

FINANCIAL
SECTION



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 2, 2009

The Honorable County Executive and Members of the Pierce County Council
Pierce County
Tacoma, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pierce County, Washington, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pierce County, Washington, as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund, Human Services Special Revenue Fund, and Roads Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 20 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.



Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying information listed as combining and individual fund statements and schedules on pages 63 through 165 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 County. 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



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report for *Pierce County* provides an overview of county financial activities for the fiscal year ended December 31, 2008. The intent of this management discussion and analysis is to look at county financial performance as a whole. We encourage readers to consider the information contained in this discussion in conjunction with additional information contained in our transmittal letter and in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide statements are designed to provide readers with a broad overview of *Pierce County* finances in a manner similar to that of a private-sector business.

The statement of net assets presents information on all of the county assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the county is improving or deteriorating.

The statement of activities presents information showing changes in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will actually result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various county activities and the degree to which activities are subsidized by general revenues.

Both government-wide financial statements distinguish between functions of *Pierce County* principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of operating costs through user fees and charges (business-type activities). The governmental activities of the county include general government, public safety, physical environment, legal, judicial, economic environment, transportation, health and human services, and culture and recreation. Business-type activities include water and sewer utilities, solid waste management and the associated landfill reserve, two airports, ferry services, and three golf courses.

FUND FINANCIAL STATEMENTS

Fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The county, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the county can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Essentially the same functions reported as governmental activities in the government-wide financial statements are reported in governmental fund financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities as reported in government-wide statements.

The county maintains a general fund and several other individual governmental funds organized according to their type (special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *General Fund*, the *Human Services Fund*, and the *Roads Fund*, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Budgetary comparison statements are presented for the *General Fund*, *Human Services Fund* and the *Roads Fund* to demonstrate the flow of resources in relation to the legally adopted budget.

PROPRIETARY FUNDS

Pierce County maintains two types of proprietary funds; *Enterprise Funds* and *Internal Service Funds*. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Water and sewer utilities, solid waste management, landfill reserve, airport, ferry services, and the golf courses are accounted for in *Enterprise Funds*. *Internal Service Funds* are a fund type used to accumulate and allocate costs internally among various county functions. *Pierce County* uses *Internal Service Funds* to account for equipment and fleet services, information services, facilities management, radio communications, general services, self-insurance, and workers compensation activities. Because these services predominantly benefit governmental rather than business-type functions, *Internal Service Funds* have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail. The proprietary fund financial statements provide separate information for the *Sewer Utility Fund*, *Chambers Bay Golf Course Fund* and the *Ferry Services Fund*, which are considered to be major funds of the county. Data from the other five *Enterprise Funds* and all eight *Internal Service Funds* are combined into individual, aggregated presentations. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

FIDUCIARY FUNDS

Resources held for the benefit of parties outside the government are accounted for in fiduciary funds. Because the resources of those funds are not available to support county programs, fiduciary funds are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Shown below are condensed versions of the government-wide statements of activities and net assets for both governmental and business-type operations. The government-wide statements are presented in detail in the financial section of this report.

STATEMENT OF ACTIVITIES

The following is a summary of the changes in net assets from the statement of activities:

Government-Wide Financial Analysis Condensed Summary of Changes in Net Assets

(In Thousands)	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues:						
Charges for Services	\$ 73,735	\$ 78,024	\$ 49,183	\$ 46,763	\$ 122,918	\$ 124,787
Operating Grants and Contributions	119,828	160,027	1,153	994	120,981	161,021
Capital Grants and Contributions	24,834	24,331	35,018	15,804	59,852	40,135
General Revenues:						
Taxes	238,049	240,057	141	211	238,190	240,268
Interest and Investment Earnings	12,410	19,268	617	1,115	13,027	20,383
Other General Revenue	2,706	3,474	–	–	2,706	3,474
Total Revenues	471,562	525,181	86,112	64,887	557,674	590,068
Expenses:						
General Government	50,184	40,973	–	–	50,184	40,973
Public Safety	144,659	135,176	–	–	144,659	135,176
Physical Environment	18,155	14,568	–	–	18,155	14,568
Transportation	66,850	50,165	–	–	66,850	50,165
Legal and Judicial	74,058	70,757	–	–	74,058	70,757
Economic Environment	37,296	38,745	–	–	37,296	38,745
Health and Human Services	55,175	91,028	–	–	55,175	91,028
Culture and Recreation	9,793	10,752	–	–	9,793	10,752
Interest on Long-Term Debt	5,507	5,004	–	–	5,507	5,004
Sewer Utility	–	–	38,443	38,144	38,443	38,144
Chambers Bay Golf Course	–	–	6,666	3,770	6,666	3,770
Solid Waste Landfill Reserve	–	–	–	1	–	1
Solid Waste Management	–	–	3,878	3,516	3,878	3,516
Airport	–	–	790	580	790	580
Ferry Services	–	–	5,422	4,992	5,422	4,992
Golf Course	–	–	2,030	2,015	2,030	2,015
Water Utility	–	–	86	54	86	54
Total Expenses	461,677	457,168	57,315	53,072	518,992	510,240
Change in Net Assets						
Before Transfers	9,885	68,013	28,797	11,815	38,682	79,828
Transfers	138	653	(138)	(653)	–	–
Change in Net Assets	10,023	68,666	28,659	11,162	38,682	79,828
Net Assets - Beginning of Year	969,024	900,358	473,840	462,678	1,442,864	1,363,036
Net Assets - End of Year	\$ 979,047	\$ 969,024	\$ 502,499	\$ 473,840	\$ 1,481,546	\$ 1,442,864

Financial Highlights:

Total expenses for 2008 were approximately \$519 million, consisting of \$462 million (89%) for governmental activities and \$57 million (11%) for business-type activities. Highlights follow:

