

INTRODUCTORY
SECTION

June 9, 2008

Honorable County Executive,
Members of the County Council,
and *Pierce County* Residents:

TRANSMITTAL LETTER

I. INTRODUCTION

I am pleased to transmit to you the 2007 Comprehensive Annual Financial Report of *Pierce County*, Washington. This report was prepared by the Budget and Finance Department to present the financial position of the county at December 31, 2007, and the results of its operations and the cash flows of its proprietary funds for the year then ended. Responsibility for accuracy of the data presented, and completeness and fairness of presentation, including disclosures, rests with the county.

The report is prepared using the governmental financial reporting model required by Generally Accepted Accounting Principles. This reporting model provides a clear fiscal picture of the county as a single unified entity while continuing to provide traditional fund-based financial statements. Each perspective, government-wide and major fund reporting, allows the reader to address relevant questions; provides a basis for comparison (year-to-year, or government-to-government); and enhances county accountability.

The Office of the State Auditor conducts annual financial and compliance audits as required by state statutes. The 2007 audit of county financial statements was conducted in accordance with generally accepted auditing standards and resulted in an unqualified audit opinion.

The independent audit of the financial statements was part of a broader, federally mandated "Single Audit" designed to meet special needs of federal grantor agencies. Standards governing Single Audit engagements require the independent auditor to report not only on fair presentation of the financial statements, but also on the audited government's system of internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. Reports on internal control and compliance with legal requirements are available in the separately issued Single Audit Report.

The county also maintains an internal audit function to insure adequacy of internal accounting controls. The accounting system is structured to facilitate the effectiveness of such internal accounting controls. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded and that financial records are reliable for preparing financial statements and maintaining accountability of assets. In addition, the Performance Audit Division of the County Council conducts operational audits of county agencies.

II. PROFILE OF THE COUNTY

Pierce County was incorporated in 1852 and operates under a Home Rule Charter adopted by voters in November 1980. The county is organized under the executive-council form of government. Elected administrative officials include the County Executive (the chief executive officer), Prosecuting Attorney, Assessor-Treasurer, and Auditor. The seven-member County Council is elected by district and constitutes the policy-setting legislative body of the county. All elected officials serve four year terms.

Pierce County provides some services on a countywide basis and other services only to unincorporated areas. Within appropriate jurisdictions, the county provides law enforcement, criminal detention, fire prevention, judicial administration, parks and recreation, planning and zoning, road maintenance and construction, a sewage disposal system, human services, tax assessments and collections, community development, and general administrative functions.

Most funds in this report pertain to the entity "*Pierce County Government*". This report includes all funds, departments, and entities for which the county is considered financially accountable. Certain *Agency Funds* pertain to the county custodianship of assets belonging to independent governments and special districts. Under state statute and the county Home Rule Charter, the County Executive is the *ex officio* treasurer for all special purpose districts in *Pierce County*, but not for cities and towns. As provided by county ordinance, the Director of Budget and Finance is responsible for duties of the comptroller and treasurer. Monies received from or on behalf of special purpose districts are deposited in a central bank account. The Director of Budget and Finance disburses or invests the monies according to instructions from the respective special purpose district's governing body or administrative officer. There are no related organizations which warrant inclusion in the reporting entity.

