

Two decorative curved lines, one white and one light blue, sweep across the cover from left to right, partially overlapping the year text.

2012

Pierce Transit
Comprehensive Annual
Financial Report

YEAR ENDED DECEMBER 31, 2012

PIERCE COUNTY, WASHINGTON



Pierce Transit Comprehensive Annual Financial Report

YEAR ENDED DECEMBER 31, 2012

PIERCE COUNTY, WASHINGTON

Lynne M. Griffith

CHIEF EXECUTIVE OFFICER

PREPARED BY THE FINANCE DEPARTMENT

Wayne Fanshier

VICE PRESIDENT OF FINANCE

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FINANCE MANAGER

Liz Passmore

FINANCE ASSISTANT MANAGER

Pierce Transit is committed to serving our community. Through strong partnerships, we provide independence for individuals with special needs, offer affordable transportation for students, and actively engage in vital projects that reduce traffic congestion and environmental impacts. We are committed to green technologies and strategies that lessen operational impacts on climate change. Here are just a few examples of how Pierce Transit is a good neighbor.

Pierce Transit
Comprehensive Annual Financial Report
Year Ended December 31, 2012

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Committed to Green Practices and Sustainable Technologies



As documented officially in Pierce Transit's Executive Order No. 1, the Agency is committed to utilizing green technologies and strategies that respond to climate change. Our energy-efficient hybrid-electric buses are just one example of Pierce Transit's commitment.

The Agency also:

- Uses compressed natural gas (CNG) buses, renowned in the bus industry for their low exhaust emissions
- Recycles metals, oils, oil filters, paper, cardboard, and toner cartridges
- Utilizes re-refined oil in its CNG fleet
- Sets agency copiers to default to double-sided printing
- Purchases a significant amount of recycled goods
- Reduces electrical usage by installing high-efficiency LED lamps and motion-sensitive lighting
- Uses environmentally-friendly cleaning chemicals for custodial work

As of April, 2013 Pierce Transit has a total of 15 low-floor, hybrid-electric buses. These buses use a small, clean diesel engine to electrically charge a large roof-mounted battery pack which propels the bus. They are designed to run much more efficiently than standard clean diesel fueled buses, achieving 25-30% better fuel mileage. Since they are all compliant with new EPA engine emission standards, these buses help protect our environment by using less fuel and causing less carbon emissions. These buses are ADA-compliant; they are equipped for people using mobility devices and have low floor construction which allows for easier walk-on boarding. The majority of funding for these buses was provided by the Federal Transit Administration, through American Recovery and Reinvestment Act and State of Good Repair grants.

Switching to public transportation is the single most important thing a person can do for the environment.

– American Public Transportation Association



June 28, 2013

Board of Commissioners
Pierce County Public Transportation
Benefit Area Corporation

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

Pierce Transit's Comprehensive Annual Financial Report for the year ending December 31, 2012 is presented herein. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal controls should not outweigh their benefits, Pierce Transit's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that its financial statements will be free from material misstatement. We believe the data, including management's discussion and analysis, the financial statements, supporting schedules and statistical tables, as presented, is accurate in all material aspects and that adequate internal controls are in place to ensure that it presents fairly the financial position and results of the operations of Pierce Transit. All disclosures necessary to enable the reader to gain the maximum understanding of Pierce Transit's business have been included.

The Washington State Auditor's Office has issued an unqualified ("clean") opinion on Pierce Transit's financial statements for the year ended December 31, 2012. The independent auditor's report is located at the front of the financial section of this report.

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

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

II. PROFILE OF THE AGENCY

The Pierce County Public Transportation Benefit Area Corporation (PTBA), AKA "Pierce Transit," was formed in 1979 when voters passed a 0.3 % sales tax to fund public transportation. By authorizing this taxing authority, a municipal corporation (Pierce Transit), was formed under Chapter 36.57A of the revised Code of Washington. In February 2002, Pierce County voters approved a ballot measure increasing local sales tax support from 0.3% to 0.6%. Sales tax collections based on the new tax rate began in July 2002. This additional sales tax revenue was used to restore service cut as a result of the loss of motor vehicle excise tax (MVET) revenues. The current rate remains at .6%.

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

Pierce Transit is governed by an appointed, ten-member, Board of Commissioners. The board is made of elected officials representing Pierce County, Tacoma, Lakewood, Puyallup, University Place, and the smaller towns and cities in Pierce Transit's service area, and one non-voting representative of the Amalgamated Transit Union. Appointments are based on three-year terms.

As a result of a Public Transportation Improvement Conference (PTIC), Pierce Transit's service area changed on May 8, 2012. Pierce Transit went from serving nineteen jurisdictions with approximately 760,000 in population to serving fourteen jurisdictions with approximately 560,000 in population. The service area was also reduced from 414 square miles to 292 square miles. Pierce Transit's service area includes the cities and towns of Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Puyallup, Ruston, Steilacoom, Tacoma, University Place, and the portions of Auburn and Pacific in Pierce County along with extensive unincorporated areas of Pierce County.

The Chief Executive Officer (CEO) is responsible for implementation of the policies authorized by the Board of Commissioners. In order to provide overall management for the Agency, along with the Executive Office, four divisions have been established, Administration, Finance, Operations and Transit Development.

Pierce Transit provides fixed route, specialized transportation (SHUTTLE), vanpool, rideshare, and inter-county express service to Seattle. In addition, rideshare matching services and commute trip reduction assistance is provided to local and regional employers.

Pierce Transit's fixed route bus service is provided along more than 38 routes throughout Pierce County, including local fixed route, contracted service and express service. This service is centered on a network of transit center hubs and park and ride lots. Pierce Transit supports regional express bus service in cooperation with Sound Transit, Puget Sound's Regional Transit Authority. Since 1999, the popular Seattle Express service from Tacoma to Seattle has been funded by Sound Transit, and operated by Pierce Transit. Pierce Transit operates 10 routes for Sound Transit service. In 2012, all local and express fixed route services combined (including Sound Transit services) carried 14.1 million passengers.

Specialized transportation services, known as SHUTTLE, provide transportation to individuals in the community, who, due to a disability, are unable to use fixed route bus services. SHUTTLE is provided directly by Pierce Transit employees and through contracts with local transportation providers. In 2012, total ridership was 390,564.

The Agency's vanpool program was added to the mix of services in 1986. Since its inception, the vanpool program has expanded to 346 vans with 3,303 daily weekday riders. With 876,852 passenger boardings, the vanpool program accounted for 7% of the Agency's total ridership in 2012 (excluding Sound Transit ridership).

Long Term Financial Planning and Outlook

As a result of the PTIC process as outlined by RCW 36.57A.020, Pierce Transit's service and taxing area of the PTBA were changed on May 8, 2012 and October 1, 2012, respectively. The financial impact is an estimated loss of \$8 million in sales tax revenues annually.

