

FINANCIAL
SECTION



**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 1, 2010

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, 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2009, 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.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 1, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the County's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 21 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 73 through 169 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 a large initial "B" and "S".

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, 2009. 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*, the *Ferry Services Fund*, and the *Solid Waste Management and Landfill Reserve Fund*, which are considered to be major funds of the county. Data from the other three *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	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Program Revenues:						
Charges for Services	\$ 75,987	\$ 73,735	\$ 49,826	\$ 49,183	\$ 125,813	\$ 122,918
Operating Grants and Contributions	132,606	119,828	1,556	1,153	134,162	120,981
Capital Grants and Contributions	26,045	24,834	17,498	35,018	43,543	59,852
General Revenues:						
Taxes	237,109	238,049	107	141	237,216	238,190
Interest and Investment Earnings	4,651	12,410	116	617	4,767	13,027
Other General Revenue	751	2,706	—	—	751	2,706
Total Revenues	477,149	471,562	69,103	86,112	546,252	557,674
Expenses:						
General Government	45,113	50,184	—	—	45,113	50,184
Public Safety	149,548	144,659	—	—	149,548	144,659
Physical Environment	17,437	18,155	—	—	17,437	18,155
Transportation	66,899	66,850	—	—	66,899	66,850
Legal and Judicial	75,370	74,058	—	—	75,370	74,058
Economic Environment	39,512	37,296	—	—	39,512	37,296
Health and Human Services	49,516	55,175	—	—	49,516	55,175
Culture and Recreation	9,625	9,793	—	—	9,625	9,793
Interest on Long-Term Debt	4,910	5,507	—	—	4,910	5,507
Sewer Utility	—	—	40,315	38,443	40,315	38,443
Chambers Bay Golf Course	—	—	6,667	6,666	6,667	6,666
Solid Waste Management and Landfill Reserve	—	—	4,555	3,878	4,555	3,878
Airport	—	—	1,461	790	1,461	790
Ferry Services	—	—	4,653	5,422	4,653	5,422
Golf Course	—	—	2,211	2,030	2,211	2,030
Water Utility	—	—	89	86	89	86
Total Expenses	457,930	461,677	59,951	57,315	517,881	518,992
Change in Net Assets						
Before Transfers	19,219	9,885	9,152	28,797	28,371	38,682
Transfers	388	138	(388)	(138)	—	—
Change in Net Assets	19,607	10,023	8,764	28,659	28,371	38,682
Net Assets - Beginning of Year (Restated)	1,028,237	1,018,214	502,499	473,840	1,530,736	1,492,054
Net Assets-End of Year	\$ 1,047,844	\$ 1,028,237	\$ 511,263	\$ 502,499	\$ 1,559,107	\$ 1,530,736

Financial Highlights:

Total government-wide expenses for 2009 were approximately \$518 million, consisting of \$458 million (88.4%) for governmental activities and \$60 million (11.6%) for business-type activities. Highlights follow:

- ✦ Total 2009 expenses for governmental activities decreased \$3.7 million (less than 1%) and business-type activities expenses increased \$2.6 million (4.5%) resulting in a net decrease in government-wide total expenses of \$1.1 million (less than 1%) compared to 2008.
- ✦ Total 2009 government-wide program revenues plus general revenues equaled \$546 million and exceeded total 2009 government-wide expenses of \$518 million. This resulted in an increase in government-wide net assets of \$28 million during 2009 compared to a \$39 million increase in net assets for the prior year.

- ✦ Total program revenues for all activities for both 2008 and 2009 were \$304 million and funded approximately 59% of the total expenses for *Pierce County* in both years. The remaining expenses were financed through general revenues (primarily tax revenues) in 2009 and 2008.
- ✦ The most significant changes in total expenses for 2009 governmental activities occurred in *Public Safety*, where expenses were increased by \$5 million (3.4%) due to increased focus on law enforcement; in *Health and Human Services*, where spending decreased \$5.7 million (10.3%); and in *General Government* where expenses decreased \$5.1 million (10.1%). Expenses for other governmental activities experienced much more moderate increases or decreases.
- ✦ Funding for governmental activities in 2009 was provided by program revenues of just over \$235 million (49% of revenues) with general revenues providing the remaining 51% of governmental activities revenues. In 2008, governmental activities were funded 47% by program revenues and 53% by general revenues.
- ✦ 2009 business-type activities generated program revenues of approximately \$69 million, exceeding related expenses by \$9 million. The positive margin occurred primarily in *Sewer Utility* and *Airport* operations.

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

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

Governmental Activities:	2009			2008	
	(In Thousands)	Program Revenues		Net Revenues (Expenses)	Net Revenues (Expenses)
		Expenses	Charges For Services		
Public Safety	\$ 149,548	\$ 3,883	\$ 28,250	\$ (117,415)	\$ (115,713)
Legal and Judicial	75,370	17,804	12,724	(44,842)	(44,698)
Transportation	66,899	1,273	39,803	(25,823)	(24,633)
Health and Human Services	49,516	1,586	43,996	(3,934)	(8,563)
All Other Programs	116,597	51,441	33,878	(31,278)	(49,673)
	\$ 457,930	\$ 75,987	\$ 158,651	(223,292)	(243,280)
General Revenues and Transfers, Net				242,899	253,303
Change in Net Assets				\$ 19,607	\$ 10,023