LOCAL ECONOMY

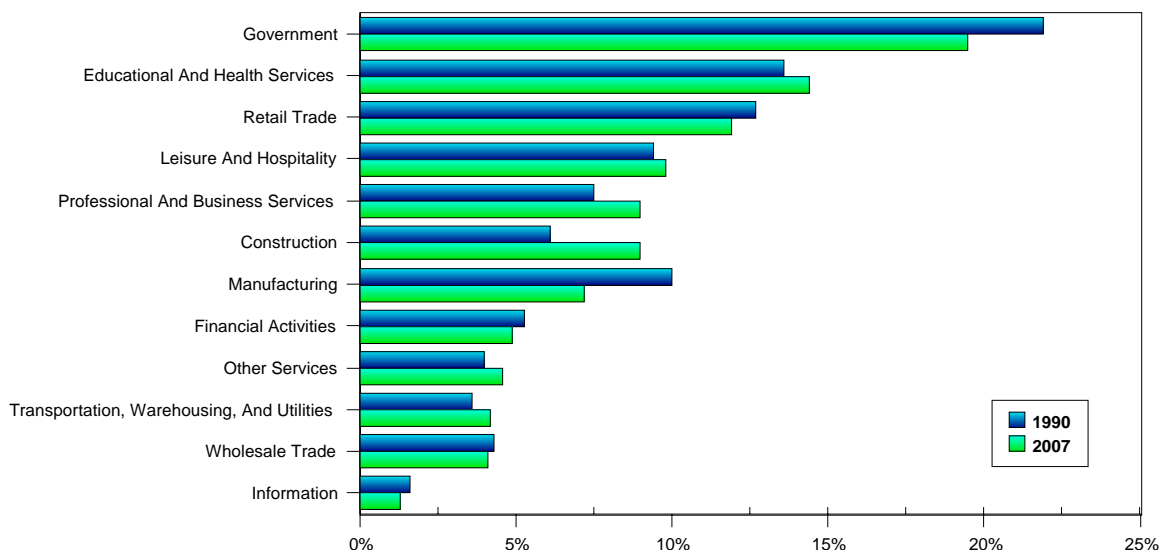
"*Pierce County*, by diversifying its economic base and becoming more integrated with international and national markets, has traded stability for a lower average rate of growth. Slower growth does not mean negative growth. Although now growing slower than anticipated, the *Pierce County* economy continues



improving from the mild weakness experienced in 2002-2003. The weakening value of the dollar, increasing uncertainty over the U.S. trade deficit, and slower economic growth in both Europe and Asia has curtailed shipping, warehousing, and trade growth. Interest rate concerns have started to slow the housing and construction markets." (Tacoma-Pierce County Chamber, *Pierce County Economic Index Report*, 2007)

Historically the county has had a resource and manufacturing based economy. Recent regional, state, and national trends, however, indicate a shift toward an economy based on construction, wholesale/retail trade, and services. Changes in percentages of nonagricultural county employment since 1990 follow:

Percentage of Pierce County Employment by NAICS Category



MANUFACTURING

Products manufactured in *Pierce County* include aerospace parts, chemicals, machinery, hardware, food products, and electronics. The larger manufacturers include (estimates from the *Economic Development Board* for 2007):

Company	City	Product/ Service	Employees
Boeing	Frederickson	Aerospace	1,450
Milgard Mfg. Inc	Fife	Windows and glass	1,115
Intel Corporation	DuPont	Computer electronics	1,100
Simpson Investment Company	Tacoma	Wood products	641
Atlas Castings & Technology	Tacoma	Steel manufacturing	503
Manke Lumber Co.	Tacoma	Lumber products	343
Toray Composites (America) Inc.	Frederickson	Composite materials	311
Gensco Inc.	Fife	Sheet metal fabrication	290
Brown & Haley	Tacoma	Confectionary products	280
Mission Foods	Fife	Food manufacturing	275

PORT FACILITIES

The Port of Tacoma is considered an "economic engine" for the region. A study released in July 2005 highlighted the Port's economic impact at both the local and state level.

- ✦ More than 43,000 jobs in *Pierce County* are related to the Port of Tacoma activities.
- ✦ More than 113,000 jobs in Washington State are similarly related to Port activities.
- ✦ Port-related jobs generate \$637 million in annual wages in *Pierce County*.
- ✦ Port activities generate more than \$90 million annually in state and local taxes in Washington State.