The Six-Year Financial Plan (adjusted for the loss of sales tax revenues from the boundary reduction) is not sustainable at 2012 year end service levels of 416,911 service hours. A service reduction of approximately 28%

is planned for 2013. The 2013 service levels are sustainable over the next six years. Pierce Transit's Board of Commissioners has directed staff to look for innovative service options to provide service to unserved communities as well as to look for ways to improve service performance. These initiatives will be the focus for 2013 and 2014.

Major Initiatives

Pierce Transit has scaled back its programs significantly in response to the economic downturn and declining sales tax revenues. The initiatives for 2013 have been planned in accordance with Pierce Transit's Six-Year Financial Plan, with each project carefully reviewed before it is implemented. Capital investments have been deferred over the last several years. Some deferred capital investments have been included in the 2013 capital plan. Planned initiatives and capital projects include:

- Technology equipment replacements and upgrades in the amount of \$11.7 million. Projects include a farebox system, a radio communication project and upgrades to core business systems.
- Capital maintenance and improvements in the amount of \$13.5 million at base, park and ride, and transit center facilities.
- Revenue vehicle fleet replacements totaling \$12.7 million.
- Required replacement of administrative and shop equipment and tools in the amount of \$2.1 million.

Anticipated grant and partnership revenue on these projects total \$14.8 million.

III. ECONOMIC CONDITION AND OUTLOOK

Although the economic recovery has been slow, there are signs that the 2013 economy is improving. Pierce Transit relies heavily on sales tax collected within its Public Transportation Benefit Area (PTBA) for its operating revenue. Pierce Transit's sales tax collections began growing with May 2012 collections and made slow improvements during 2012. Sales tax growth has continued through the most recent March 2013 sales tax collections. The negative impact of the reduction of the PTBA taxing area has offset this positive improvement and sales tax revenues are anticipated to be below 2012 levels.

In 2013, Pierce County's economy is expected to grow by nearly three percent. Washington state employment is projected to continue to grow at a moderate rate. Home construction is on the upswing and personal income growth is expected to contribute to economic growth in 2013. Home prices are also improving, a good sign that a housing recovery is underway.

The economy has a way to go before it fully recovers. An 8.9% unemployment rate in 2012 is still significantly higher than the 2007 pre-recession unemployment rate of 4.7%. Pierce County's unemployment rate is projected to be 8.2% in 2013. Progress in reducing unemployment has been sluggish because the increase in the number of jobs has been slow in part due to continued uncertainty in the economy by employers.

Aerospace employment, which had been responsible for much of the strength in manufacturing during the recovery, is now in decline. Even with this negative outlook, this downturn in aerospace manufacturing is projected to be relatively mild due to the hefty backlog of orders for Boeing, one of the state's largest employers. Government employment has also been weak and may be affected by the Federal sequestration.

On the positive side, the technology industry is growing. The region's inflation rate remained moderate in 2013. Core inflation (excluding food and energy) averaged 2% compared to the national average of 1.8%. As

the Pierce County recovery takes hold and unemployment declines, total personal income will slowly begin increasing. This modest growth in personal income will contribute to the slow growth of the local economy and will add small increases to retail spending. However, consumer confidence is still expected to be weak until real personal income returns to 2007 levels.

Local economic conditions and retail spending play major roles in the generation of sales tax revenue which is Pierce Transit's primary operating revenue source. Sales tax is expected to contribute 48% of total operating revenues in 2013 (71% excluding Sound Transit regional transit service revenue and a one-time sale of property). Pierce Transit's sales tax rate of 0.6% is anticipated to generate \$57 million in sales tax revenue in 2013.

Pierce Transit's Board of Commissioners continues to believe that transit is an essential service for seniors, the disabled and for people who rely on Pierce Transit for mobility. Looking forward, we have three objectives: maintain service at the highest possible level, improve the efficiency and effectiveness of the service, and continue to plan for the future. These objectives will assist the Agency in meeting our mission of connecting communities with safe, reliable, customer-friendly transit options.

IV. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pierce Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2011. This was the twenty-fifth year that Pierce Transit has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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



Lynne Griffith
Chief Executive Officer



Wayne Fanshier
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pierce Transit
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

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



Christopher P. Moynell

President

Jeffrey R. Enev

Executive Director



BOARD OF COMMISSIONERS

Pierce Transit is a separate municipal corporation, not part of the City of Tacoma or Pierce County.

Pierce Transit is governed by a ten-member Board of Commissioners. The Board is made up of elected officials representing Pierce County, Tacoma, Lakewood, Puyallup, University Place, the smaller towns and cities of our service area, and one non-voting Union Representative.



Commissioner Marilyn Strickland
Mayor of Tacoma
CHAIR
Term Expires 12/31/12



Commissioner Rick Talbert
Pierce County Council
VICE CHAIR
Term Expires 12/31/13



Commissioner Don Anderson
Lakewood Deputy Mayor
Term Expires 12/31/14



Commissioner Jake Fey
Tacoma City Council
Term Expires 12/31/12



Commissioner Glenn Hull
Fife City Council
Term Expires 12/31/15



Commissioner Kent Keel
University Place Council
Term Expires 12/31/15



Commissioner Pat McCarthy
Pierce County Executive
Term Expires 5/1/15



Commissioner Steve Vermillion
Puyallup City Council
Term Expires 5/1/15



Commissioner Derek Young
Gig Harbor Council
Term Expires 12/31/13



Commissioner Don McKnight
Non-voting Union Representative
Term Expires N/A



2013 ORGANIZATIONAL CHART

CITIZENS OF PIERCE COUNTY



Office of the CEO	Office of Public Safety	ADMINISTRATION DIVISION	FINANCE DIVISION	OPERATIONS DIVISION	TRANSIT DEVELOPMENT DIVISION
Lynne Griffith, Chief Executive Officer	Rod Baker, Public Safety Chief	Alberto Lara Vice President	Wayne Fanshier Vice President	Doug Middleton Vice President	Vacant (Not Funded) Vice President
Office Admin Project Management Safety	Office Admin Physical Security Transit Police Uniform Security	Division Admin Administrative Services Customer Services Human Resources Labor Relations <i>Information Technology Department</i> Department Admin Information Technology <i>Organizational Development Department</i> Organizational Development Employee Development/Instruction Maintenance Training <i>Risk Management Department</i> Risk Management ADA	Division Admin Data Analytics Internal Auditing <i>Finance Department</i> Department Admin Accounting Budgeting ORCA Revenue Accounting <i>Procurement Department</i> Department Admin Purchasing Warehousing	Division Admin Maintenance Office Office Admin Automotive <i>Bus Department</i> Bus Maintenance Bus Radio Systems Bus Repair Facilities <i>Transportation Office</i> Office Admin <i>Transportation Service Support Department</i> Service Support Admin Service Support Operations <i>Transportation Operators Department</i> Operators Admin Operators Dispatch Operators <i>Paratransit Department</i> Paratransit Admin Paratransit Customer Service Paratransit Operations	Division Admin Capital Planning <i>Market Development & Research Department</i> Department Admin Business Partnerships Field Customer Service Marketing Vanpool <i>Service Planning Department</i> Department Admin Bus Stop Program Planning Scheduling

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Working Together with Local Employers



Pierce Transit works with many organizations to reduce their employees' drive-alone trips to work. For additional information about commuting by vanpool, carpool, transit, or bikes, visit piercetransit.org or piercetrips.com.

