1)Washington State Office of Financial Management  
 (2)Federal Bureau of Economic Analysis  
 (3)Superintendent of Public Instruction  
 (4)Washington State Department of Employment Security  
 (\*)Not Available

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

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**Principal Employers  
Comparisons of Employees and Percent of Total Employment  
1998 and 2007**

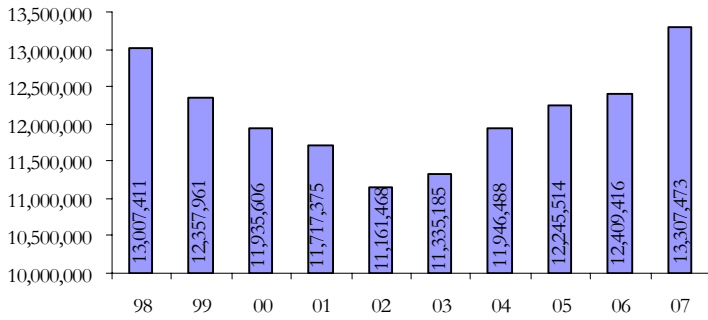
<b>Employer</b>	<b>1998</b>			<b>2007</b>		
	<b>Employees</b>	<b>Rank</b>	<b>Percent of Total County Employment</b>	<b>Employees</b>	<b>Rank</b>	<b>Percent of Total County Employment</b>
Federal Government	33,000	1	10.13%	57,303	1	14.82%
Local Government	12,393	2	3.80	31,139	2	8.05
MultiCare Health System	5,081	3	1.56	5,567	3	1.44
MultiCare Health Systems	2,306	4	0.71	4,059	4	1.05
Safeway Stores	1,526	5	0.47	2,650	5	0.69
Fred Meyer Stores	1,206	8	0.37	2,360	6	0.61
Wal-Mart	-	-	-	1,850	7	0.48
Emerald Queen Casino	-	-	-	1,688	8	0.44
Boeing Company	1,300	6	0.40	1,450	9	0.38
McDonald's Restaurants	910	10	0.28	1,290	10	0.33
Intel Corporation	1,300	7	0.40	1,100	11	0.28
Frank Russell Company	1,133	9	0.35	1,080	12	0.28
Total Taxpayer Employment	60,155		18.46%	111,536		28.85%
Total Employment Pierce County	<u>325,900</u>			<u>386,600</u>		

Data prepared by Tacoma-Pierce County Economic Development Board

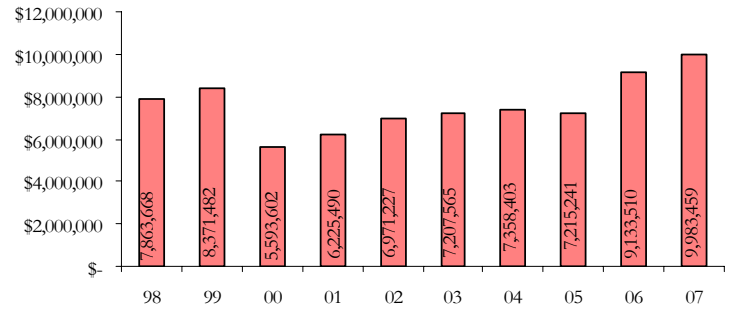
**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Operating Information  
Fixed Route Statistics  
1998- 2007**