A major gateway to Asia and Alaska, the Port of Tacoma is a leading North American seaport, handling more than \$32 billion in international trade, \$4 billion in domestic trade, and nearly 2 million TEU's (Twenty-foot equivalent container units) in 2007. The Port is also a major center for bulk, breakbulk and project and heavy-lift cargoes, as well as automobiles and medium-duty trucks. (Port of Tacoma Stats and Facts, February 2008)

SERVICE

One of the largest components of the service sector in *Pierce County* is the health care industry. The largest health care employers include Multicare Medical System (5,567); Franciscan Health System (4,059) and the nation's second largest provider of dialysis services, DaVita (815).



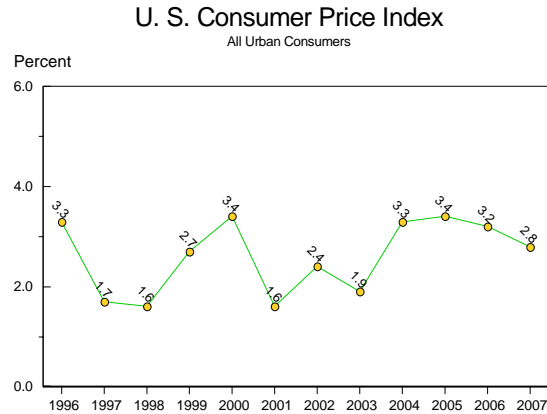
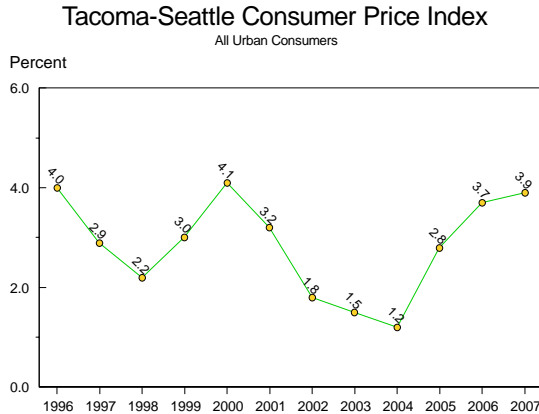
Fort Lewis Army Base and Madigan Army Medical Center occupy 86,000 acres in southwest *Pierce County*. The adjacent McChord Air Force Base includes 5,000 acres. Together these facilities employ over 49,900 military and civilian personnel. Unlike many military installations across the country, Fort Lewis and McChord have expanded as personnel have transferred to the northwest from closed facilities elsewhere. In addition, more than \$585 million of new projects are planned for these military installations over the next four years.

Financial and insurance services companies are also significant employers in *Pierce County*, including Russell Investment Group (1,080), State Farm Insurance (965), KeyBank (600), Columbia Bank (456), and Regence BlueShield (488).

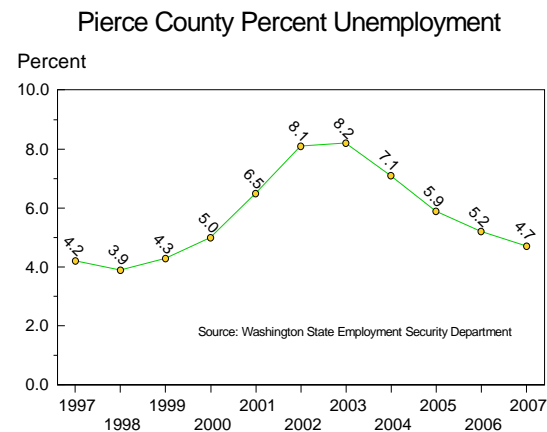
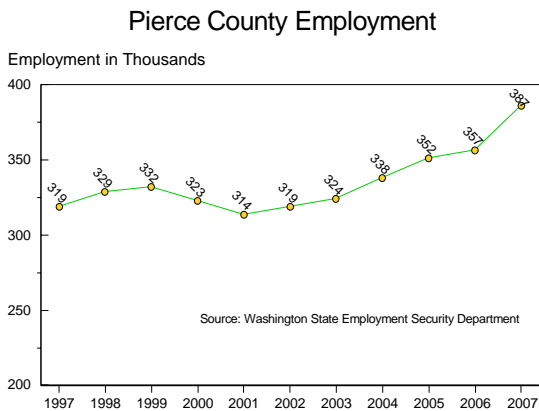
ECONOMIC INDICATORS

The following indicators are key elements for evaluating current economic conditions and are useful when developing projections or economic forecasts.