In July, 2012, Pierce Transit rolled out the first eight of 20 state-funded vans to vanpool groups heading to work at Joint Base Lewis-McChord (JBLM). Pierce Transit obtained the vans through the Vanpool Investment Program Grant, a competitive grant from Washington State Department of Transportation (WSDOT). The grant is specifically aimed at easing congestion on the I-5 corridor near and around JBLM.

With increasing population at JBLM, and in Pierce and Thurston counties, the I-5 corridor between Tacoma and Olympia has become one of the most congested corridors in the state. In 2010, I-5 commuters found themselves sitting in 9-mile backups that doubled or tripled their commute time.

Recognizing the congestion, JBLM and WSDOT have funded congestion relief projects to help mitigate traffic impacts and improve travel time by adding traffic cameras, ramp meters and on-base traffic flow improvements. The 20 new vans are part of that strategy to mitigate traffic congestion along the corridor. Once all 20 vans are active they will help remove over 200 single-occupant vehicles from the corridor daily.

Pierce Transit's vanpool program was established in 1986 with seven vans. Today the program has a fleet of 346 vehicles serving more than 2,500 customers.





Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

June 18, 2013

Board of Commissioners
Pierce Transit
Lakewood, Washington

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise Pierce Transit's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Pierce Transit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Pierce Transit's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pierce Transit, Pierce County, Washington, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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 Pierce Transit. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated June 18, 2013, on our consideration of Pierce Transit'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 Pierce Transit's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pierce Transit's internal control over financial reporting and compliance.

Sincerely,



TROY KELLEY
STATE AUDITOR

Creating Connections with **Regional Partners**



Pierce Transit works closely on service planning and other regional programs with these transportation agencies:

- Sound Transit
- King County Metro
- Intercity Transit
- Kitsap Transit
- Community Transit
- Everett Transit
- Washington State Ferries
- Pierce County Ferries

Pierce Transit and Sound Transit are long standing partners in providing a safe, reliable network of public transportation. Staff from both agencies work together to carefully plan transit services. As a result, the agencies leverage resources, avoid duplicating bus routes, and coordinate service changes seamlessly. The two agencies work daily to ensure local and regional transit services are provided for thousands of customers connecting them to jobs, school and appointments. Many Pierce Transit riders transfer to Sound Transit buses, Sounder trains or Link light rail service to get to their destinations. Pierce Transit maintains and operates more than 100 Sound Transit buses that provide regional service to and from Pierce County, and within King County.



Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the years ended December 31, 2012 and 2011. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Financial Highlights

- Net income for 2012, before contributions, was \$(2.0) million, compared to \$(14.1) million for 2011 and \$(13.6) million in 2010. The 2012 increase in net income came from expense reductions resulting from the annualization of service reductions in 2011. Capital contributions of \$2.5 million and a \$(2.0) million net loss accounted for the approximately \$.5 million increase in net position in 2012. The net loss indicates that reserves are being used to fund current operations and a deterioration of Pierce Transit's financial position.
- A Public Transportation Improvement Conference (PTIC) as outlined by RCW 36.57A.020 was convened by resolution of the Pierce Transit Board of Commissioners on November 14, 2011. The purpose of the conference was to consider changing the current boundaries of the Pierce Transit Public Transportation Benefit Area (PTBA). As a result of the PTIC process, the service and taxing area of the PTBA were changed. Pierce Transit went from serving nineteen jurisdictions with an approximate population of 760,000 to serving fourteen jurisdictions with an approximate population of 560,000. The change in the taxing authority in the areas removed from the PTBA took effect on October 1, 2012. The financial impact is an estimated loss of \$8.0 million in sales tax revenues annually.
- Service reductions of 28% are planned for 2014. These service levels will be sustainable over the Six-Year Financial Plan and will bring expenses in alignment with revenues.
- Pierce Transit's assets exceeded its liabilities on December 31, 2012 by \$219.7 million (net position) compared to \$219.2 million in 2011 and \$229.6 million in 2010. Investments in capital assets decreased by \$7.3 million, \$6.9 million and \$.5 million in 2012, 2011 and 2010 respectively. Unrestricted net position increased by \$7.9 million in 2012, and decreased by \$3.5 million in 2011 and by \$1 million in 2010. These reserves are available to fund operating and capital commitments over the next three years.

Overview of the Financial Statements

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

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

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

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

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

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

Pierce Transit's financial statements can be found on page 22 to 25 of this report.

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

Financial Statement Analysis

As noted earlier, net position may serve as a useful indication of the Agency's financial position. Total net position exceeds liabilities by \$219.7 million, \$219.2 million and \$229.6 million in 2012, 2011 and 2010 respectively.

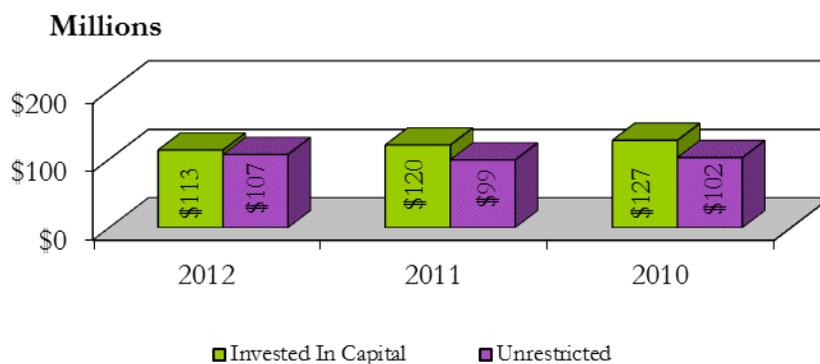
**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011**