- ✦ The increase in total expenses was 1.7%, with governmental activities increasing only 1.0% and business-type activities increasing 8.0%.
- ✦ Total government-wide program revenues plus general revenues equaled \$558 million and exceeded total government-wide expenses of \$519 million. This resulted in an increase in government-wide net assets of \$39 million during fiscal 2008, which is approximately half of the increase in net assets compared to the prior year.
- ✦ Total program revenues for all activities were \$304 million and funded approximately 59% of the total expenses for *Pierce County*. This is slightly below the 64% from 2007. The remaining expenses were financed through general revenues (primarily tax revenues).
- ✦ The most significant changes in total expenses occurred in Health and Human Services, where expenses were reduced by \$36 million due to the discontinuance of many grant funded outside contracts for mental health services, which became directly funded by the state to the outside agency. Other expenses had much more moderate increases or decreases.
- ✦ Governmental activities in 2008 were funded by program revenues of just over \$218 million (47%) with general revenues financing the remaining 53% of governmental activities expenses. In 2007 governmental activities were funded 57% by program revenues and 43% by general revenues. This major reversal was due to the loss of state mental health funding referenced above.
- ✦ 2008 business-type activities generated program revenues of approximately \$85 million, exceeding related expenses by \$28 million. Much of this positive margin occurred in the *Sewer Utility*.

A comparison of governmental and business-type activities with associated program revenues follows:

**Government-Wide Financial Analysis
Comparative Statement of Activities**

Governmental Activities (in thousands)	2008			2007	
	Expenses	Program Revenues		Net Revenues (Expenses)	Net Revenues (Expenses)
		Charges For Services	Grants And Contributions		
Public Safety	\$ 144,659	\$ 3,463	\$ 25,483	\$ (115,713)	\$ (105,785)
Legal and Judicial	74,058	17,304	12,056	(44,698)	(44,585)
Transportation	66,850	1,937	40,280	(24,633)	(9,712)
Health and Human Services	55,175	1,789	44,823	(8,563)	(4,662)
All Other Programs	120,935	49,242	22,020	(49,673)	(30,042)
	<u>\$ 461,677</u>	<u>\$ 73,735</u>	<u>\$ 144,662</u>	(243,280)	(194,786)
General Revenues				253,303	263,452
Change in Net Assets				<u>\$ 10,023</u>	<u>\$ 68,666</u>

Business-Type Activities (in thousands)	2008			2007	
	Expenses	Program Revenues		Net Revenues (Expenses)	Net Revenues (Expenses)
		Charges For Services	Grants And Contributions		
Sewer Utility	\$ 38,443	\$ 33,115	\$ 20,949	\$ 15,621	\$ 9,029
Chambers Bay Golf Course	6,666	6,248	—	(418)	(351)
Ferry Services	5,422	3,846	672	(904)	(509)
All Other Programs	6,784	5,974	14,550	13,740	2,320
	<u>\$ 57,315</u>	<u>\$ 49,183</u>	<u>\$ 36,171</u>	28,039	10,489
General Revenues				620	673
Change in Net Assets				<u>\$ 28,659</u>	<u>\$ 11,162</u>

Financial Highlights:

- ✦ As would be expected in governmental activities, programs requiring the greatest general revenue support were public safety, and the legal and judicial system (combined support of \$160 million).
- ✦ The gap between total governmental activities expenses and related program revenues increased slightly, from \$195 million in 2007 to \$243 million in 2008. The larger gap of expenses in excess of program revenues in 2008 was due primarily to a \$16 million increase in program expenses for transportation related activities and a \$10 million increase in program expenses for 'All Other Funds' activities to maintain existing levels of county services. The increases in expense were coupled with a decline of \$10 million in program revenues supporting related activities in 'All Other Funds'.
- ✦ However, the county generated a modest \$10 million increase in net assets for governmental activities. General governmental revenues, though \$10 million less than 2007, were more than sufficient to cover the \$243 million funding gap between 2008 expense and related program revenues.
- ✦ Business-type activities reported a \$29 million increase in net assets for 2008, which is considerably more than the \$11 million increase in net assets for 2007. The *Sewer Utility Fund* was a major source of the increase in net assets for both years. A \$7 million increase in sewer utility capital contribution coupled with a \$14 million capital contribution from the acquisition of a major local airport were the primary sources of the 2008 increase in business-type net assets.

STATEMENT OF NET ASSETS

The following is a summary of the government-wide statement of net assets presented in detail in the financial section of this report:

Government-Wide Financial Analysis Condensed Statement of Net Assets						
(In Thousands)	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 270,548	\$ 314,190	\$ 36,119	\$ 32,915	\$ 306,667	\$ 347,105
Restricted Assets/Joint Ventures	745	1,771	44,117	52,271	44,862	54,042
Capital Assets	896,371	837,638	476,501	445,174	1,372,872	1,282,812
Total Assets	1,167,664	1,153,599	556,737	530,360	1,724,401	1,683,959
Current Liabilities	75,967	74,081	9,037	9,886	85,004	83,967
Noncurrent Liabilities	112,650	110,494	45,201	46,634	157,851	157,128
Total Liabilities	188,617	184,575	54,238	56,520	242,855	241,095
Total Net Assets	\$ 979,047	\$ 969,024	\$ 502,499	\$ 473,840	\$ 1,481,546	\$ 1,442,864

Financial Highlights:

- ✦ Approximately \$979 million (66%) of total net assets are related to governmental activities, while \$502 million (34%) are related to business-type activities. These percentages are virtually unchanged from 2007.
- ✦ As indicated earlier, government-wide net assets increased by \$39 million in 2008, the majority of which was generated by business-type activities. However, as shown below, the increase was in capital assets net of related debt.
- ✦ For 2008, government-wide capital assets account for approximately 80% of government-wide total assets, and 93% of government-wide net assets. Comparable percentages for 2007 were 76% and 89%, respectively.
- ✦ For governmental activities, 2008 capital assets account for 77% of total governmental activities assets, and 92% of total net assets. Comparable figures for capital assets of business-type activities for 2008 were 86% and 95%, respectively.