Business-Type Activities:	2009			2008	
	(In Thousands)	Program Revenues		Net Revenues (Expenses)	Net Revenues (Expenses)
		Expenses	Charges For Services		
Sewer Utility	\$ 40,315	\$ 33,564	\$ 8,931	\$ 2,180	\$ 15,621
Chambers Bay Golf Course	6,667	5,479	-	(1,188)	(418)
Ferry Services	4,653	4,443	947	737	(904)
Solid Waste Management and Landfill Reserve	4,555	3,175	563	(817)	141
All Other Programs	3,761	3,165	8,613	8,017	13,599
	\$ 59,951	\$ 49,826	\$ 19,054	8,929	28,039
General Revenues and Transfers, Net				(165)	620
Change in Net Assets				\$ 8,764	\$ 28,659

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 \$162 million).
- ✦ The gap between total governmental activities expenses and related program revenues decreased slightly, from \$243 million in 2008 to \$223 million in 2009. The excess of expenses over program revenues for governmental activities decreased in 2009 primarily from spending decreases in *Health and Human Services*; and from overall reductions in spending in general government services prompted by the economic downturn and projected decreases in general revenues.
- ✦ However, the county generated a \$19.6 million increase in net assets for governmental activities. General governmental revenues, though \$10.4 million less than 2008, were more than sufficient to cover the \$223 million funding gap between 2009 expense and related program revenues.
- ✦ Business-type activities reported a modest \$8.8 million increase in net assets in 2009 compared to an increase of \$28.7 million in 2008. Capital contributions in 2009 of \$8.9 million in the *Sewer Utility Fund* and \$8.6 million in *Other Programs* for airport construction were the primary sources of increases in business-type net assets in 2009. The \$28.7 million increase in net assets for 2008 included capital contributions of \$20.9 million in the *Sewer Utility Fund* and a one-time \$14 million capital contribution from the acquisition of a major local airport.

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	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
	Current Assets	\$ 256,293	\$ 270,548	\$ 34,341	\$ 36,119	\$ 290,634
Restricted Assets	-	745	43,785	44,117	43,785	44,862
Capital Assets	980,924	945,561	485,163	476,501	1,466,087	1,422,062
Total Assets	1,237,217	1,216,854	563,289	556,737	1,800,506	1,773,591
Current Liabilities	58,676	75,967	8,418	9,037	67,094	85,004
Noncurrent Liabilities	130,697	112,650	43,608	45,201	174,305	157,851
Total Liabilities	189,373	188,617	52,026	54,238	241,399	242,855
Total Net Assets	\$ 1,047,844	\$ 1,028,237	\$ 511,263	\$ 502,499	\$ 1,559,107	\$ 1,530,736

Financial Highlights:

- ✦ Approximately \$1 billion (67%) of total net assets are related to governmental activities. \$511 million (33%) are related to business-type activities. These percentages are virtually unchanged from 2008.
- ✦ As indicated earlier, government-wide net assets increased by \$28 million in 2009, the majority of which (\$19.6 million) was generated by governmental activities. The increase was primarily related to increases in capital assets net of related debt, as also illustrated in the table below.
- ✦ 2009 government-wide capital assets make up approximately 81% of government-wide total assets, and 94% of government-wide net assets. These percentages are virtually unchanged from 2008.
- ✦ At year-end 2009, governmental activities capital assets account for 79% of total governmental activities assets, and 94% of total governmental activities net assets. Comparable figures for capital assets of business-type activities for 2009 were 78% and 92%, 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	
	2009	2008 (Restated)	2009	2008	2009	2008 (Restated)
Capital Assets (Net of Related Debt)	\$ 878,116	\$ 846,858	\$ 446,337	\$ 434,788	\$ 1,324,453	\$ 1,281,646
Restricted Net Assets	80,670	89,692	39,070	37,948	119,740	127,640
Unrestricted Net Assets	89,058	91,687	25,856	29,763	114,914	121,450
Total Net Assets	<u>\$ 1,047,844</u>	<u>\$ 1,028,237</u>	<u>\$ 511,263</u>	<u>\$ 502,499</u>	<u>\$ 1,559,107</u>	<u>\$ 1,530,736</u>

Financial Highlights:

- ✦ Net assets for governmental activities at year-end 2009 total \$1.05 billion of which \$89 million (8.5%) are unrestricted.
- ✦ 2009 net assets for business-type activities total \$511 million. \$26 million (5%) is unrestricted.
- ✦ Entitywide unrestricted net assets decreased \$6.5 million in 2009, consisting of a \$3.9 million decrease for business-type activities and a \$2.6 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 \$268.5 million in 2009, representing a 0.7% 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)	
	2009	2008	Amount	Percent
Revenue:				
Property and Other Taxes	\$ 116,599	\$ 111,289	\$ 5,310	4.8 %
Sales Tax	50,478	57,051	(6,573)	(11.5) %
Licenses and Permits	6,387	6,719	(332)	(4.9) %
Intergovernmental	39,932	35,060	4,872	13.9 %
Charges for Services	32,878	33,859	(981)	(2.9) %
Fines and Forfeits	7,995	8,017	(22)	(0.3) %
Interest	4,508	12,663	(8,155)	(64.4) %
Miscellaneous Revenue	6,400	2,734	3,666	134.1 %
Total Revenue	<u>265,177</u>	<u>267,392</u>	<u>(2,215)</u>	<u>(0.8) %</u>
Other Financing Sources	<u>3,332</u>	<u>2,929</u>	<u>403</u>	<u>13.8 %</u>
Total Funding Sources	<u>\$ 268,509</u>	<u>\$ 270,321</u>	<u>\$ (1,812)</u>	<u>(0.7) %</u>

Discussion of the major changes from the prior year follows:

- ✦ **Sales Taxes.** The 11.5% decrease in sales tax revenue reflects an economy which is struggling due to the deep recession.
- ✦ **Intergovernmental Revenues.** The large 13.9% growth reflected increases in Sheriff contract billings, federal and state grants, federal stimulus monies, and jail billings.
- ✦ **Interest Revenues.** The decrease in short-term interest rates is the major factor contributing to the 64% decline in interest revenues.
- ✦ **Miscellaneous Revenue.** The increase included a one time receipt of lawsuit settlement monies.