**Summary Statement for Net Position
For the years ending December 31, 2012, 2011 and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	\$ 95,755,072	\$ 83,878,048	\$ 86,934,214
Other Non-Current Assets	25,087,959	31,481,933	33,547,430
Capital Assets (net)	<u>113,079,561</u>	<u>120,444,631</u>	<u>127,352,648</u>
Total Assets	<u><u>\$ 233,922,592</u></u>	<u><u>\$ 235,804,612</u></u>	<u><u>\$ 247,834,292</u></u>
Liabilities:			
Current Liabilities	\$ 10,242,166	\$ 11,945,780	\$ 11,778,546
Other Non-Current Liabilities	<u>3,955,180</u>	<u>4,665,857</u>	<u>6,481,910</u>
Total Liabilities	<u>14,197,346</u>	<u>16,611,637</u>	<u>18,260,456</u>
Net position:			
Net Investment in Capital Assets	113,079,562	120,444,631	127,352,648
Unrestricted Net Position	<u>106,645,684</u>	<u>98,748,344</u>	<u>102,221,188</u>
Total Net Position	<u>219,725,246</u>	<u>219,192,975</u>	<u>229,573,836</u>
Total Liabilities and Net Position	<u><u>\$ 233,922,592</u></u>	<u><u>\$ 235,804,612</u></u>	<u><u>\$ 247,834,292</u></u>

A large majority of Pierce Transit's 2012 capital assets (\$113.1 million) reflect its investment in capital assets (e.g. revenue vehicles, passenger facilities, and shop equipment). The Agency uses these capital assets to provide transportation to the community. These are committed assets and this portion of the net position balance is not available for future spending. A portion (\$22.8 million) of the remaining net position balance of \$106.7 million has been restricted or designated by Board action (e.g., capital, workers' compensation and liability self-insurance programs) or by bond covenants. The remainder of \$83.9 million is available to support future obligations for transportation operations.

Net Position by Type



Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Comparative Statement of Revenue, Expense and Change in Net Position
For the years ended December 31, 2012, 2011 & 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue	\$ 43,858,454	\$ 44,499,060	\$ 39,753,579
Non-Operating Revenue	5,132,967	5,481,656	3,925,496
Operating Subsidies	75,370,259	74,495,170	75,263,852
Total Revenue	<u>124,361,680</u>	<u>124,475,886</u>	<u>118,942,927</u>
Operating Expense	111,719,860	121,984,843	118,196,271
Non-Operating Expense	1,194,016	2,016,445	1,494,634
Depreciation	13,431,897	14,524,411	12,828,624
Total Expense	<u>126,345,773</u>	<u>138,525,699</u>	<u>132,519,529</u>
Net Position before Contribution	(1,984,093)	(14,049,813)	(13,576,602)
Capital Grants	2,516,365	3,668,952	9,142,465
Change in Net Position	<u>\$ 532,272</u>	<u>\$ (10,380,861)</u>	<u>\$ (4,434,137)</u>

A description of operating & non-operating revenue follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue			
Passenger Fares	\$ 12,219,240	\$ 13,502,385	\$ 14,504,805
Advertising	658,345	738,817	1,120,406
Regional Transit Service	30,980,869	30,257,858	24,128,368
Total Operating Revenue	<u>43,858,454</u>	<u>44,499,060</u>	<u>39,753,579</u>
Non-Operating Revenue			
Operating Subsidies:			
Sales Tax	65,190,106	64,512,697	65,338,852
Operating Grants	10,180,153	9,982,473	9,925,000
Other Non-Operating Revenue:			
Investment Income	198,874	100,949	346,746
Miscellaneous Income	4,934,093	5,380,707	3,578,750
Total Non-Operating Revenue	<u>80,503,226</u>	<u>79,976,826</u>	<u>79,189,348</u>
Total Revenue	<u>\$ 124,361,680</u>	<u>\$ 124,475,886</u>	<u>\$ 118,942,927</u>

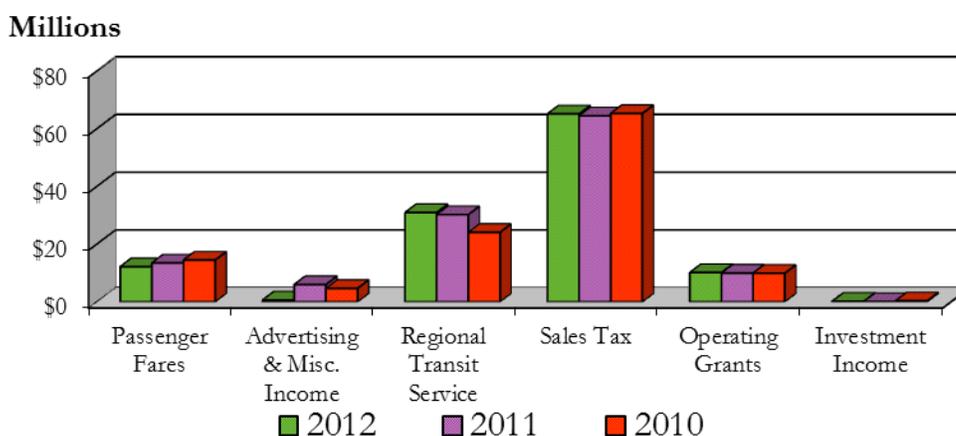
Pierce Transit
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Operating Revenue

- Pierce Transit's passenger fares consist of revenues from the sale of passes and tickets as well as cash fares collected on-board revenue vehicles. Pierce Transit has partnered with six other Central Puget Sound transit agencies on a regional fare collection system (ORCA) using smart card technology. Customers can purchase fare media from any of the six partners, regardless of where the media is used.
- Fare revenues decreased in 2012 by \$1.2 million to \$12.3 million. This was largely due to the service and boundary reductions made in 2012. Fare revenues in 2011 and 2010 were \$13.5 million and \$14.5 million respectively. Fare revenues decreased in 2011 over 2010 levels because of the service reductions that took place due to the CNG explosion and additional planned service cuts in late 2011.
- Advertising revenues were \$.7 million in 2012, .7 million in 2011 and \$1.1 million in 2010. These fluctuations were due to the timing of contractual guarantees and reduced service hours in 2011.
- Regional transit service is the fixed route express service provided for Sound Transit, Puget Sound's Regional Transit Authority. An inter-local agreement between Pierce Transit and Sound Transit has been established for the operation of this service. The agreement is for a period of two years. The current operating agreement ends on December 31, 2014. Revenues generated from this regional transit service were \$31 million in 2012, an increase of 2.4% over 2011. Regional transit service revenues were \$30.3 million and \$24.1 million in 2011 and 2010, respectively. These increases were a result of a change in the number of service hours as well as the rate Pierce Transit charges for providing this service.
- Sales tax, accounting for 53% of Pierce Transit's total revenue (excluding capital), increased by \$.7 million, an increase of 1% over 2011. The increase is due to a small increase in retail sales during 2012. Sales tax for 2011 decreased 1.3% over 2010. The decrease in 2011 was due to the continued recessionary economy and continued unemployment. Sales tax revenue was \$65.2 million in 2012, as compared to \$64.5 million in 2011 and \$65.3 million in 2010.
- The majority of operating grant revenue is received from the Federal Transit Administration (FTA). Operating grants received in 2012 totaled \$10.2 million compared to \$10 million in 2011 and \$9.9 million in 2010. The changes in grant revenues are because operating grant contracts are awarded on an annual basis and vary from year to year.
- Investment income increased 97% from 2011 earnings. 2012 investment earnings were \$.2 million compared to \$.1 million in 2011 and \$.4 million in 2010. The increase is primarily due to a rising interest rates in 2012.