✦ Government-wide net assets can be further summarized as follows:

**Government-Wide Financial Analysis
Summary of Net Assets**

(In Thousands)	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Capital Assets (Net of Related Debt)	\$ 797,668	\$ 736,374	\$ 434,788	\$ 401,965	\$ 1,232,456	\$ 1,138,339
Restricted Net Assets	90,102	133,111	37,948	46,860	128,050	179,971
Unrestricted Net Assets	91,277	99,539	29,763	25,015	121,040	124,554
Total Net Assets	<u>\$ 979,047</u>	<u>\$ 969,024</u>	<u>\$ 502,499</u>	<u>\$ 473,840</u>	<u>\$ 1,481,546</u>	<u>\$ 1,442,864</u>

- ✦ 9% of 2008 governmental activities net assets are unrestricted, while only 6% of the 2008 business-type activities net assets are unrestricted.
- ✦ Entitywide unrestricted net assets decreased \$3 million in 2008, consisting of a \$5 million increase from business-type activities entirely offset by an \$8 million decrease for governmental activities.

FINANCIAL ANALYSIS OF MAJOR COUNTY FUNDS

GENERAL FUND

Revenues. The *General Fund* receives unrestricted county revenue which is used to finance activities such as law enforcement, detention facilities, the judicial system, planning and development regulation, general governmental services, parks and recreation programs, and various human and health services. Revenue and all other financing sources for the *General Fund* totaled \$270.3 million in fiscal 2008, representing a 1.0% decrease from the prior year. Revenue categories with the changes from last fiscal year are summarized as follows:

**General Fund
Summary of Revenues and Other Financing Sources
(in thousands)**

Category	Amount		Increase (Decrease)	
	2008	2007	Amount	Percent
Revenue:				
Property and Other Taxes	\$ 111,289	\$ 108,134	\$ 3,155	2.9 %
Sales Tax	57,051	58,834	(1,783)	(3.0) %
Licenses and Permits	6,719	8,658	(1,939)	(22.4) %
Intergovernmental	35,060	33,087	1,973	6.0 %
Charges for Services	33,859	35,878	(2,019)	(5.6) %
Fines and Forfeits	8,017	6,878	1,139	16.6 %
Interest	12,663	17,560	(4,897)	(27.9) %
Miscellaneous Revenue	2,734	2,163	571	26.4 %
Total Revenue	<u>267,392</u>	<u>271,192</u>	<u>(3,800)</u>	<u>(1.4) %</u>
Other Financing Sources	<u>2,929</u>	<u>1,908</u>	<u>1,021</u>	<u>53.5 %</u>
Total Funding Sources	<u>\$ 270,321</u>	<u>\$ 273,100</u>	<u>\$ (2,779)</u>	<u>(1.0) %</u>

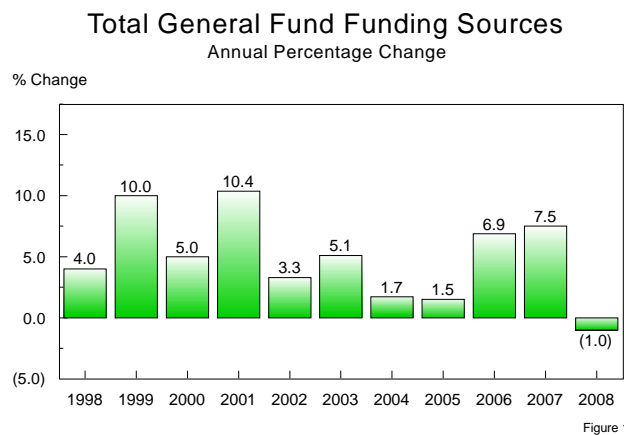
A more detailed discussion of the major changes from the prior year follows:

- ✦ **Sales Taxes.** The 3% decrease in sales tax revenue reflects an economy which has recently gone into a recession.
- ✦ **Licenses and Permits.** The large 22% reduction in license and permit fees is the result of a major decrease in building and development activity related to the recession.

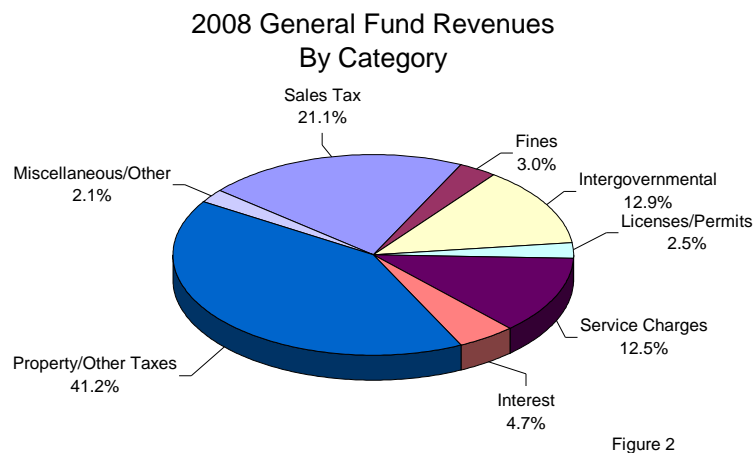
- ✦ **Charges for Services.** The nearly 6% decrease in charges for services also reflects the sharp decline in building and development activity due to the recession.
- ✦ **Fines and Forfeits.** This large revenue increase of 16.6% is primarily due to increases in toll fines for the new Tacoma Narrows Bridge.
- ✦ **Interest Revenues.** The decrease in short-term interest rates in 2008 is the major factor contributing to the significant 27.9% decline in interest revenues.

As illustrated in the graph below, the 1.0% decrease in revenue was the only negative growth in revenues in the last ten years and, indeed, in at least the last twenty years. Two factors are largely responsible for this negative change: 1) the recession, which has affected both the general economy and new development activity; and 2) the sharp decrease in short-term interest rates.

It is likely that the sharp decline in the county revenue base will continue for at least the next twelve months due to continued weakness in the local economy and the strong probability that short-term interest rates will remain at historically low levels for the foreseeable future.



The chart below presents the percentage of 2008 funding sources by category for the *General Fund*. The chart illustrates continued strong dependence on property and sales taxes (a combined 62.3%) as major revenue sources. During much of the last ten years, the percentage of revenues from such taxes has declined slightly as service charges, intergovernmental revenues and interest revenue percentages have grown.