As illustrated in Figure 1 on the following page, the 0.7% decrease in revenue was only the second negative growth in revenues in the last ten years and, in fact, over the last twenty years. Two factors are largely responsible for this decrease: 1) a deep recession which has negatively affected both the general economy and new real estate development activity; and 2) sharp decrease in short-term interest rates.

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

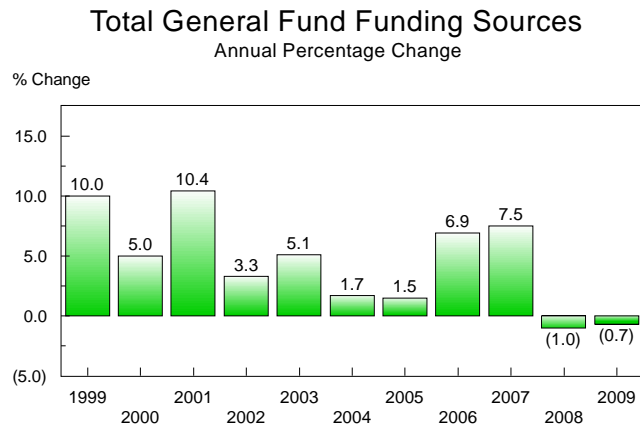


Figure 1

The chart below presents the percentage of 2009 funding sources by category for the *General Fund*. The chart illustrates continued strong dependence on property and sales taxes (a combined 62.2%) as major revenue sources. During the last ten years, the percentage of revenues from such taxes has declined slightly as service charges and intergovernmental revenue percentages have grown.

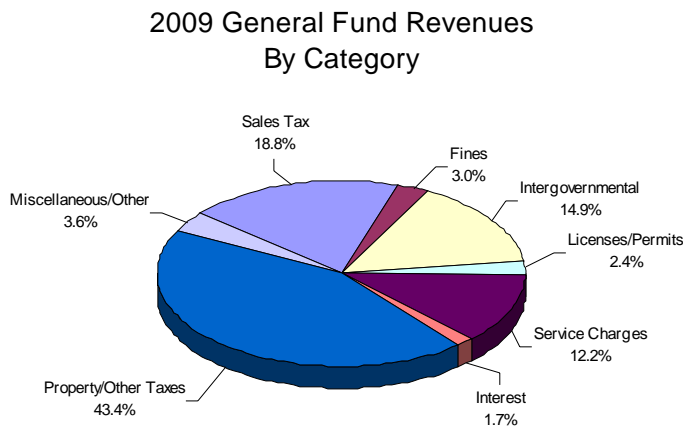


Figure 2

Expenditures. During 2009, *General Fund* expenditures and transfers out totaled \$273.1 million, a decrease of \$5.0 million (1.8%) from 2008. Transfers are classified into related functional areas and are included in the comparison of expenditures.

Comparisons of expenditures for the last two years follow:

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

Functional Area	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
General Government	\$ 34,927	\$ 40,043	\$ (5,116)	(12.8) %
Public Safety	133,172	129,950	3,222	2.5 %
Physical Environment	1,871	1,975	(104)	(5.2) %
Legal and Judicial	75,572	74,662	910	1.2 %
Health and Human Services	3,078	3,436	(358)	(10.4) %
Transportation	—	189	(189)	(100.0) %
Culture and Recreation	7,396	8,066	(670)	(8.3) %
Economic Environment	17,050	19,755	(2,705)	(13.7) %
Total Expenditures and Transfers Out	<u>\$ 273,066</u>	<u>\$ 278,076</u>	<u>\$ (5,010)</u>	(1.8) %

As the table above indicates, all categories of *General Fund* expenditure experienced absolute reductions in budget and spending during 2009 with the exception of *Public Safety* and *Legal/Judicial*. Even in these two areas, staffing and service reductions were implemented just to offset general inflationary increases.

The chart below graphically illustrates relative budget allocations to various county functional activities. Combined expenditures for public safety and legal/judicial functions constitute more than 76% of total *General Fund* expenditures. The combined percentage for these two major functions would approach 82% if related general government support costs were all allocated to each department. Similarly, over 83% 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 on 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.