**Pierce Transit
Management's Discussion and Analysis
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Operating Revenues by Source



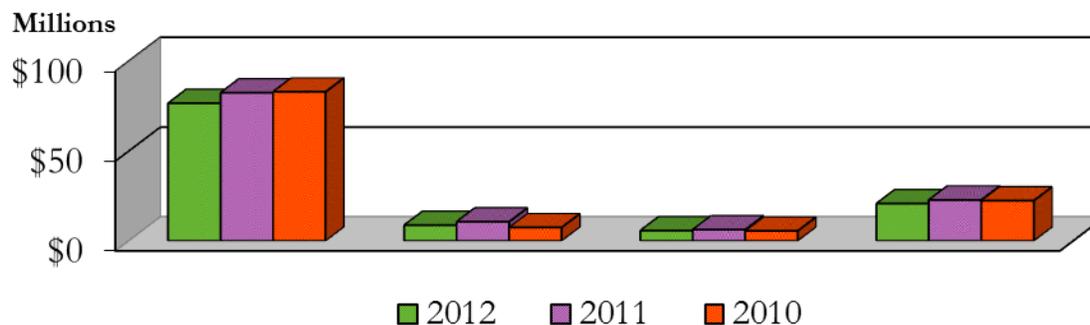
Operating Expenses

Total 2012 operating expenses, excluding depreciation and capital, totaled \$112 million decreasing 8.4% from 2011 levels. Operating expenses for 2011 and 2010 were \$122 million and \$118.2 million respectively. The decrease between 2012 and 2011 is due to the service reductions that were implemented in October of 2011. The increase between 2011 and 2010 is due to the increase in the Sound Transit service contract, and increases in benefits. In addition, a fire in Pierce Transit's CNG fueling station required buses to be fueled off-site and increased 2011 fuel and labor expenditures.

Operating Expenses:	2012	2011	2010
Wages & Benefits	\$ 76,615,405	\$ 82,413,780	\$ 82,910,872
Fuel & Lubricants	8,698,804	10,620,144	7,409,316
Supplies & Materials	5,683,897	6,200,926	5,534,848
Contracts & Services	20,721,754	22,749,993	22,341,235
Depreciation & Amortization	13,431,897	14,524,411	12,828,624
Total Operating Expenses	125,151,757	136,509,254	131,024,895
Non Operating Expenses:			
Items Previously Deferred	126,620	909,998	381,012
Grant Exchange Funds	884,000	1,106,447	1,113,622
Total Non-Operating Expenses	1,010,620	2,016,445	1,494,634
Total Expenses	\$ 126,162,377	\$ 138,525,699	\$ 132,519,529

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011**

Operating Expenses by Type



Wages and benefits for 2012 of \$76.6 million make up 69% of operating expenses (exclusive of depreciation) and decreased 7% over 2011 levels. The decrease was due to the reduction in service and related layoffs that occurred in June and October 2011. Wages and benefits for 2011 and 2010 were \$82.4 million and \$82.9 million respectively and decreased by .6% between 2010 and 2011. The small decrease was due to the delay of scheduled layoffs for the June and October service reductions.

Total operating expenses, exclusive of depreciation and capital, are most directly impacted by the number of service hours Pierce Transit operates. Service hours include drive time while in service, deadhead and layover. Following is a table representing the number of service hours by type of service for 2012, 2011 and 2010:

Service Hours:	2012	2011	2010
Fixed Route Pierce Transit	416,746	498,819	618,566
Fixed Route Sound Transit	262,762	253,505	208,939
Specialized Transportation	188,451	214,183	225,293
Vanpool	140,411	140,533	137,821
Total	1,008,370	1,107,040	1,190,619

Capital Assets

Capital assets include revenue vehicles, support vehicles, projects in progress, land, buildings, shop equipment, passenger facilities, and other assets having a life of more than one year with an acquisition value of more than \$5,000. Pierce Transit's investment in capital assets as of December 31, 2012 totaled \$113.1 million, net of accumulated depreciation. This compares to a 2011 net investment in capital assets of \$120.4 million and a 2010 net investment in capital assets of \$127.3 million. 2012 net capital decreased by 6.1%, or \$7.4 million. This is the result of the increase of .3 million in assets and \$7.1 million in accumulated depreciation for 2012. Net 2011 capital assets decreased by 5.4% or \$6.9 million and decreased by .5% or \$.6 million for 2010.

Capital contributions in 2012 totaled \$2.6 million. Capital grants funded 39% of Pierce Transit's capital acquisitions in 2012. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 1I.

Capital acquisitions during 2012 totaled \$6.5 million and included the following major capital assets:

- \$2.7 million for CNG Station repair & replacement equipment

**Pierce Transit
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- \$.3 million for property improvements and building improvements
- 2.5 million for a SHUTTLE and Vanpool Vehicles
- \$1 million for technology projects and administrative equipment

Debt Administration

Pierce Transit has adopted a debt policy which governs debt issuance, the use of debt, types of debt and debt limitations. Pierce Transit has no outstanding debt as of December 31, 2012.

Pierce Transit's authorized debt limit without a vote of the people is .375% of the value of the taxable property within its boundaries. The estimated non-voted debt capacity is \$124,672,257. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25% of assessed valuation, or \$412,566,830. This estimate is based on the assessed value of the cities and towns of Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Pacific, Puyallup, Ruston, Steilacoom, Tacoma, and University Place, which are served by Pierce Transit. This estimate does not include any of the assessed valuation from the unincorporated areas of Pierce County within Pierce Transit's jurisdiction.

Reserve Policies

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

- **Operating Reserve:** Pierce Transit will maintain the Operating Reserve at a minimum of two months of Agency operating expenditures. The Operating Reserve will be maintained at a level to provide sufficient working capital, to provide an adequate cash balance to finance cash flow requirements, to offset unanticipated downturns in revenues and to provide funds for emergency expenditure requirements.
- **Insurance Reserve:** The Insurance Reserve will be set at a level to adequately protect the Agency from self-insurance risks.
- **Capital Reserve:** The minimum amount of the Capital Reserve will be set at a level equal to ten percent of the six-year average annual capital expenditures and fifty percent of the average annual grant funding programmed in the Six-Year Financial Plan. The capital reserve has been set at a level to enable the Agency to respond to urgent unanticipated capital expenditure requirements as well as to protect Pierce Transit from the uncertainty of Federal and State grant funding.
- Pierce Transit complied with its reserve policies during 2012.