Expenditures. Fiscal 2008 *General Fund* expenditures and transfers out totaled \$278.1 million, representing an increase of \$10.1 million (3.8%) from 2007. All transfers are classified into related functional areas and are included in the comparison of expenditures.

Comparisons of expenditures for the last two years are presented below:

**General Fund
Summary of Expenditures and Transfers Out**
(in thousands)

Functional Area	Amount		Increase (Decrease)	
	2008	2007	Amount	Percent
General Government	\$ 40,043	\$ 38,383	\$ 1,660	4.3 %
Public Safety	129,950	125,023	4,927	3.9 %
Physical Environment	1,975	1,957	18	1.0 %
Legal and Judicial	74,662	70,719	3,943	5.6 %
Health and Human Services	3,436	3,309	127	3.8 %
Transportation	189	68	121	177.9 %
Culture and Recreation	8,066	7,564	502	6.6 %
Economic Environment	19,755	20,990	(1,235)	(5.9) %
Total Expenditures and Transfers Out	\$ 278,076	\$ 268,013	\$ 10,063	3.8 %

In most categories the expense increases simply reflected inflation or very moderate changes in program or staffing levels. The only major exception is Economic Environment, where the large decrease reflected a reduced level of resources allocated to development center permit and land use processing functions due to the decline in development activity.

The chart below graphically illustrates relative budget allocations to various county functional activities. Combined expenditures for public safety and legal/judicial functions make up almost 74% of total *General Fund* expenditures. The combined percentage for these two major functions would approach 80% if related general government support costs were all allocated to each department. Similarly, over 80% of the increase in total *General Fund* expenditures over the last ten years occurred in these two major functional areas. This trend of increased spending in public safety and legal/judicial functions is expected to continue into the next few years with increased demand for sheriff services, growing court caseloads, and full operation of the new jail facility.

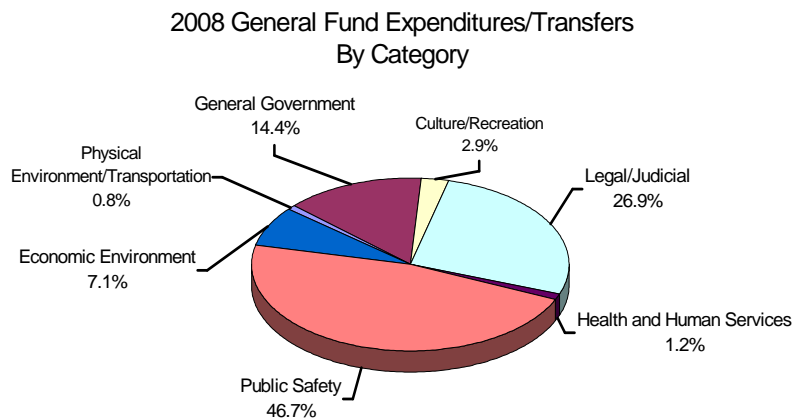
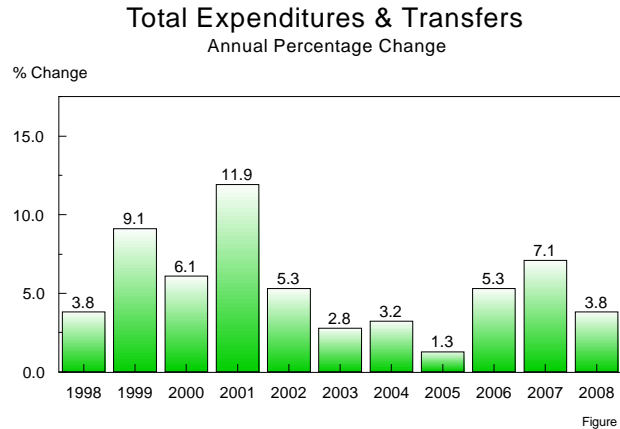


Figure 3

As previously indicated total 2008 expenditures and transfers increased 3.8% from 2007 levels. The 2008 percentage increase was close to the average for the last seven years. Corresponding percentage increases for the last decade are presented below:

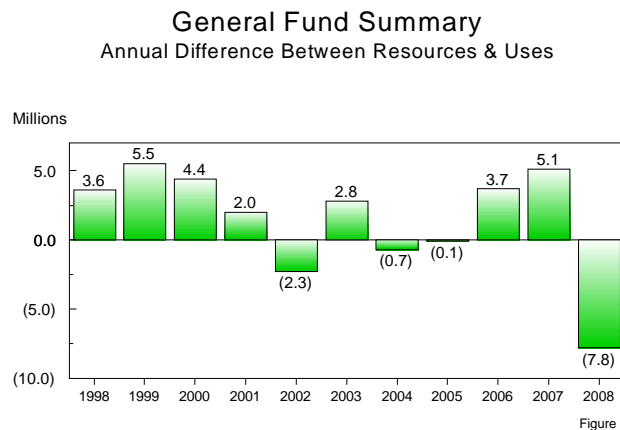


The 2008 “bottom-line” fiscal result for the *General Fund* was quite negative, generating a “deficit” of approximately \$7.8 million summarized as follows:

General Fund
Summary of Changes in Fund Balance
(in thousands)

	<u>2008</u>	<u>2007</u>
Revenues	\$ 267,392	\$ 271,192
Expenditures	<u>271,869</u>	<u>258,115</u>
Excess of Expenditures Over Revenues	(4,477)	13,077
Other Financing Sources (Uses), Net	<u>(3,278)</u>	<u>(7,990)</u>
Changes in Fund Balance	<u>\$ (7,755)</u>	<u>\$ 5,087</u>

The reasons for the dramatic swing in changes in fund balance for 2008 and 2007 are evident considering with the \$3.8 million decrease in revenues and \$13.8 million increase in expenditures (discussed in detail above). The relationship of the difference between resources (including all revenues and transfers in) and uses (including all expenditures and transfers out) for 2008 and over the past ten years is presented below. The trend during most of this period has been positive, with moderately large “surpluses” in most years, or small “deficits” in the remainder. However the sharp downturn in the economy in 2008 had a significant impact reducing county revenues and was, in fact, a major reason for the relatively large deficit for 2008.