2009 General Fund Expenditures/Transfers
By Category

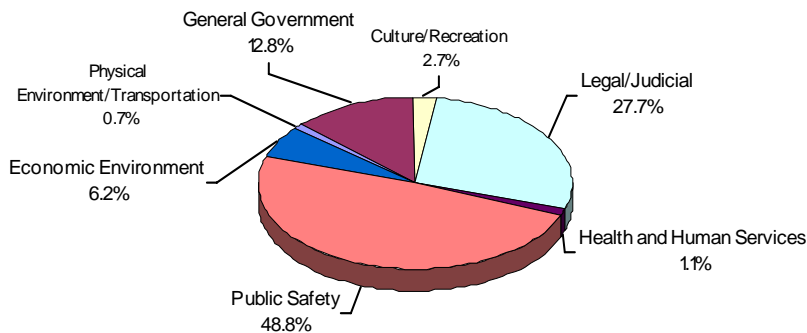
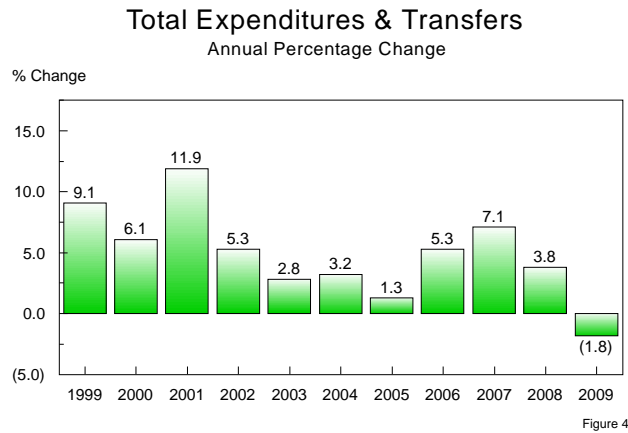


Figure 3

As previously indicated total 2009 expenditures and transfers decreased 1.8% from 2008 levels. This is the first such expenditure decrease in at least the last 20 years. Corresponding percentage increases for the last decade are presented on the following page:

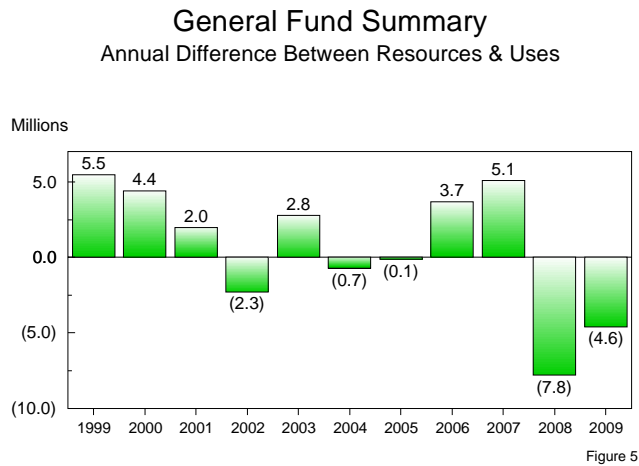


The 2009 “bottom-line” fiscal result for the *General Fund* was negative, generating a “deficit” of slightly less than \$4.6 million summarized as follows:

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

	2009	2008
Revenues	\$ 265,177	\$ 267,392
Expenditures	269,487	271,869
Excess of Expenditures Over Revenues	(4,310)	(4,477)
Other Financing Sources (Uses), Net	(247)	(3,278)
Changes in Fund Balance	<u>\$ (4,557)</u>	<u>\$ (7,755)</u>

The reason for the 2009 negative change in fund balance was the sharp decline in the economy, which had a major adverse impact upon revenues (discussed earlier). The annual difference between resources (all revenues and transfers in) and uses (all expenditures and transfers out) over the past ten years is presented below. The trend prior to 2008 had generally been positive, with moderately large “surpluses” in most years, or small “deficits” in the remainder. However the sharp downturn in the economy in 2008 and 2009 had a significant negative impact upon county revenues which resulted in deficits the last two years.



Budget Comparisons. The original *General Fund* budget approved by the County Council totaled \$289.1 million including expenditures and transfers out. That budget was decreased by a net of \$9.7 million for the following reasons:

- ✦ A \$12.2 million decrease in *General Fund* resources to adjust for anticipated decreases in sales tax revenue, interest revenue, permitting fees and charges for services.
- ✦ A total increase of \$2.5 million reflecting various grants, service contracts and reimbursements, all of which are essentially self-funding.

The detail of 2009 revenue budget revisions is as follows:

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

	2009
Taxes	\$ (7,000)
Interest	(4,000)
License and Permits	(1,000)
Charges for Services	(532)
Transfers-In	200
Grants, Service Contracts and Reimbursements	2,573
Fund Balance	100
Revenue Budget Revisions	\$ (9,659)

Due to the sharp decline in 2009 revenues, the county initiated spending cutback strategies during the year. As a result of these measures, actual expenditures (including transfers out) were approximately \$6.4 million (2.3%) below the final budgeted levels.

General Fund Balance. Fund balance serves several purposes. 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 \$35 million more for payroll and services than is received in revenues. Fund balance provides necessary cash to finance these 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, 2009 there were no significant limitations on availability of fund balance for such purposes.

The *General Fund* unreserved fund balance is \$23.9 million as of December 31, 2009. This amount reflects a decrease of \$4.7 million from the end of 2008, almost all of which results directly from the 2009 operating deficit mentioned above.

The following graph illustrates the trend in unreserved fund balance over the past decade. The trend had been positive through 2001 and then relatively steady through 2005. In 2006 and 2007 major increases were generated that were then utilized in 2008 and 2009 to fund recession related revenue shortfalls.