Factors Affecting Financial Condition

Local Economy

- Sales tax revenue is projected to be 48% of Pierce Transit's revenues (excluding capital) in 2013, compared to 53% in 2012. Excluding contracted regional transit service, which does not fund local

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Pierce Transit service, sales tax revenue was 70% of total operating revenues in 2012, compared to 67% of total operating revenues projected in 2013. Because Pierce Transit relies so heavily on sales tax to fund local service, local and national economic conditions are a significant influence on Pierce Transit's operating revenues.

- The Pierce County economy is expected to experience slow growth of about 2.8% in 2013. Although the County's economy is improving slightly, the national recession that began in 2007 is still being felt locally. Only about 1,000 jobs are expected to be added in 2013, with total Pierce County jobs still below the 2007 pre-recession peak. The impact of the recession is most apparent in the unemployment rate, which rose sharply from 4.7 percent in 2007 to a high of 9.8 percent in 2011. The unemployment rate in 2013 is expected to improve only slightly, to about 8.2%. Because their confidence in the stability and growth in the economy has not been regained, employers continue to use overtime and contingent workers rather than adding jobs. High unemployment translates into a lack of consumer confidence which constrains sales tax revenue.
- Pierce Transit has yet to recover from lost sales tax revenues resulting from the recession. Sales tax revenues of \$65.2 million collected in 2012 are still below 2007 collections of \$77.2 million. Pierce Transit projects a small increase of one percent in sales tax revenues in 2013. Actual collections for 2012 were 1.1 percent, or \$.7 million, more than 2011 collections. This small increase is significantly less than the 6.8% average increase in sales tax revenue over the six year period of 2002 through 2007, when the recession began. Service reductions were taken in 2011 to bring expenditures more in alignment with revenues.
- The Federal sequester went into effect on March 1st, 2013. The sequester requires that \$85 billion in spending cuts take place. The Puget Sound region is home to 62,000 people in the military, making the Puget Sound region more than twice as dependent on the military as the rest of the country. Because the sequester will cut military expenditures, it is likely to have an effect on the regional economy. Even so, the economy is expected to continue its slow recovery. Consumer confidence is still weak, fueled by an uncertain job market, rising fuel prices and the stability of the economic recovery. This translates into slow growth in the local economy and lackluster sales tax growth.

Long Term Financial Outlook

- Pierce Transit recognizes that its heavy reliance on sales tax revenues makes it more susceptible to economic fluctuations than most government agencies. In response, Pierce Transit has in place reserve policies to insulate it from short term revenue downturns and unanticipated expenditures. The operating reserve policy sets operating reserves to be equal to two months' operating expenses. This amounts to nearly \$19 million in 2013.
- Pierce Transit implemented a thirty-five percent service reduction in 2011. Due to continued negative sales tax growth as well as the loss of \$8 million annually from boundary reductions, service reductions of 28% are planned for 2014. These service levels will be sustainable over the Six-Year Financial Plan and will bring expenditures in alignment with revenues.

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Planning Ahead with **Local Schools**



Throughout Pierce Transit’s service area, many public and private school students rely on either school buses or Pierce Transit buses to get to and from school. The Tacoma School District (TSD) relies most heavily on public transportation.

TSD students are not required to attend their closest school. TSD “magnet” schools provide unique opportunities to students: School of the Arts (SOTA) and the Science and Math Institute (SAMI) are two, where students travel from all over the city to attend. TSD does not have sufficient resources to provide transportation for all of these students. Students use public transportation to get to school or to a point where the yellow school buses will pick them up. Since SAMI is located along Pierce Transit’s Route 11, Pierce Transit coordinates afternoon departures to accommodate the dismissal time for as many students as possible. PT’s service planners also consider school hours at schools located along other PT routes.

Pierce Transit works closely with TSD’s transportation division, allowing their buses to use PT transit centers to pick up students. TSD students can take public transportation from various parts of the city to a common location where their yellow bus takes them the rest of the way to school. This enables TSD to provide more efficient service and aids Pierce Transit by increasing ridership, which helps the Agency’s local and federal funding options. Eligible students benefit from complimentary ORCA passes, which TSD purchases, for rides on local Pierce Transit buses. Students can easily identify the right Pierce Transit bus route, by following links from their school’s website to the PT website.

Working together, it’s a win-win-win for all!



Pierce Transit
Financial Statements
Years Ended December 31, 2012 and 2011

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Pierce Transit

Comparative Statement of Net Position

December 31, 2012 and 2011

CURRENT ASSETS	2012	2011
Cash & Cash Equivalents	\$ 4,514,761	\$ 8,639,877
Investments	63,831,318	50,758,583
Accounts Receivable	1,045,535	197,680
Interest Receivable	0	1,076
Sales Tax Receivable	10,880,016	11,522,261
Due From Other Governments	12,451,535	9,887,493
Prepaid Expenses	458,292	211,381
Inventories	2,573,615	2,659,697
TOTAL CURRENT ASSETS	95,755,072	83,878,048
CURRENT RESTRICTED ASSETS		
Cash & Cash Equivalents	46,770	272,571
Investments	24,939,152	30,925,742
Accounts Receivable	-	35,515
Interest Receivable	116	4,679
Due From Other Governments	101,921	243,426
TOTAL CURRENT RESTRICTED ASSETS	25,087,959	31,481,933
TOTAL CURRENT ASSETS	120,843,031	115,359,981
CAPITAL ASSETS		
Land	19,380,991	19,948,962
Work in Progress	13,152,159	9,144,035
Structures & Improvements	70,037,604	70,210,512
Site Improvements	48,411,655	48,411,655
Machinery & Equipment	129,910,568	133,410,576
Less: Accumulated Depreciation	(167,813,416)	(160,681,109)
TOTAL CAPITAL ASSETS	113,079,561	120,444,631
TOTAL ASSETS	\$ 233,922,592	\$ 235,804,612

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Net Position

December 31, 2012 and 2011

CURRENT LIABILITIES	2012	2011
Checks Payable	\$ 313,497	\$ 419,916
Accounts Payable	2,586,799	2,159,138
Unearned Revenue	466,167	1,627,417
Wages and Benefits Payable	1,474,121	2,526,675
Employee Leave Payable	4,288,907	4,802,816
Due to Other Governments	1,112,675	409,818
TOTAL CURRENT LIABILITIES	10,242,166	11,945,780
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Checks Payable	119,621	129,949
Accounts Payable	474,173	1,402,337
Retainage Payable	107,329	133,675
Provision for Uninsured Claims	1,587,733	1,310,157
TOTAL RESTRICTED LIABILITIES	2,288,856	2,976,118
TOTAL CURRENT LIABILITIES	12,531,022	14,921,898
LONG-TERM LIABILITIES		
Employee Leave Payable	1,666,324	1,689,739
TOTAL LONG-TERM LIABILITIES	1,666,324	1,689,739
TOTAL LIABILITIES	14,197,346	16,611,637
NET POSITION		
Invested in Capital Assets, net of related debt	113,079,561	120,444,631
Unrestricted Net Position	106,645,685	98,748,344
TOTAL NET POSITION	219,725,246	219,192,975
TOTAL LIABILITIES AND NET POSITION	\$ 233,922,592	\$ 235,804,612