Budget Comparisons. The original *General Fund* budget passed by the County Council totaled \$286.4 million (including expenses and transfers out). That budget was increased by a net of \$827 thousand for the following reasons:

- ✦ A \$3.6 million decrease for *General Fund* departments to adjust for decreased interest revenue offset only slightly by minor increases in tax revenues.
- ✦ An increase of \$377 thousand for National Pollution Discharge Elimination System activities.
- ✦ An increase of \$50 thousand for outside contract pathology services.
- ✦ A total increase of \$4.0 million reflecting various grants, service contracts and reimbursements, all of which are essentially self-funding.

The above 2008 budget revisions were financed as follows:

**General Fund
Summary of Budget Revisions
(in thousands)**

	2008
Taxes	\$ 400
Interest	(4,000)
Transfers-In	377
Grants, Service Contracts and Reimbursements	4,000
Fund Balance	50
Financing of Budget Revisions	\$ 827

Due to the sharp decline in 2008 revenues, the county initiated spending cutback strategies during the year. As a result of these measures, actual expenditures (including transfers out) were approximately \$9.2 million (3.2%) below the final budgeted levels.

General Fund Balance. Fund balance serves several purposes for the county. Fund balance provides working capital until receipt of first half property tax payments at the end of April. During the first four months of each year the *General Fund* expends approximately \$40 million more for payroll and services than is received in revenues. Fund balance provides necessary cash to finance normal activities without borrowing. Fund balance also provides a reserve for unanticipated emergency expenditures. Finally, fund balance can be used to support subsequent budgets, especially to finance one-time expenditures. At December 31, 2008 there were no significant limitations on availability of fund balance for such purposes.

General Fund unreserved fund balance of \$28.6 million at December 31, 2008 reflects a decrease of \$7.8 million resulting directly from the 2008 operating deficit mentioned above.

The graph below illustrates the trend in unreserved fund balance over the past decade. The trend had been positive through 2001 and then relatively steady through 2005. The 2006 and 2007 results generated a major increase in fund balance that was utilized in 2008 to cover the unexpected revenue shortfall.

Unreserved General Fund Balance

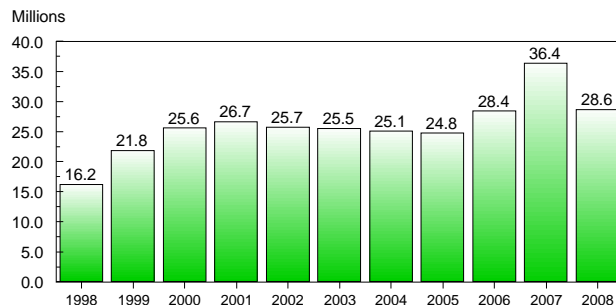


Figure 6

The trend in unreserved fund balance as a percent of budget is presented below. The county goal is to maintain an unreserved fund balance between 5% and 10% of current *General Fund* budget. For much of the past decade the county was slightly above that goal. At the end of 2008, unreserved fund balance declined to 10.0% of 2008 budget. Approximately \$4.9 million of 2008 fund balance has been designated to support the 2009 Budget. Should 2009 actual revenues and expenditures occur as budgeted; the percentage of unreserved fund balance will be reduced to an estimated 8.2% of the 2009 budget at the end of 2009.

Unreserved General Fund Balance as a Percent of the General Fund Budget

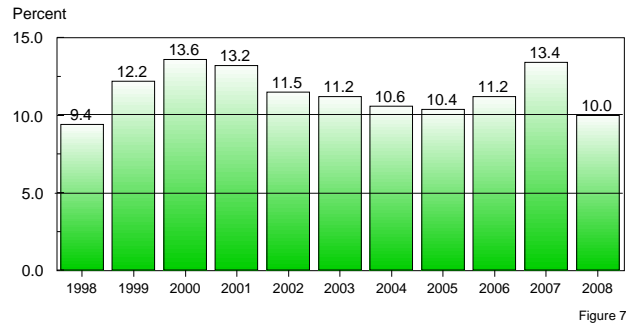


Figure 7

ROADS FUND

The *Roads Fund* finances road maintenance, traffic control, general engineering, and general administrative activities for all county roads and bridges. The *Roads Fund* also allocates significant funding (\$3.1 million in fiscal 2008) to support major road construction and transportation building projects. Expenditures for such activities total \$64.6 million for fiscal 2008. The major funding sources for these activities are property taxes (\$44.1 million), and gasoline tax revenues from the state (\$10.2 million).

A summary for the last five years of all revenues and other financing sources versus expenditures and other uses follows:

Roads Fund Five Year Summary of Revenues and Expenditures

(In Thousands)	2004	2005	2006	2007	2008
Revenues/Sources	\$ 52,947	\$ 54,657	\$ 56,637	\$ 60,389	\$ 61,484
Expenditures/Uses	60,952	56,040	55,126	63,802	64,622
Revenues/Sources Over (Under) Expenditures/Uses	\$ (8,005)	\$ (1,383)	\$ 1,511	\$ (3,413)	\$ (3,138)

Fiscal 2008 resulted in a modest “deficit” for the *Roads Fund* due to large allocations for major roadway system and other infrastructure improvements and the fact that certain anticipated land sales were deferred until future years.

Fund balances for the *Roads Fund* for the last decade are shown below. Fund balance will be used in subsequent years to maintain a solid road maintenance program, and to provide funding for capital improvement projects.

Road Fund Balance

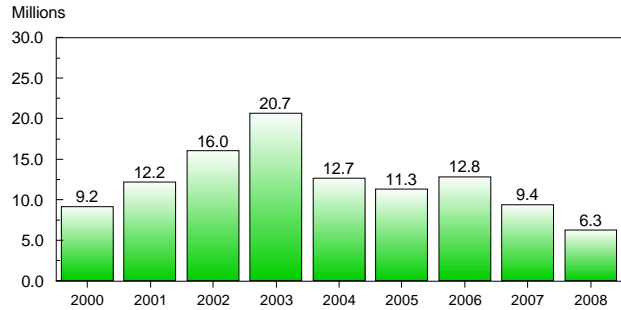


Figure 8

HUMAN SERVICES FUND

The *Human Services Fund* provides financing for county programs providing in areas of aging and long-term care, chemical dependency treatment, and developmental disabilities services. The vast majority of financing is provided by state and federal grants.