Unreserved General Fund Balance

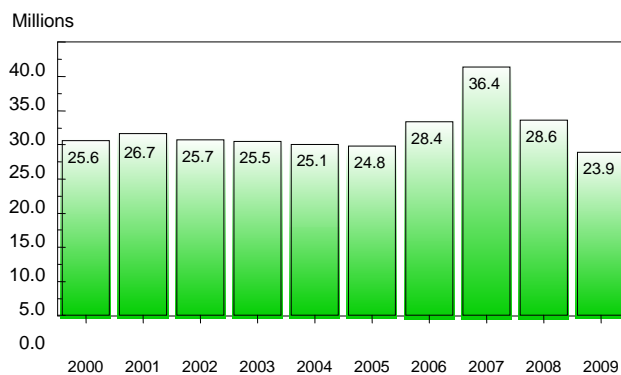
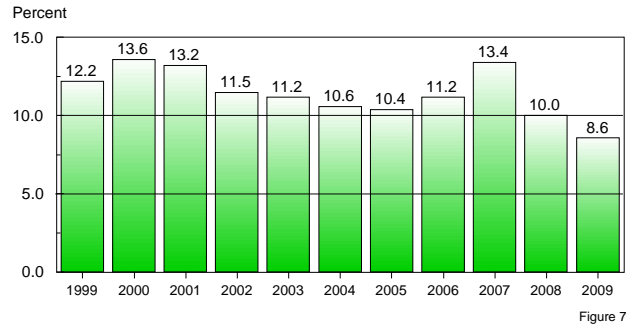


Figure 6

The county goal is to maintain unreserved fund balance of between 5% and 10% of the *General Fund* budget. For much of the past decade the county was slightly above that goal. As illustrated on the following page, unreserved fund balance declined to 8.6% of the 2009 budget at the end of 2009.

The county has budgeted for no use of fund balance in 2010, and will instead rely upon additional expenditure reductions if revenues decline further. The trend in unreserved fund balance as a percent of budget is as follows:

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



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 funding (\$2.6 million in 2009) to support major road construction and transportation building projects. 2009 expenditures for all activities total \$57.7 million. The major funding sources for these activities are property taxes (\$45.8 million), and state gasoline tax revenues (\$9.8 million).

A five year comparison of all revenue and expenditures (including other sources and uses) follows:

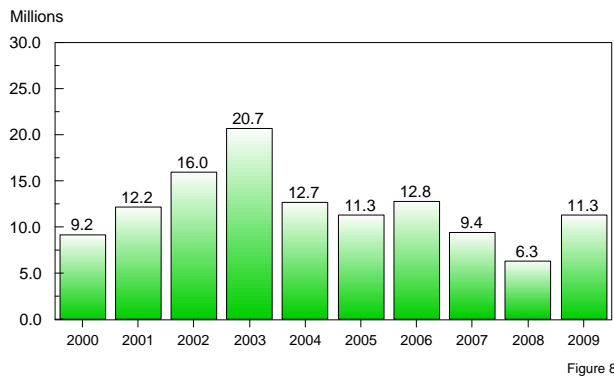
Roads Fund
Five Year Summary of Revenues and Expenditures

(In Thousands)	2005	2006	2007	2008	2009
Revenues/Sources	\$ 54,657	\$ 56,637	\$ 60,389	\$ 61,484	\$ 62,666
Expenditures/Uses	56,040	55,126	63,802	64,622	57,664
Revenues/Sources Over (Under) Expenditures/Uses	\$ (1,383)	\$ 1,511	\$ (3,413)	\$ (3,138)	\$ 5,002

A \$5 million “surplus” in the *Roads Fund* in 2009 was due to a decrease in allocations for major capital projects and reductions in other activities in light of the recession.

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

Road Fund Balance



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. A small operating deficit of \$300,000 in 2009 resulted in a fund balance of slightly less than \$1,000,000 at the end of the year.

Human Services Fund Balance

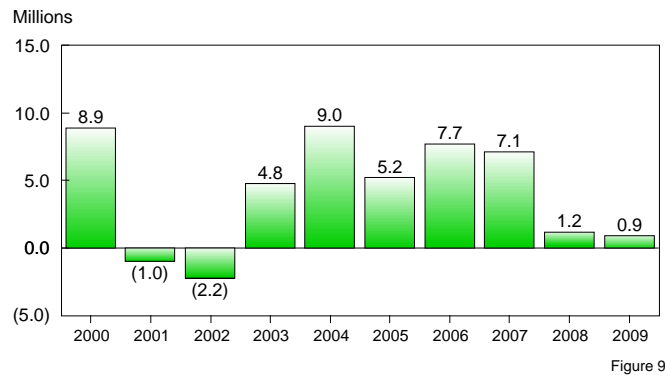


Figure 9

SEWER UTILITY FUND

The *Sewer Utility* is by far the largest county enterprise fund with customer accounts numbering approximately 86,000. 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 other billings.

A comparison of the components of *Sewer Utility Fund* net assets for 2009 and 2008 follows:

Sewer Utility Summary of Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
Current and Other Assets	\$ 53,205	\$ 53,697	\$ (492)	(0.9) %
Capital Assets	404,610	403,170	1,440	0.4 %
Total Assets	457,815	456,867	948	0.2 %
Long-Term Liabilities	12,162	12,634	(472)	(3.7) %
Other Liabilities	4,367	4,938	(571)	(11.6) %
Total Liabilities	16,529	17,572	(1,043)	(5.9) %
Net Assets:				
Invested in Capital Assets -				
Net of Related Debt	392,338	390,553	1,785	0.5 %
Restricted	35,021	33,164	1,857	5.6 %
Unrestricted	13,927	15,578	(1,651)	(10.6) %
Total Net Assets	\$ 441,286	\$ 439,295	\$ 1,991	0.5 %

A comparison of results of operations for the *Sewer Utility Fund* for 2009 and 2008 follows:

**Sewer Utility
Summary of Revenues, Expenses, and Changes in Net Assets**

(In Thousands)	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
Operating Revenues	\$ 32,965	\$ 31,407	\$ 1,558	5.0 %
Nonoperating Revenues	698	1,979	(1,281)	(64.7) %
Total Revenues	<u>33,663</u>	<u>33,386</u>	<u>277</u>	0.8 %
Operating Expenses	27,677	26,056	1,621	6.2 %
Depreciation	12,303	11,939	364	3.0 %
Nonoperating Expenses	192	132	60	45.5 %
Total Expenses	<u>40,172</u>	<u>38,127</u>	<u>2,045</u>	5.4 %
Loss before transfers and contributions	(6,509)	(4,741)	(1,768)	37.3 %
Transfers (Net)	(390)	(466)	76	(16.3) %
Capital Contributions	<u>8,890</u>	<u>20,949</u>	<u>(12,059)</u>	(57.6) %
Change in Net Assets	1,991	15,742	(13,751)	(87.4) %
Beginning Net Assets	<u>439,295</u>	<u>423,553</u>	<u>15,742</u>	3.7 %
Ending Net Assets	<u>\$ 441,286</u>	<u>\$ 439,295</u>	<u>\$ 1,991</u>	0.5 %

Financial Highlights:

- ✦ Total assets at year-end are \$457.8 million and exceed liabilities of \$16.5 million, yielding total net assets of \$441.3 million. Total net assets increased \$2.0 million representing an increase of .5%. Of total net assets at year-end, \$13.9 million is unrestricted and available to support short-term operations or to fund capital improvement projects.
- ✦ Operating revenues increased \$1.6 million (5%) to \$33.0 million, which reflects normal growth in the utility customer base and a 5% rate increase which was effective January 1, 2009. Recent rate increases have remained comparable to the annual increase in the Consumer Price Index.
- ✦ Operating expenses (excluding depreciation) increased \$1.6 million (6.2%) to \$27.7 million. A combination of salary and benefit increases; and higher costs for replacement, repairs, and maintenance of aging utility plant and equipment all continue to contribute to increased total operating expenses.
- ✦ The slight increase in total revenues was not sufficient to offset the \$2 million increase in total expenses during 2009. Accordingly, in 2009 the "Loss Before Transfers and Contributions" of \$6.5 million exceeded the \$4.7 million loss in 2008 by \$1.8 million.
- ✦ The utility invested \$6.9 million in acquisition of property, plant and equipment during 2009.
- ✦ The utility completed two projects in construction work in progress with a total cost of \$4.0 million during 2009. The largest of these was \$2.8 million for a project to upgrade the heating and hot water system at the Chambers Creek Wastewater Treatment Plant.
- ✦ Bonds outstanding at year-end total \$10.5 million.
- ✦ Capital contributions decreased by \$12.1 million (57.6%) to \$8.9 million, reflecting the general economic slowdown experienced during 2009.

CHAMBERS BAY GOLF COURSE

This new golf course opened for play in June 2007. A comparison of results of operations for the *Chambers Bay Golf Course* for 2009 and 2008 follows:

Chambers Bay Golf Course Summary of Revenues, Expenses, and Changes in Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
Operating Revenues	\$ 5,479	\$ 6,248	\$ (769)	(12.3) %
Operating Expenses	5,720	5,702	18	0.3 %
Operating Income (Loss)	(241)	546	(787)	(144.1) %
Interest Expense	(947)	(964)	17	(1.8) %
Transfers Out	(11)	(3)	(8)	266.7 %
Nonoperating Expenses and Transfers Out	(958)	(967)	25	2.6 %
Changes in Net Assets	\$ (1,199)	\$ (421)	\$ (778)	(184.8) %

Financial Highlights:

- ✦ The first full year of operation in 2008 was satisfactory for a new golf course. However, operating results were less than projected in 2009, primarily due to the downturn in the economy.
- ✦ The major area of decrease in operating revenues occurred in greens fees, which decreased approximately \$590,000 from 2008. Operating revenues decreased in 2009 due to a drop in the number of golf rounds played compared to 2008. In 2009, 31,834 rounds were played versus 38,437 in 2008 (a decrease of 17%).
- ✦ Similar decreases in revenue were experienced in sales of food and beverage (\$147,000), and in merchandise sales (\$224,000), which contributed to the overall decrease in operating revenues.
- ✦ Revenues from future golf championships increased, offsetting certain operating revenue shortfalls.

FERRY SERVICES FUND

The *Ferry Services Fund* recorded a slight increase in net assets in 2009, reversing the results from the previous year. A comparison of results for ferry system operations for 2009 and 2008 follows:

Ferry Services Summary of Revenues, Expenses, and Changes in Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
Operating Revenues	\$ 3,388	\$ 2,882	\$ 506	17.6 %
Operating Expenses	4,605	5,355	(750)	(14.0) %
Operating Loss	(1,217)	(2,473)	1,256	(50.8) %
Nonoperating Revenues, Transfers and Contributed Capital, Net	1,960	1,677	283	16.9 %
Changes in Net Assets	\$ 743	\$ (796)	\$ 1,539	(193.3) %

Financial Highlights:

- ✦ In 2009, the *Ferry Services Fund* continued to rent a county ferry vessel to the State of Washington under a contract entered into in 2008. The vessel, the *Steilacoom II*, underwent dry-docking repairs in 2009 funded in part by the state which resulted in significant operating expenses and a related increase in operating revenues.
- ✦ Overall, 2009 expenses decreased \$750,000 from 2008. Expenses for 2008 included major vessel dry-docking repair expenses which were not repeated in 2009. Other costs allocated to the ferry system also decreased.