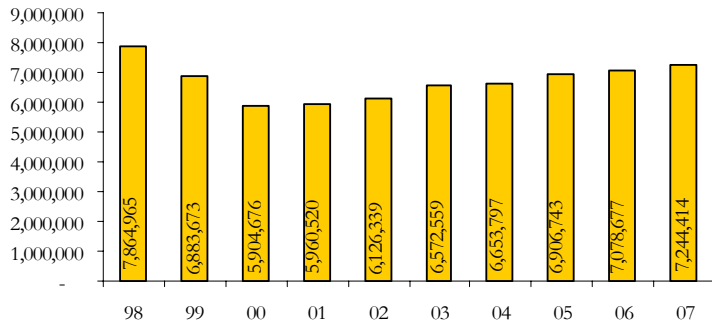
**Annual Boardings**



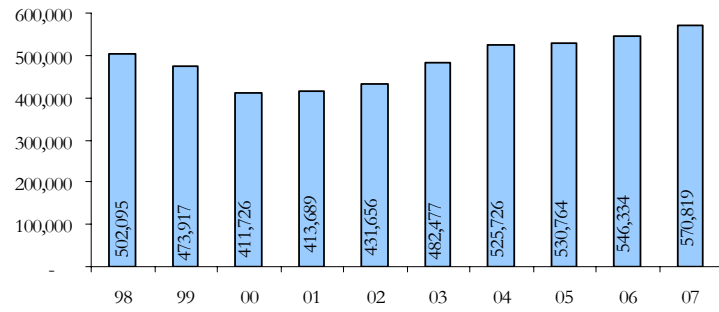
**Annual Passenger Fare Revenues**



**Revenue Miles**



**Actual Revenue Hours**



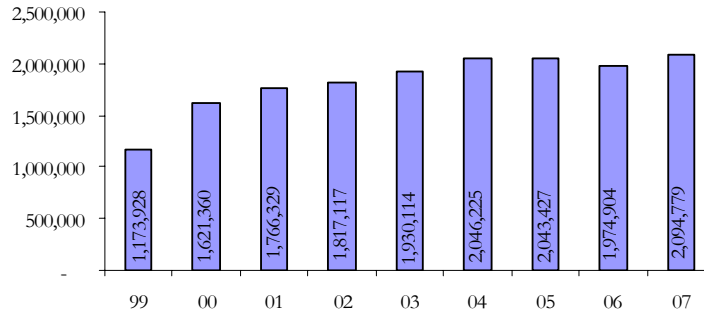
Source: National Transit Database (NTD)  
Sound Transit Seattle Express service began September 1999

Pierce Transit  
Statistical Section  
Year ended December 31, 2007

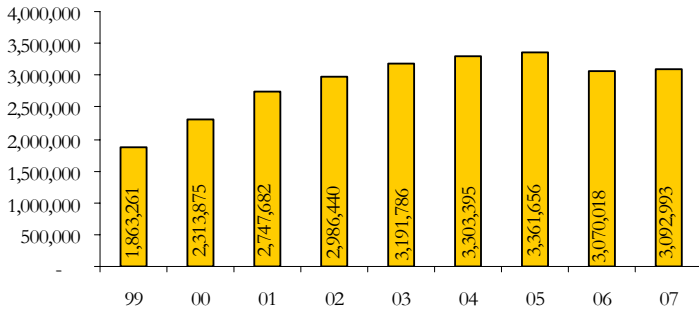
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**Operating Information**  
**Sound Transit**  
**Fixed Route Statistics**  
**1999 – 2007**

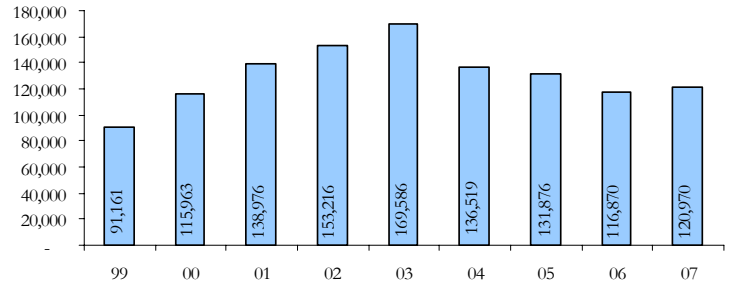
**Annual Boarding**



**Revenue Miles**



**Actual Revenue Hours**



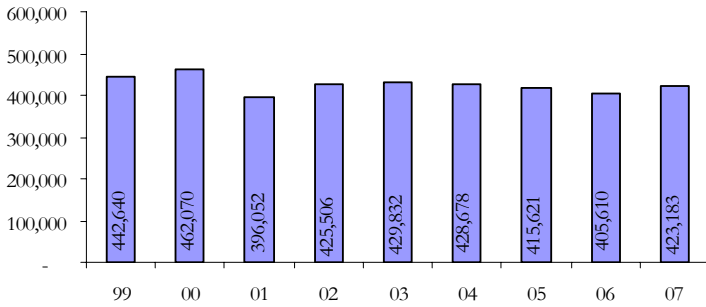
Fare revenue is returned to Sound Transit.  
Sound Transit Seattle Express service began in September 1999.



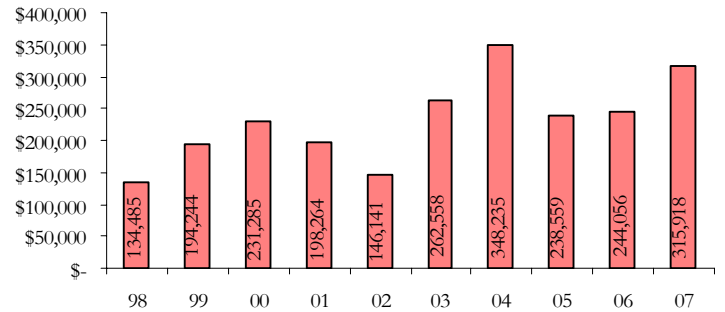
**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Operating Information  
Specialized Transportation (SHUTTLE)  
1998- 2007**