As indicated by the figure below, the *Human Services Fund* has experienced significant fluctuations in fund balance. The primary reasons for the fluctuations of fund balance are: 1) use of fund balance to maintain existing programs and services when federal and state funding levels decreased in 2001 and 2002; 2) receipt of substantial monies in 2003 and in 2006 from successfully concluded litigation regarding claims previously disallowed by the state; and 3) the transfer of appropriate balances to the new *Mental Health Services Fund* in 2008.

Human Services Fund Balance

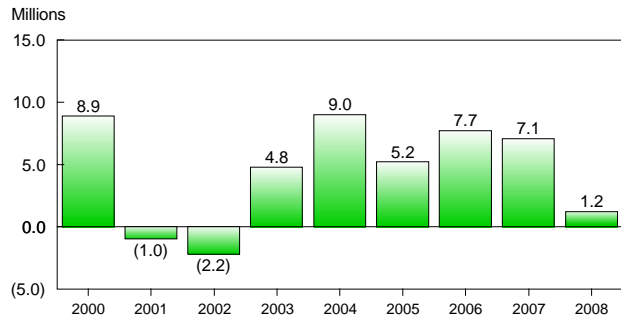


Figure 9

SEWER UTILITY FUND

The *Sewer Utility* is by far the largest county enterprise fund with customer accounts numbering approximately 85,400. The primary source of operating revenue is service charges collected from residential and commercial customers using wastewater collection and treatment services. Secondary sources of operating revenue are provided from permit and plan review fees and from miscellaneous billings.

A comparison of the components of *Sewer Utility Fund* net assets for fiscal 2008 and 2007 follows:

Sewer Utilities Summary of Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2008	2007	Amount	Percent
Current and Other Assets	\$ 53,697	\$ 61,491	\$ (7,794)	(12.7) %
Capital Assets	403,170	384,517	18,653	4.9 %
Total Assets	456,867	446,008	10,859	2.4 %
Long-Term Liabilities	12,634	12,947	(313)	(2.4) %
Other Liabilities	4,938	9,508	(4,570)	(48.1) %
Total Liabilities	17,572	22,455	(4,883)	(21.7) %
Net Assets:				
Invested in Capital Assets - Net of Related Debt	390,553	369,874	20,679	5.6 %
Restricted	33,164	42,027	(8,863)	(21.1) %
Unrestricted	15,578	11,652	3,926	33.7 %
Total Net Assets	\$ 439,295	\$ 423,553	\$ 15,742	3.7 %

A comparison of results of operations for the *Sewer Utility Fund* for fiscal 2008 and 2007 follows:

Sewer Utilities Summary of Revenues, Expenses, and Changes in Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2008	2007	Amount	Percent
Operating Revenues	\$ 31,407	\$ 30,962	\$ 445	1.4 %
Nonoperating Revenues	1,979	2,819	(840)	(29.8) %
Total Revenues	33,386	33,781	(395)	(1.2) %
Operating Expenses	26,056	24,576	1,480	6.0 %
Depreciation	11,939	11,797	142	1.2 %
Nonoperating Expenses	132	1,840	(1,708)	(92.8) %
Total Expenses	38,127	38,213	(86)	(0.2) %
Loss before transfers and contributions	(4,741)	(4,432)	(309)	7.0 %
Transfers (Net)	(466)	(856)	390	(45.6) %
Capital Contributions	20,949	14,023	6,926	49.4 %
Change in Net Assets	15,742	8,735	7,007	80.2 %
Beginning Net Assets	423,553	414,818	8,735	2.1 %
Ending Net Assets	\$ 439,295	\$ 423,553	\$ 15,742	3.7 %

Financial Highlights:

- ✦ Total assets at year-end are \$456.9 million and exceed liabilities of \$17.6 million, yielding total net assets of \$442.3 million. Total net assets increased \$15.7 million representing an increase of 3.7%. Of total net assets at year-end, \$15.6 million is unrestricted and available to support short-term operations or to fund capital improvement projects.
- ✦ Operating revenues increased \$445 thousand (1.4%) to \$31.4 million, which reflects normal growth in the utility customer base and a 3.5% rate increase which was effective January 1, 2008. Recent rate increases have remained comparable to the annual increase in the Consumer Price Index.
- ✦ Operating expenses (excluding depreciation) increased \$1.5 million (6%) to \$26.1 million. A combination of salary and benefit increases; and higher costs for replacement, repairs, and maintenance of aging utility plant and equipment contributed to increased total operating expenses.
- ✦ Decreases in total revenues could not be offset by the slight decrease in total expenses during 2008. Accordingly, in 2008 the “Loss Before Transfers and Contributions” of \$4.7 million was slightly larger than the \$4.4 million loss in 2007.
- ✦ The utility invested \$11.9 million in acquisition of property, plant and equipment during 2008.
- ✦ The utility completed several projects in construction work in progress with a total cost of \$4.3 million during 2008. The largest of these was \$4.1 million for park-like improvements at Central Meadows and North Meadows, located on the Chambers Creek Properties adjacent to the Chambers Creek Wastewater Treatment Plant.
- ✦ Bonds outstanding at year-end total \$10.9 million.
- ✦ Capital contributions increased by \$6.9 million (49%) to \$20.9 million, a reflection of a focused construction schedule during 2008.

CHAMBERS BAY GOLF COURSE

The new golf course opened for play late in June 2007. The first full year of operation in 2008 was satisfactory for a new golf course, with operating income of \$546 thousand and a “Loss Before Transfers and Contributions” of (\$418) thousand due to 2008 debt service interest.