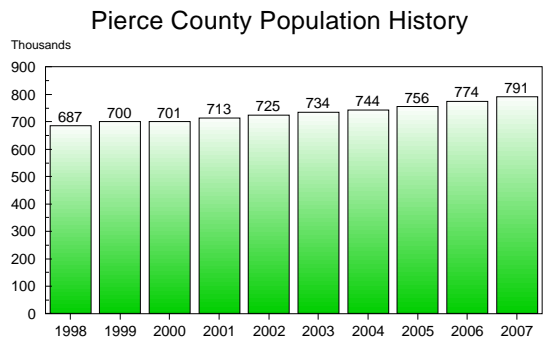
Inflation. Based on the Seattle-Tacoma-Everett Consumer Price Index for all urban consumers, the annual average inflation rate increased from 3.7% in 2006 to 3.9% in 2007. During the same period, the U. S. average (CPI-U) decreased from 3.2% in 2006 to 2.8% in 2007.



Employment. Total *Pierce County* employment increased to 386,680 in 2007 while unemployment decreased to 4.7%. County unemployment was equivalent to the state level of 4.7% and only slightly worse than the U.S. average of 4.6%.

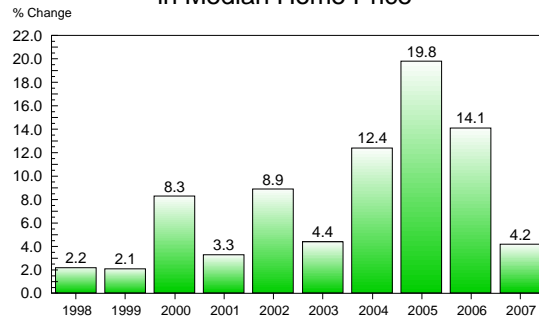


Population. *Pierce County* is home to an estimated 790,500 people, making it the second largest county in the state. From 1998 to 2007 the county grew by 15% with an average annual growth rate of 1.7%. The five largest cities are: Tacoma (199,600), Lakewood (59,000), Puyallup (36,360), University Place (31,140), and Bonney Lake (15,230).



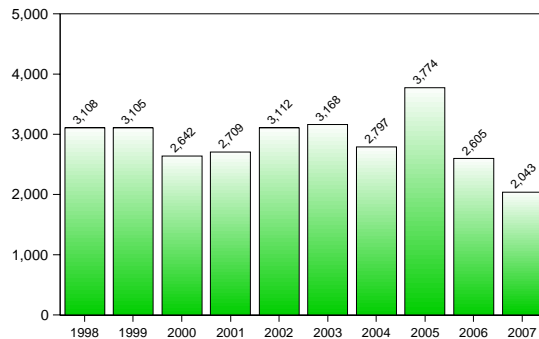
Housing. *Pierce County*, like the rest of the state and nation, experienced a “hot” housing market from 2000 through 2006. However, data compiled by Washington State University (the Washington Center for Real Estate Research) indicates the median home price increased a less robust 4.2% in 2007. A similar indicator of the cooling housing market in 2007 is a 35% decline in the number of home resales.