SOLID WASTE MANAGEMENT AND LANDFILL RESERVE

The *Solid Waste Management and Landfill Reserve Fund* coordinates county waste recycling, disposal, education, and nuisance abatement programs to 200,000 households throughout *Pierce County* (except Tacoma, Ruston, and Joint Base Lewis McChord). The primary source of operating revenue is the "County Program Cost" component of solid waste disposal fees charged by the contracted solid waste system operator. Secondary sources of operating revenue are reimbursements for nuisance abatement activities coordinated by the Pierce County Responds staff.

A comparison of results of operations for the *Solid Waste Management and Landfill Reserve* for 2009 and 2008 follows:

Solid Waste Management and Landfill Reserve Summary of Revenues, Expenses, and Changes in Net Assets

(In Thousands)	Amount		Increase (Decrease)	
	2009	2008	Amount	Percent
Operating Revenues	\$ 3,152	\$ 3,435	\$ (283)	(8.2) %
Operating Expenses	4,538	3,833	705	18.4 %
Operating Loss	(1,386)	(398)	(988)	248.2 %
Nonoperating Revenues, Transfers and Contributed Capital	627	806	(179)	(22.2) %
Changes in Net Assets	\$ (759)	\$ 408	\$ (988)	(242.2) %

Financial Highlights:

- ✦ Operating revenues decreased in 2009 due to reductions in the volume of waste processed for disposal. The amount of solid waste requiring handling and disposal has trended downward since the start of the recent economic recession.
- ✦ Operating expenses increased \$705,000 (18.4%) in 2009. Increases were due primarily to one-time expense of approximately \$120,000 to clean up flood-damaged properties along the Puyallup River; additional expenses of \$270,000 for increased consolidated code enforcement responsibilities and for abatement of nuisance properties due to changing enforcement authorities; and an increase in landfill postclosure expenses of \$250,000.

NONMAJOR SPECIAL REVENUE FUNDS (COMBINED)

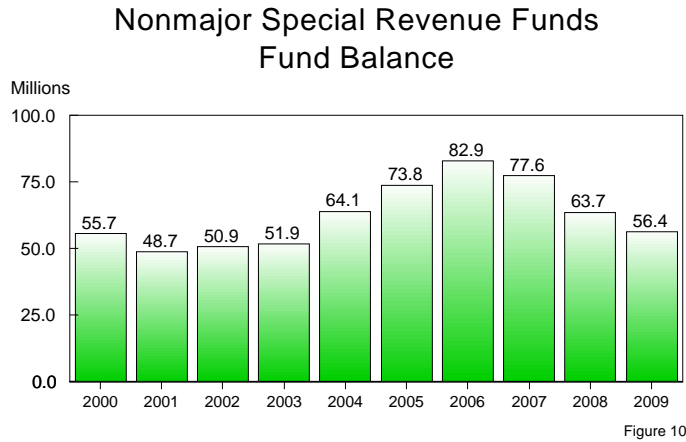
The *Nonmajor Special Revenue Funds* (36 funds) reported the following results for 2009 and 2008:

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

	2009	2008
Combined Revenues	\$ 89,846	\$ 82,534
Combined Expenditures	85,912	82,859
Excess Expenditures Over Revenues	3,934	(325)
Combined Other Sources (Uses), Net	(11,233)	(13,583)
Change in Fund Balance	\$ (7,299)	\$ (13,908)

This was the third straight year of declining fund balances for *Nonmajor Special Revenue Funds*. The decrease resulted from major expenses for parks and transportation capital improvements from fund balances accumulated for these purposes. A major portion (\$19.4 million) of the 2009 balances has been allocated in the 2010 budget, primarily for one-time capital projects.

Combined fund balances for *Nonmajor Special Revenue Funds* for the last ten years follow:



INTERNAL SERVICE FUNDS

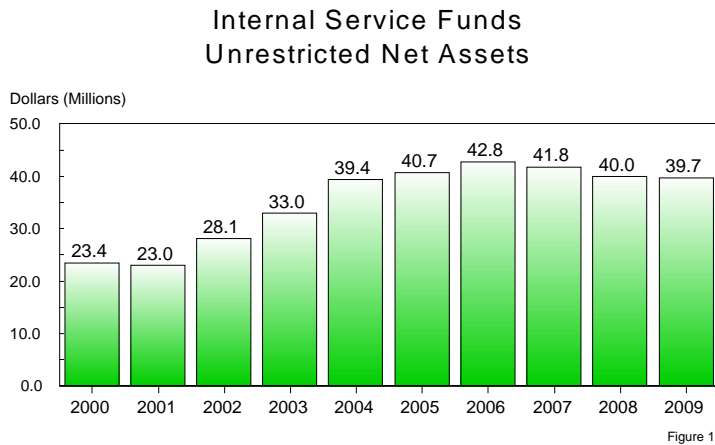
2009 financial results for *Internal Service Funds* were slightly negative with little net change from the previous year illustrated as follows:

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

	2009	2008
Operating Revenues	\$ 60,423	\$ 62,462
Operating Expenses	64,226	66,546
Operating Income (Loss)	(3,803)	(4,084)
Nonoperating Revenues and Net Transfers	1,798	3,739
Changes in Net Assets	(2,005)	(345)
Beginning Net Assets	74,633	74,978
Ending Net Assets	\$ 72,628	\$ 74,633

Total net assets were \$72.6 million as of December 31, 2009. Of this amount \$32.9 million was invested in capital assets with the remaining \$39.7 million being unrestricted. The *Workers Compensation Fund* was the only *Internal Service Fund* with a negative net asset position (\$.8 million), which will be addressed with rate increases in subsequent years.