FERRY SERVICES FUND

The *Ferry Services Fund* recorded a slight decrease in net assets in 2008, very similar to results from the previous year. A comparison of results for ferry system operations for 2008 and 2007 follows:

(In Thousands)	Amount		Increase (Decrease)	
	2008	2007	Amount	Percent
Operating Revenues	\$ 2,882	\$ 2,173	\$ 709	32.6 %
Operating Expenses	5,355	3,417	1,938	56.7 %
Operating Loss	(2,473)	(1,244)	(1,229)	98.8 %
Nonoperating Revenues, Transfers and Contributed Capital	1,677	811	866	106.8 %
Changes in Net Assets	\$ (796)	\$ (433)	\$ (363)	83.8 %

Financial Highlights:

- ✦ In 2008, the *Ferry Services Fund* entered into a contract to loan one county vessel to the State of Washington. This resulted in higher total operating expenses and a related increase in operating revenues from the state.
- ✦ In addition, operating expenses increased significantly due to vessel and infrastructure repairs, and to a spike in diesel oil prices. Ferry rate increases also contributed to the increase in operating revenues in addition to the state contract payments discussed above.

NONMAJOR SPECIAL REVENUE FUNDS (COMBINED)

The *Nonmajor Special Revenue Funds* (36 funds) reported the following results in 2008:

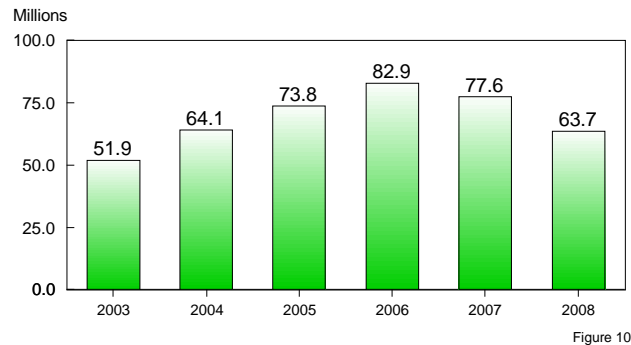
Nonmajor Special Revenue Funds Summary of Combined Revenues, Expenses and Changes in Fund Balance (in thousands)

	<u>2008</u>
Combined Revenues	\$ 82,534
Combined Expenditures	<u>82,859</u>
Excess Expenditures Over Revenues	(325)
Combined Other Sources (Uses), Net	<u>(13,583)</u>
Change in Fund Balance	<u>\$ (13,908)</u>

This was the second straight year of declining fund balances for *Nonmajor Special Revenue Funds*. The decrease resulted from major expenses for capital improvements (parks, roads, and storm system projects) from fund balances built-up for these purposes.

Combined fund balances for the last six fiscal years are as show below. A major portion of these balances (\$20.4 million) has been allocated in the 2009 budget, primarily for one-time capital projects.

Nonmajor Special Revenue Funds Fund Balance



INTERNAL SERVICE FUNDS

2008 financial results for *Internal Service Funds* were generally neutral with little net change from the previous year illustrated as follows:

Internal Service Funds Summary of Revenues, Expenses, and Changes in Net Assets (in thousands)

	<u>2008</u>	<u>2007</u>
Operating Revenues	\$ 62,462	\$ 59,709
Operating Expenses	<u>66,546</u>	<u>58,800</u>
Operating Income (Loss)	(4,084)	909
Nonoperating Revenues and Net Transfers	<u>3,739</u>	<u>3,506</u>
Changes in Net Assets	(345)	4,415
Beginning Net Assets	<u>74,978</u>	<u>70,563</u>
Ending Net Assets	<u>\$ 74,633</u>	<u>\$ 74,978</u>

Total net assets were \$74.6 million as of December 31, 2008. Of this amount \$34.6 million was invested in capital assets with the remaining \$40.0 million being unrestricted. The *Workers Compensation Fund* was the only *Internal Service Fund* with a negative net asset position (\$1.7 million) which will be addressed with rate increases in subsequent years.

Recent totals for unrestricted net assets of *Internal Service Funds* are shown below. The basic trend has shown a gradual increase in unrestricted net assets in the earlier years and leveling-off in recent years. The unrestricted net asset balance will likely be used in future years for capital equipment replacement and system enhancements.

Internal Service Funds Unrestricted Net Assets

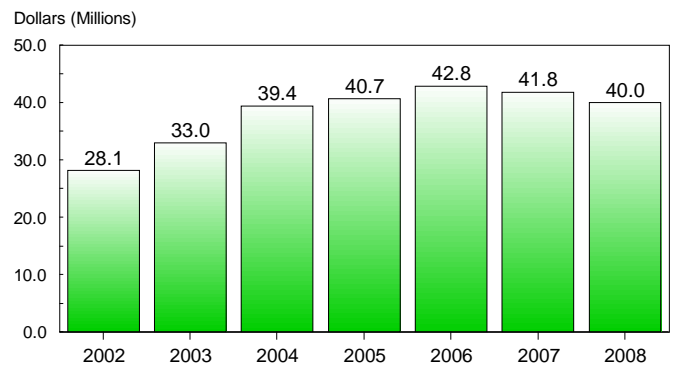


Figure 11

CAPITAL ASSETS

The county investment in capital assets for governmental and business-type activities totals \$1.4 billion at December 31, 2008. The investment in capital assets includes land, infrastructure, buildings and other improvements, furnishings, and equipment, as well as construction in progress. Additional information on *Pierce County* capital assets can be found in Note 5 to the financial statements.