Pierce County Percent Change in Median Home Price



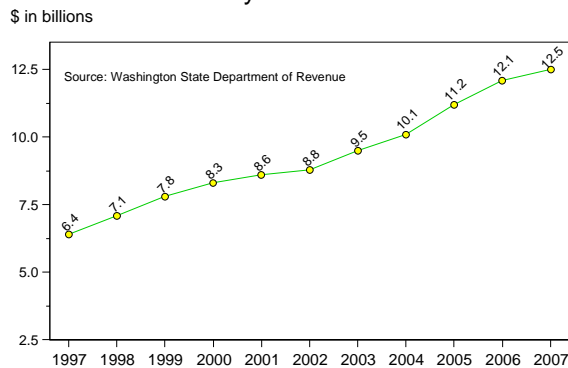
Construction. Construction activity is an important economic indicator that significantly impacts county operations and workload in areas such as planning, permits, land services, public works, and public construction. Property tax revenues are also affected by fluctuations in new construction activity. The number of permits issued annually is an indicator of future growth in the county property tax base. Single family construction permit activity declined in both 2006 and 2007.

Pierce County Single Family Building Permits

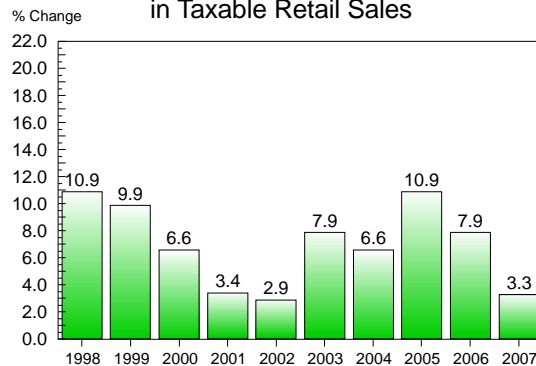


Taxable Retail Sales. Growth in taxable retail sales in *Pierce County* during 2007 slowed to a 3% increase from 2006 levels. In the last ten years taxable sales have grown by 76% as illustrated below:

Pierce County Taxable Retail Sales



Pierce County Percent Change in Taxable Retail Sales



FUTURE CONCERNS AND DEVELOPMENTS – LONG RANGE PLANNING

Although net asset balances for most county funds remain positive, *Pierce County* faces several challenges that will require earnest attention during the next few years. These issues affect the county long range planning forecasts and add a significant element of uncertainty to those forecasts:

- ✦ **Public Safety.** Workload levels in law enforcement and the judicial system are expected to continue increasing in the near future.
- ✦ **Jail Operations.** The adult corrections facility opened in 2005. Related annual jail related expenses, including both debt service and operations, continue to increase significantly each year. We anticipate additional fiscal pressure in future years as the inmate population continues to grow.

- ✦ **Economic Growth Slowing.** The strong growth in the local economy that we had witnessed over the last several years has recently slowed considerably. This economic slowdown is expected to have a negative effect on General Fund revenues in 2008 and possibly thereafter.
- ✦ **Pension Rate Increases.** The state pension system (of which *Pierce County* is a participant) has scheduled a series of rate increases necessary to adequately fund the pension plans. The result will be a significant increase in related employee benefits expenses in 2008 and 2009.
- ✦ **Facilities.** Current facilities are not adequate to house expanding departments providing major services to *Pierce County*. New space must be considered in the near future for additional court facilities and other justice system departments, and to reduce expenses for outside space rentals.
- ✦ **Federal and State Grants.** Budget cutbacks at either the state or federal level could result in reductions in grants that currently provide substantial support for several major county programs.
- ✦ **Transportation.** Growth in the local economy and population increases are placing substantial pressure on the county transportation infrastructure. Several funding proposals are being considered to expand county transportation capacity and relieve congestion.

FINANCIAL POLICIES

The county maintains a set of financial policies to guide fiscal and budgetary decision making. Such financial policies include:

- ✦ **County Investment Policies and Procedures** provide guidance for investment management.
- ✦ **County Debt Management Policies** outline goals and procedures for financing county operations.
- ✦ **Budget and Finance Department Fiscal Policies** provide guidance in the following areas:
 - Budget preparation and monitoring
 - Revenue sources and uses
 - Fund balance management
 - Expenditure authorization and control