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Revenues, Expenses and Changes in Net Position

Years ended December 31, 2012 and 2011

OPERATING INCOME	2012	2011
Passenger Fares	\$ 12,219,240	\$ 13,502,385
Advertising	658,345	738,817
Regional Transit Service	30,980,869	30,257,858
TOTAL OPERATING REVENUE	<u>43,858,454</u>	<u>44,499,060</u>
OPERATING EXPENSES		
Operations	62,391,140	68,748,001
Maintenance	21,976,196	26,761,207
Non-Vehicle Maintenance	4,458,279	3,900,720
General & Administration	22,894,245	22,574,915
Depreciation & Amortization	13,431,897	14,524,411
TOTAL OPERATING EXPENSES	<u>125,151,757</u>	<u>136,509,254</u>
OPERATING INCOME (LOSS)	<u>(81,293,303)</u>	<u>(92,010,194)</u>
NON-OPERATING INCOME (EXPENSE)		
Operating Subsidies:		
Sales Tax	65,190,106	64,512,697
Operating Grants	10,180,153	9,982,473
Other:		
Expense of Items Previously Deferred	(126,620)	(909,998)
Interest Income	198,874	100,949
Grant Exchange Funds	(884,000)	(1,106,447)
Miscellaneous Non-Operating Income	4,934,093	5,280,795
Gain (Loss) on Disposal of Assets	(183,396)	99,912
NET NON-OPERATING INCOME	<u>79,309,210</u>	<u>77,960,381</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(1,984,093)	(14,049,813)
Capital Contributions	2,516,365	3,668,952
NET INCOME (LOSS) AFTER CONTRIBUTIONS	532,272	(10,380,861)
NET POSITION-BEGINNING	219,192,975	229,573,836
NET POSITION-ENDING	<u>\$ 219,725,247</u>	<u>\$ 219,192,975</u>

See accompanying notes to the financial statements.

Comparative Statement of Cash Flows

Years ended December 31, 2011 and 2010

INCREASE(DECREASE)IN CASH AND CASH EQUIVALENTS:	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Customers	\$ 41,555,809	\$ 37,023,506
Cash Payments to Suppliers for Goods & Services	(35,071,808)	(41,531,704)
Cash Payments to Employees for Services	(78,205,283)	(81,673,811)
Miscellaneous Non-Operating Income	4,934,093	5,280,795
Net Cash Used By Operating Activities	<u>(66,787,189)</u>	<u>(80,901,214)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Sales Tax Received	65,832,351	64,621,981
Operating Grants Received	8,670,313	15,211,936
Grant Exchange Funds	(884,000)	(1,106,447)
Net Cash Provided By Noncapital Financing Activities	<u>73,618,664</u>	<u>78,727,470</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(7,520,363)	(9,381,634)
Capital Grants and Contributions	2,600,065	4,928,684
Proceeds From Sale of Equipment	619,539	94,047
Net Cash Used By Capital and Related Financing Activity	<u>(4,300,759)</u>	<u>(4,358,903)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Securities	(72,695,835)	(70,001,975)
Proceeds from Maturities of Investment Securities	65,609,690	78,145,688
Interest on Investments	204,512	111,721
Net Cash Used By Investing Activities	<u>(6,881,633)</u>	<u>8,255,434</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,350,917)	1,722,787
Cash and Cash Equivalents at Beginning of Year	8,912,448	7,189,661
Cash and Cash Equivalents at End of Year	<u>\$ 4,561,531</u>	<u>\$ 8,912,448</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	<u>\$ (81,293,303)</u>	<u>\$ (92,010,194)</u>
ADJUSTMENTS TO RECONCILE OPERATING TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and Amortization	13,431,897	14,524,411
Miscellaneous Non-Operating Income	4,934,093	5,280,795
CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:		
(Increase) Decrease in Receivables	(847,855)	(9,326)
(Increase) Decrease in Inventories	86,082	160,520
(Increase) Decrease in Prepaid Expenses	(246,911)	61,615
(Increase) Decrease in Due from Other Governments	(996,397)	(8,085,807)
Increase (Decrease) in Warrants Payable	(147,785)	(114,037)
Increase (Decrease) in Accounts Payable	63,685	(734,080)
Increase (Decrease) in Unearned Revenue	(1,161,250)	1,433,488
Increase (Decrease) in Wages and Benefits Payable	(1,589,878)	739,969
Increase (Decrease) in Due to Other Governments	702,857	(813,909)
Increase (Decrease) in Retainage Payable	-	(1,694)
Increase (Decrease) in Provision for Uninsured Claims	277,576	(1,332,965)
TOTAL ADJUSTMENTS	<u>14,506,114</u>	<u>11,108,980</u>
Net Cash Used By Operating Activities	<u>\$ (66,787,189)</u>	<u>\$ (80,901,214)</u>

See accompanying notes to the financial statements.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. ENTITY - Pierce Transit is a municipal corporation formed under the authority of Chapter 36.57A of the Revised Code of Washington. Pierce Transit operates fixed route, specialized transportation (SHUTTLE), and vanpool transportation services to Pierce County, within Pierce Transit's service area. In addition, rideshare matching services and commute trip reduction assistance is provided to local and regional employers.

The Pierce Transit Board of Commissioners is responsible for governance of the Agency. In 2012, a Public Transportation Improvement Conference (PTIC) changed Pierce Transit's service and taxing area. Pierce Transit went from serving nineteen jurisdictions to serving fourteen jurisdictions. As a result, the composition of the Board of Commissioners changed. The ten member Board consists of two members of the Tacoma City Council and two members of Pierce County government. The cities of Lakewood, Puyallup, and University Place each have one commissioner. The cities of Edgewood, Fife and Milton have one Commissioner, elected amongst the three cities. The remaining towns and cities have one Commissioner, elected amongst the six cities. A non-voting union representative is appointed by Amalgamated Transit Union Local 758.

Pierce Transit is governed by an appointed Board of Commissioners whose members are elected by the jurisdictions they represent, is legally separate from other entities, and is fiscally independent of other state and local government entities. The criteria, set forth in the Government Accounting Standards Board (GASB) Statement 14, indicate that Pierce Transit is a primary government for reporting purposes and that there are no additional entities or funds for which the Agency has reporting responsibilities.

Pierce Transit has an undivided interest in a non-equity joint venture, jointly governed with seven other agencies for the provision of regional smart card fare (ORCA) collection services. Pierce Transit's undivided interests in the assets, liabilities and operations of the ORCA smart card are consolidated within these financial statements on a proportionate basis.