Total capital assets for the county increased \$90.1 million in fiscal 2008 as follows:

Summary of Capital Asset Activity (in thousands)

Asset Category	Governmental Activities		Business-Type Activities	
	2008 Changes	Ending Asset Values	2008 Changes	Ending Asset Values
Land and Land Rights	\$ 13,755	\$ 126,827	\$ 2,561	\$ 52,111
Buildings and Systems	47,644	242,276	2,688	93,595
Improvements Other Than Buildings	4,844	20,717	3,012	35,104
Machinery and Equipment	9,961	98,158	684	77,301
Infrastructure	21,654	406,612	19,199	383,554
Avigation Rights	-	-	-	562
Accumulated Depreciation	(15,927)	(164,819)	(14,054)	(195,464)
Capital Assets, Net	81,931	729,771	14,090	446,763
Construction In Progress	(23,198)	166,600	17,237	29,738
Total Capital Assets, Net	\$ 58,733	\$ 896,371	\$ 31,327	\$ 476,501

HIGHLIGHTS

Governmental Activities:

- ✦ Capital assets for governmental activities experienced a \$58.7 million net increase which represents a net increase of \$81.9 million in capital assets in service and a net decrease of \$23.2 million in construction in progress costs.
- ✦ The \$81.9 million net increase in capital assets in service consists of \$104.6 million in capital asset additions (\$81.4 million of completed projects from construction in progress, \$8.8 million of capital asset purchases, and \$14.4 million of capital assets donated by developers), and decreases of \$22.7 million (\$21.0 million of depreciation expense and \$1.7 million net amount of capital assets disposed in 2008).
- ✦ The \$104.6 million of capital asset additions consists of the following: land (\$14.3 million); buildings and improvements (\$53.2 million); equipment (\$15.4 million); and infrastructure (\$21.7 million). The total capital asset additions included \$59.1 million for roads and related land rights; \$17.0 million for acquisition and improvements to the Annex West building; \$9.3 million for flood and surface water projects; \$8.8 million for various equipment and vehicle purchases; \$4.2 million for construction of the Equipment Services Division maintenance facility; \$3.3 million for improvements to parks; and \$2.9 million for other facilities improvements.
- ✦ Construction in progress experienced a net decrease of \$23.2 million which includes current year expenditures of \$73.0 million reduced by the \$81.4 million of projects completed and placed in service, and further reduced by \$14.8 million of noncapital project costs written-off in 2008.

Business-Type Activities:

- ✦ Capital assets for business-type activities increased \$31.3 million, which represents a net increase of \$28.2 million in capital asset cost reduced by \$14.1 million of net change in accumulated depreciation, and a net increase of \$17.2 million for construction in progress costs.
- ✦ The \$28.2 million net increase in capital asset cost consists of \$4.7 million of completed projects from construction in progress, and \$23.5 million of capital asset acquisitions. The \$4.7 million of completed projects from construction in progress consisted of utilities projects and other capital improvements.
- ✦ The \$14.1 million change in accumulated depreciation represents 2008 depreciation expense.
- ✦ Construction in progress experienced a net increase of \$17.2 million including \$21.9 million of current year expenditures reduced by \$4.7 million of completed projects transferred out of construction in progress in 2008.

DEBT ADMINISTRATION

The ratios of net direct tax supported bonded debt to assessed valuation and to population (per capita) present useful indicators of the relative county debt burden. The ratios at December 31, 2008 follow:

	<u>Ratio of Debt To Estimated Actual Value</u>	<u>Debt Per Capita</u>
Net Direct Tax Supported Bonded Debt*	<u>0.0014</u>	<u>\$ 171.55</u>

* Defined as Limited and Unlimited General Obligation Bonds net of assets available in *Debt Service Funds* for payment of principal.

Comparable ratios for debt to assessed valuation and debt per capita from Moody's Investor Service for 2008 are 0.005 and \$464, respectively, for the average of other Aa3 rated United States counties. This comparison dramatically illustrates the relatively low debt burden enjoyed by *Pierce County* residents.

A summary of outstanding debt is presented below:

Summary of Outstanding Debt
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 95,294	\$ 99,586	\$ 23,287	\$ 24,843	\$ 118,581	\$ 124,429
Sewer Revenue Bonds	-	-	8,420	11,175	8,420	11,175
Installment Contracts	2,501	2,648	8,664	7,346	11,165	9,994
Total Debt	<u>\$ 97,795</u>	<u>\$ 102,234</u>	<u>\$ 40,371</u>	<u>\$ 43,364</u>	<u>\$ 138,166</u>	<u>\$ 145,598</u>

Total county debt outstanding decreased \$7.4 million or 5% in 2008. The net decrease resulted from assumption of \$1.9 million of new debt reduced by \$9.3 million of debt redemptions.

In July 2008, the City of DuPont transferred ownership and maintenance of a sewer system to the county, including installment contracts of \$1.9 million for Washington State Public Works Trust Fund Loans initially used to construct the system. The loans are repayable in equal annual principal payments. One loan balance of \$478,000 bearing interest at 1% is due in 2019. The remaining \$1,403,000 loan bears interest at 0.5% and is due in 2025. The loans are repayable from a \$798 thousand loan reserve account transferred to the county plus a monthly sewer service surcharge on properties in the service area.

The *Sewer Utility Fund* is required to maintain a revenue bond debt service coverage ratio of 1.25 times the aggregate annual debt service of utility bonds outstanding. The revenue bond coverage ratio was 4.5 for 2008 and 5.09 for 2007. The decrease in coverage in 2008 was primarily the result of decreased connection charges, decreased interest earnings, and increased operating and maintenance expenses. The total bond coverage ratio was 3.29 for 2008 and 3.75 for 2007.

In the next five years, the county will retire 25% (\$29.2 million) of the general obligation bond debt, 11% (\$915 thousand) of the sewer revenue bond debt, and 36% (\$4 million) of the Public Works Trust Fund loans. In the next ten years, the retirement amounts are 48% (\$57.3 million), 65% (\$5.5 million), and 65% (\$7.2 million) for general obligation bonds, sewer revenue bonds, and Public Works Trust Fund loans, respectively.

The Moody's Investor Service bond ratings are Aa-3 for *Pierce County* limited tax general obligation bonds and A-1 for sewer revenue bonds. The Standard & Poor's bond ratings are AA- for *Pierce County* limited tax general obligation bonds and AA for sewer revenue bonds. These ratings are exceptionally high for a county and indicate to investors that *Pierce County* bonds are a good investment risk. Additional information on county long-term debt can be found in Note 6 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide various interested parties with a general overview of county finances and to show accountability of the county for the money it receives. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Pierce County Budget & Finance, 615 South 9th Street, Tacoma, Washington, 98405.