MAJOR INITIATIVES

Although several initiatives involving new or expanded programs and services commenced or were in progress in 2007, most will not have a major impact upon the future fiscal position of *Pierce County*. However, a few such initiatives were of major significance in 2007 as follows:

- ✦ **New “Destination” Golf Course.** Chambers Bay Golf Course opened in 2007 and is self-supporting through greens fees and other user fees.
- ✦ **New Roads Maintenance Facilities.** A major centralized facility designed to combine several roads shops will be completed in 2008, and will reduce long-term roads maintenance expenses.
- ✦ **New Parks and Recreation Facilities.** Several parks construction and improvement projects are currently underway. These projects will be funded by parks related sales taxes and real estate excise taxes. Future operating costs will also be financed by parks sales taxes and additional cooperative funding arrangements with various cities within the county.
- ✦ **Emergency Operations Center (EOC).** Design and construction are substantially complete and the new EOC will be placed in operation in early 2008.

CASH MANAGEMENT

At year-end, *Pierce County* managed invested funds with a fair market value of approximately \$1.267 billion (excluding investments held by trustees). Funds invested for the direct benefit of *Pierce County* were valued at \$439 million at year-end. The balance of approximately \$828 million was invested for the direct benefit of other taxing districts for which the county serves as treasurer.

At December 31, 2007 the investment portfolio of county operating and trust funds (excluding other taxing districts) included types of investment and related maturities as follows:

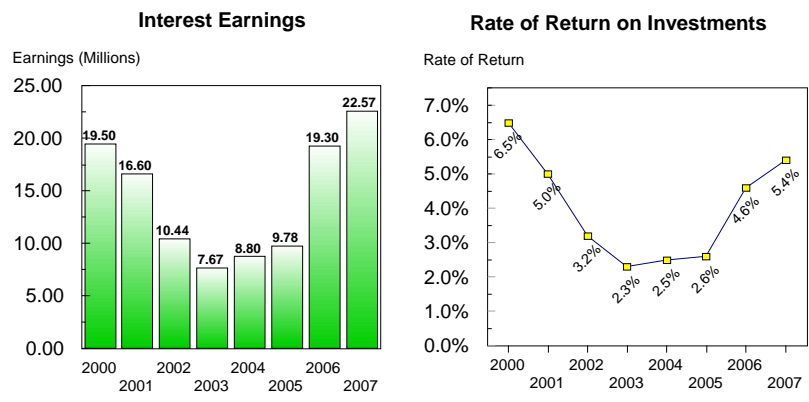
Type of Investment	Amount (In Thousands)	Percent of Portfolio
State Investment Pool	\$ 99,000	22.55 %
Certificates of Deposits	268,647	61.21 %
U.S. Government Agencies	71,107	16.20 %
Registered Warrants	178	0.04 %
Total	\$ 438,932	100.00 %

Days to Maturity	Amount (In Thousands)	Percent of Portfolio
1 - 30	\$ 87,811	20.01 %
31 - 90	205,520	46.81 %
91 - 180	83,956	19.13 %
181 - 365	10,300	2.35 %
Over 1 Year	51,345	11.70 %
Total	\$ 438,932	100.00 %

The average yield on county invested funds for 2007 was approximately 5.4%. Total interest earnings on county funds were \$22.57 million, representing an increase of \$3.27 million from 2006. Both the yield and total interest earnings include reductions for a fair market value decrease of \$1.08 million during 2007. Increased interest earnings resulted from an increase in average yield on investments (as adjusted for fair market value changes) partially offset by a decrease of approximately \$4.085 million in the average daily balance of invested funds.

Comparative figures for interest earnings and rates of return for county funds invested during the past eight years are presented in the figures shown below. As is evident from these graphs, interest earnings declined dramatically between 2001 and 2004 due to the sharp drop in short term interest rates. This trend reversed in 2004 and generated significant interest earnings gains in 2006 and 2007.

Interest Earnings and Rates of Return



Investment income includes adjustments to reflect the fair market value of investments. These adjustments (both positive and negative) in fair market value during the current year, however, do not necessarily represent trends that will continue; nor do they indicate that such gains or losses will be realized, especially in the case of investments that the government intends to hold to maturity.