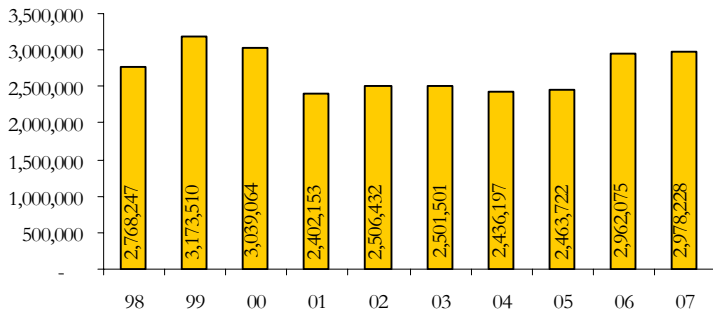
**Annual Boarding**



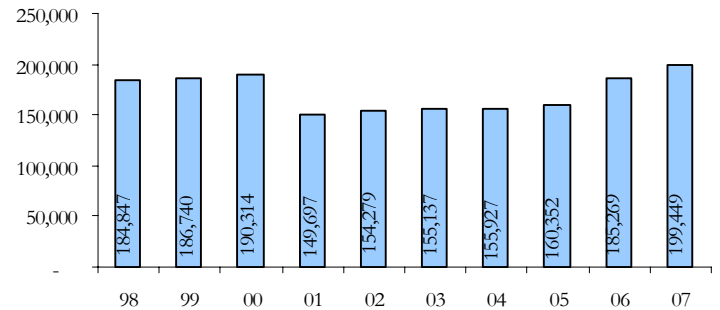
**Annual Passenger Fare Revenues**



**Revenue Miles**



**Actual Revenue Hours**

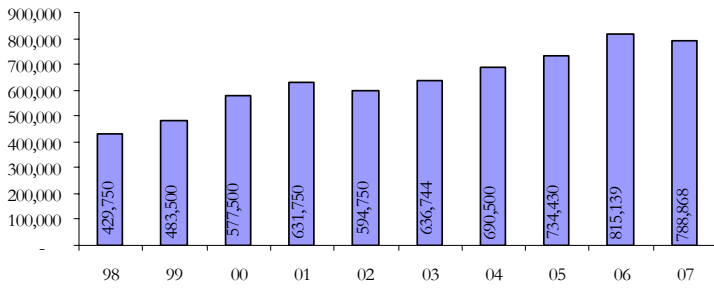


Includes directly operated and purchased transportation services.

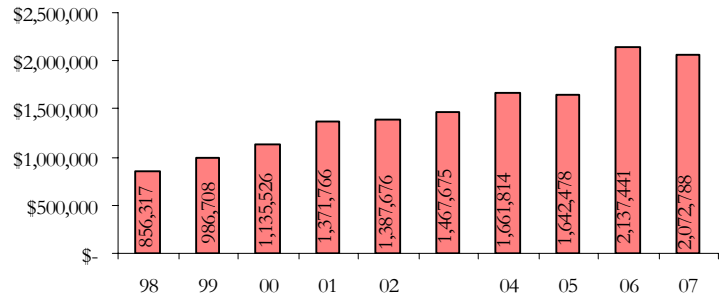
Pierce Transit  
Statistical Section  
Year ended December 31, 2007

Operating Information  
Vanpool Statistics  
1998- 2007

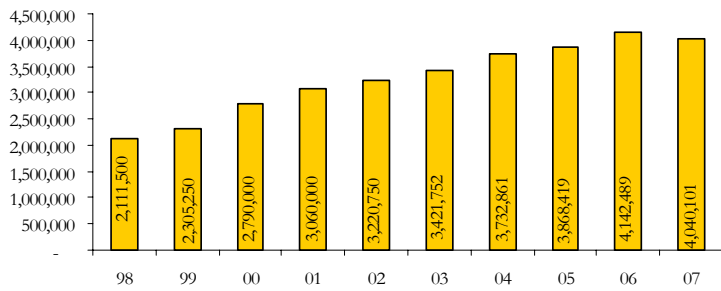
Annual Boardings



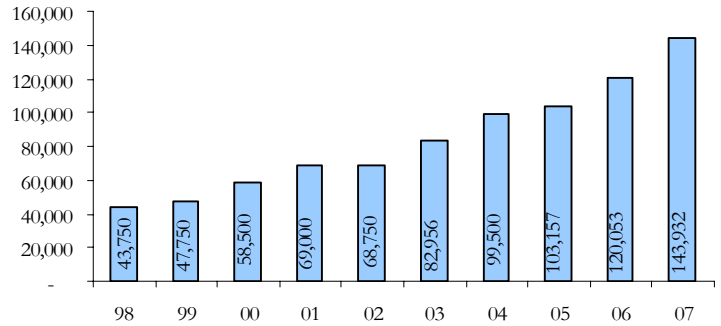
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours



**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

**Operating Information  
Key Performance Measures  
1998 – 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>PIERCE TRANSIT FIXED ROUTE (excluding Sound Transit):</b>										
Annual Boardings	13,007,411	12,357,961	11,935,606	11,717,375	11,161,468	11,335,185	11,946,488	12,245,514	12,409,416	13,307,473
Cost per Service Hour	\$ 65.56	\$ 69.72	\$ 66.36	\$ 73.59	\$ 75.15	\$ 72.36	\$ 81.50	\$ 86.80	\$ 90.36	\$ 96.96
Farebox Recovery	21%	22%	18%	18%	19%	18%	16%	14%	17%	16%
Passengers per Service Hour	22.8	23.0	25.5	24.7	22.5	20.4	21.2	21.1	20.6	21.1
Cost per Passenger	\$ 2.88	\$ 3.03	\$ 2.61	\$ 2.98	\$ 3.34	\$ 3.55	\$ 3.84	\$ 4.11	\$ 4.38	\$4.59
<b>SHUTTLE:</b>										
Annual Boardings	494,106	442,640	462,070	396,052	425,506	429,832	428,678	415,621	405,610	423,539
Cost per Service Hour	\$ 48.49	\$ 57.80	\$ 52.41	\$ 62.17	\$ 63.22	\$ 63.97	\$ 72.47	\$66.23	\$ 64.17	\$ 66.26
Farebox Recovery	1%	2%	2%	2%	1%	2%	3%	2%	2%	2%
Passengers per Service Hour	2.2	2.1	2.2	2.3	2.4	2.5	2.4	2.2	1.9	1.8
Cost per Passenger	\$ 22.12	\$ 27.02	\$ 23.98	\$ 26.88	\$ 26.29	\$ 25.97	\$ 29.73	\$ 29.67	\$ 34.23	\$ 37.32
<b>VANPOOL:</b>										
Annual Boardings	429,750	483,500	577,500	631,750	594,750	636,744	690,500	734,430	815,139	788,868
Cost per Service Hour	\$ 38.75	\$ 42.41	\$ 30.50	\$ 25.54	\$ 30.98	\$ 30.44	\$ 28.98	\$ 26.93	\$ 24.93	\$ 25.07
Farebox Recovery	50%	48%	63%	76%	64%	57%	57%	59%	71%	57%
Passengers per Service Hour	9.8	10.1	9.8	9.0	8.5	7.6	6.9	7.1	6.7	5.5
Cost per Passenger	\$ 3.97	\$ 4.21	\$ 3.12	\$ 2.84	\$ 3.65	\$ 4.02	\$ 4.23	\$ 3.82	\$ 3.71	\$ 4.57

Service hours are defined as the hours and miles a vehicle is on the road (including revenue, recovery and deadhead).

**Operating Information  
Vehicles Available for Maximum Service  
1998 – 2007**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Pierce Transit Buses	218	169	149	164	166	168	208	193	176	176
SHUTTLE Vans	123	174	151	157	144	166	154	100	118	146
Vanpool Vans	180	197	218	249	250	270	284	293	300	320

**Pierce Transit  
Statistical Section  
Year ended December 31, 2007**

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**Grant Information  
Capital Grant History  
1998 – 2007**

<b>FTA</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Section 3	\$ 1,510,707	\$ 1,369,963	\$ 5,699,938	\$ 1,151,973	\$ 1,132,955	\$ 157,643	\$ 2,131,762	\$ 2,774,048	\$ 343,103	\$ -
Section 4	-	-	-	-	132	454	-	-	-	-
Section 8	-	13,404	6,726	(6,647)	36,715	610	-	-	-	-
Section 9	13,992,479	9,187,104	12,104,446	1,814,148	6,056,583	2,278,019	14,921,797	10,261,877	4,687,911	7,528,260
Other	-	-	-	-	-	-	-	-	-	53,793
<b>WA STATE</b>										
Misc Grants	826,084	1,840,637	(251,801)	1,378,994	-	65,161	(99,912)	215,807	344,798	504,380
<b>MUNICIPAL/ LOCAL</b>										
Partnerships	-	3,955,598	6,798,188	372,822	64,256	83,534	16,667	1,056,667	154,311	11,941
	<u>\$ 16,329,270</u>	<u>\$ 16,366,706</u>	<u>\$ 24,357,497</u>	<u>\$ 4,711,290</u>	<u>\$ 7,290,641</u>	<u>\$ 2,585,421</u>	<u>\$ 16,970,314</u>	<u>\$ 14,308,399</u>	<u>\$ 5,530,123</u>	<u>\$ 8,098,374</u>