As illustrated below, the trend in total unrestricted net assets of *Internal Service Funds* 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.



CAPITAL ASSET ACTIVITY

The county investment in capital assets for governmental and business-type activities totals \$1.5 billion at December 31, 2009. 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 \$44.0 million in 2009 as illustrated below:

Summary of Capital Asset Activity (in thousands)

Asset Classification	Governmental Activities		Business-Type Activities	
	2009 Changes	Ending Asset Values	2009 Changes	Ending Asset Values
Land and Land Rights	\$ 12,668	\$ 188,685	\$ –	\$ 52,111
Buildings and Systems	8,825	251,101	–	93,595
Improvements Other Than Buildings	170	20,887	1,708	36,812
Machinery and Equipment	3,212	101,370	4,487	81,788
Infrastructure	40,482	447,094	5,976	389,530
Avigation Rights	–	–	–	562
Accumulated Depreciation	(19,039)	(183,858)	(14,388)	(209,852)
Capital Assets, Net	46,318	825,279	(2,217)	444,546
Construction In Progress	(10,955)	155,645	10,879	40,617
Total Capital Assets, Net	\$ 35,363	\$ 980,924	\$ 8,662	\$ 485,163

HIGHLIGHTS OF CAPITAL ASSET ACTIVITY:

Governmental Activities:

- ✦ Capital assets for governmental activities experienced a \$35.4 million net increase which represents a net increase of \$46.3 million in capital assets in service and a net decrease of \$11.0 million in construction in progress costs.
- ✦ The \$46.3 million net increase in capital assets in service consists of \$71.9 million in capital asset additions (\$51.0 million of completed projects from construction in progress, \$6.4 million of capital asset purchases, and \$14.5 million of capital assets donated by developers), and decreases of \$19.4 million (\$23.7 million of depreciation expense and \$1.8 million net amount of capital assets disposed of in 2009).
- ✦ The \$71.9 million of capital asset additions consists of increases in the following asset classifications: land (\$12.7 million); buildings and improvements (\$9.7 million); equipment (\$8.8 million); and infrastructure (\$40.7 million). The total capital asset additions includes \$44.5 million for roads and related land rights; \$9.9 million for equipment and improvements to the County City Building; \$7.9 million for flood and surface water projects; \$6.4 million for various equipment and vehicle purchases; \$1.3 million for improvements to parks; and \$1.9 million for other facilities improvements.
- ✦ Construction in progress experienced a net decrease of \$11.0 million which includes current year expenditures of \$55.4 million reduced by the \$51.0 million of projects completed and placed in service, and further reduced by \$15.4 million of noncapital project costs written-off in 2009.

Business-Type Activities:

- ✦ Capital assets for business-type activities increased \$8.7 million, which represents a net increase of \$12.1 million in capital asset cost reduced by \$14.4 million of net change in accumulated depreciation, and a net increase of \$10.9 million for construction in progress costs.

- ✦ The \$12.1 million net increase in capital asset cost consists of \$5.9 million of completed projects from construction in progress, and \$6.2 million of net capital asset additions. The \$5.9 million of completed projects from construction in progress consisted of utilities projects and other capital improvements.
- ✦ The \$14.4 million change in accumulated depreciation represents 2009 depreciation expense.
- ✦ Construction in progress experienced a net increase of \$10.9 million including \$16.8 million of current year expenditures reduced by \$5.9 million of completed projects transferred out of construction in progress in 2009.

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, 2009 follow:

	<u>Ratio of Debt To Estimated Actual Value</u>	<u>Debt Per Capita</u>
Net Direct Tax Supported Bonded Debt*	0.0015	\$ 191.88

* 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 2009 are 0.005 and \$505, 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)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
General Obligation Bonds	\$ 114,760	\$ 95,294	\$ 22,456	\$ 23,287	\$ 137,216	\$ 118,581
Sewer Revenue Bonds	-	-	8,420	8,420	8,420	8,420
Installment Contracts	2,501	2,501	7,976	8,665	10,477	11,166
Total Debt	<u>\$ 117,261</u>	<u>\$ 97,795</u>	<u>\$ 38,852</u>	<u>\$ 40,372</u>	<u>\$ 156,113</u>	<u>\$ 138,167</u>

During 2009 total outstanding county debt increased 13.0% or \$17.9 million. The net increase resulted primarily from issuance of \$24 million of new debt reduced by \$6.2 million of debt redemptions.

In August 2009, \$24 million of limited tax general obligation bonds were issued to finance certain road improvement projects identified in the County Transportation Improvement Program and Ferry Program. The twenty year serial bonds bear interest from 2.5% to 4.4% payable semi-annually. The bonds are to be repaid from proceeds of additional real estate excise taxes imposed, collected, and allocated to expenditures for major arterial transportation projects. Additionally, property taxes levied and collected for deposit into the county *Road Fund* are pledged for repayment of the bonds.

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 23.11 for 2009 and 4.5 for 2008. The increase in coverage in 2009 was primarily the result of an interest only payment this year. In 2008 the principal payments due in 2009 and 2008 were called for early payment from excess assessment collections. The total bond coverage ratio was 9.68 for 2009 and 3.29 for 2008.

During the next five years, the county will retire 25% (\$34.3 million) of the general obligation bond debt, 22% (\$1.8 million) of the sewer revenue bond debt, and 37% (\$3.9 million) of the Public Works Trust Fund loans. Within the next ten years, the retirement amounts are 50% (\$67.9 million), 76% (\$6.4 million), and 68% (\$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.