RISK MANAGEMENT

Pierce County maintains an active risk management program emphasizing loss prevention, safety, and coordination of related third party insurance purchases.

The *Self-Insurance Fund* is responsible for managing legal claims for damages asserted, paying any claim settlements, assessing interfund charges to county funds and purchasing related risk insurance policies. Interfund charges are based primarily on the loss experience of the various contributing funds.

The *Workers Compensation Fund* manages and accounts for the workers compensation self-insurance program. The risk management department works with an experienced service company to administer the program. Funding is provided through interfund premium charges to county departments.

The county has established two risk management goals. The first is to maintain a minimum cash and investment balance of at least \$15 million in the *Self-Insurance Fund* and \$1.5 million in the *Workers Compensation Fund*. Such balances are deemed sufficient to fund two very large losses in each program. A second goal is simply to achieve positive net assets for each fund.

(In Thousands)	Self-Insurance		Workers Compensation	
	2001	2007	2001	2007
Cash and Investment Balance	\$ 13,624	\$ 26,557	\$ 1,312	\$ 1,402
Net Assets	\$ 4,692	\$ 18,790	\$ (270)	\$ (1,455)

As indicated in the comparison above, the cash and investment balance for the *Self-Insurance Fund* and related net assets have increased significantly from 2001 to 2007. However, cash and investment balances of the *Workers Compensation Fund* have remained slightly below the goal of \$1.5 million, and recent negative trends in loss experience resulted in a net assets deficit. *Workers Compensation Fund* continues to actively manage loss prevention and safety programs; and to evaluate proposed rate increases to eliminate the deficit in net assets.

III. 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 County* for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2006. The county has received this award every year since 1983.

To earn the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR whose contents conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The current report continues to conform to the Certificate of Achievement program requirements, and is being submitted to GFOA to determine eligibility for another certificate.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of our Chief Accountant, Judy Taylor, and the entire Accounting Division of the Budget and Finance Department. We also wish to express our appreciation to all other county personnel for their assistance and cooperation during the year in implementing financial system enhancements. In particular, we wish to thank the County Executive and the County Council whose interest in, and support of, the financial obligations of *Pierce County* have significantly contributed to a quality financial operation.

Respectfully submitted,



Patrick Kenney
Director of Budget and Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pierce County
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.



Oliver S. Cox

President

Jeffrey R. Emswiler

Executive Director

ELECTED OFFICIALS

December 31, 2007

COUNCIL:

District 1	Shawn Bunney
District 2	Calvin Goings
District 3	Roger Bush
District 4	Tim Farrell
District 5	Barbara Gelman
District 6	Dick Muri
District 7	Terry Lee

COUNTY EXECUTIVE

John Ladenburg

PROSECUTING ATTORNEY

Gerald Horne

AUDITOR

Pat McCarthy

ASSESSOR/TREASURER

Ken Madsen

JUDICIAL:

Superior Court Judges:

Stephanie A. Arend	Thomas P. Larkin
Sergio Armijo	Linda CJ Lee
Rosanne Buckner	John A. McCarthy
Bryan E. Chushcoff	Kathryn J. Nelson
Ronald Culpepper	James Orlando
Frank E. Cuthbertson	Susan K. Serko
Thomas J. Felnagle	D. Gary Steiner
Frederick W. Fleming	Katherine M. Stolz
Beverly G. Grant	Brian Tollefson
John R. Hickman	Kitty-Ann van Doorninck
Vicki L. Hogan	Lisa Worswick

District Court Judges:

Karla E. Buttorff	David M. Kenworthy
Franklin L. Dacca	Jack F. Nevin
James R. Heller	Pat O'Malley
Judy Rae Jasprica	Margaret Vail Ross

COUNTY-WIDE ORGANIZATIONAL CHART
Pierce County
2007