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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

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

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

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

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

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

During the fiscal year, periodic budget reviews of actual expenditures and revenues are made. Should any significant budget variances in either expenses or revenues occur, budget amendments, if

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

required, are made by resolution by the Board of Commissioners. Individual department budgets are monitored for authorized expenditures on a department total rather than a line-item basis. With the exception of personnel costs, travel and training, and capital acquisitions, department and division managers may exercise their judgment in exceeding line item appropriations so long as they do not exceed their total appropriations. Any overruns for the Agency as a whole must be authorized by resolution by the Board of Commissioners.

A schedule of budgeted versus actual revenues and expenses for the periods ended December 31, 2012 and 2011, is as follows:

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2012

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	\$ 11,787,529	\$ 12,219,240	\$ 431,711
Advertising	750,000	658,345	(91,655)
Regional Transit Service	30,711,905	30,980,869	268,964
Interest Income	121,676	198,874	77,198
Sales Tax	65,992,241	65,190,106	(802,135)
Operating Grants	9,049,602	10,180,153	1,130,551
Capital Contributions	15,931,864	2,516,365	(13,415,499)
Miscellaneous Revenues	12,897,500	4,934,093	(7,963,407)
Gain (Loss) on Disposal of Assets	-	(183,396)	(183,396)
TOTAL*	\$ 147,242,317	\$ 126,694,649	\$ (20,547,668)

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2012

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Personnel	\$ 80,148,950	\$ 76,615,405	\$ 3,533,545
Fuel and Lubricants	7,829,808	8,698,804	(868,996)
Supplies and Materials	6,238,197	5,683,897	554,300
Contracts and Services	25,147,695	20,721,754	4,425,941
Depreciation and Amortization	-	13,431,897	(13,431,897)
Expense of Items Previously Deferred	-	126,620	(126,620)
Capital Acquisitions	36,428,048	6,540,446	29,887,602
Grant Exchange Funds	860,301	884,000	(23,699)
TOTAL*	\$ 156,652,999	\$ 132,702,823	\$ 23,950,176

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

Pierce Transit
Notes to Financial Statements
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SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2011

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	\$ 15,232,074	\$ 13,502,385	\$ (1,729,689)
Advertising	1,050,000	738,817	(311,183)
Regional Transit Service	23,429,250	30,257,858	6,828,608
Interest Income	693,515	100,949	(592,566)
Sales Tax	61,651,911	64,512,697	2,860,786
Operating Grants	9,163,156	9,982,473	819,317
Capital Contributions	19,684,597	3,668,952	(16,015,645)
Miscellaneous Revenues	4,050,697	5,280,795	1,230,098
Gain (Loss) on Disposal of Assets	-	99,912	99,912
TOTAL*	\$ 134,955,200	\$ 128,144,838	\$ (6,810,362)

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2011

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Personnel	\$ 87,886,908	\$ 82,413,780	\$ 5,473,128
Fuel and Lubricants	10,910,920	10,620,144	290,776
Supplies and Materials	6,400,020	6,200,926	199,094
Contracts and Services	23,285,904	22,749,993	535,911
Depreciation and Amortization	-	14,524,411	(14,524,411)
Expense of Items Previously Deferred	-	909,998	(909,998)
Capital Acquisitions	39,735,352	8,520,528	31,214,824
Grant Exchange Funds	860,301	1,106,447	(246,146)
TOTAL*	\$ 169,079,405	\$ 147,046,227	\$ 22,033,178

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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

	<u>2012</u>	<u>2011</u>
Passenger Fares	\$ 12,219,240	\$ 13,502,385
Advertising	658,345	738,817
Regional Transit Service	30,980,869	30,257,858
Interest Income	198,874	100,949
Misc. Non-Operating Revenue	4,934,093	5,280,795
Operating Subsidies	75,370,259	74,495,170
Gain (Loss) on Disposal of Assets	(183,396)	99,912
TOTAL	<u>\$ 124,178,284</u>	<u>\$ 124,475,886</u>

Revenues From the Budget vs. Actual Schedule:

Capital Grants	2,516,365	3,668,952
TOTAL	<u>126,694,649</u>	<u>128,144,838</u>
GRAND TOTAL	<u>\$ 126,694,649</u>	<u>\$ 128,144,838</u>

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

	<u>2012</u>	<u>2011</u>
Operations	\$ 62,391,140	\$ 68,748,001
Maintenance	21,976,196	26,761,207
Non-Vehicle Maintenance	4,458,279	3,900,720
General & Administration	22,894,245	22,574,915
Depreciation and Amortization	13,431,897	14,524,411
Expense of Items Previously Deferred	126,620	909,998
Grant Exchange Funds	884,000	1,106,447
TOTAL	<u>\$ 126,162,377</u>	<u>\$ 138,525,699</u>

Expenses From the Budget vs. Actual Schedule

Capital Acquisitions	6,540,446	8,520,528
GRAND TOTAL	<u>\$ 132,702,823</u>	<u>\$ 147,046,227</u>

D. ENCUMBRANCES - Pierce Transit encumbers all expenses for management information. Encumbrances do not, however, constitute a legal reduction of appropriations. Accounts encumbered but not expended by the end of the budget year become an encumbrance of the following year's appropriations. Encumbrances outstanding on December 31, 2012 total \$6,131,353 compared to \$6,159,449 on December 31, 2011. The majority of the encumbrances for 2012 result

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

from capital projects in progress including a CCTV project, signal priority, hybrid bus purchase, and technology improvement. Encumbrances are not shown on the financial statements.

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

F. INVESTMENTS - Investments are carried at fair value based on quoted market prices.

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

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

I. CAPITAL ASSETS - Property, plant, and equipment are stated as historical cost or at fair market value as of the date contributed. Replacements that improve or extend property life are capitalized. Intangible assets are capitalized in accordance with GASB Statement 51.

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

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

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Notes to Financial Statements
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The Summary of Changes in Capital Assets for the years ended December 31, 2012 and 2011, respectively, follows:

Summary of Changes in Capital Assets
Year Ended December 31, 2012

Description	Balance January 1, 2012	Additions	Retirements	Adjustment	Balance December 31, 2012
Capital assets not being depreciated:					
Land	\$ 19,948,961	\$ -	\$ (567,970)	\$ -	\$ 19,380,991
Work in Progress	9,144,036	6,540,446		(2,532,323)	13,152,159
Total capital assets not being depreciated	<u>29,092,997</u>	<u>6,540,446</u>	<u>(567,970)</u>	<u>(2,532,323)</u>	<u>32,533,150</u>
Depreciable capital assets:					
Structures	70,210,513	-	(172,909)	-	70,037,604
Site Improvements	48,411,655	-	-	-	48,411,655
Machinery & Equipment	133,410,575	2,626,673	(6,126,680)	-	129,910,568
Total depreciable capital assets at cost	<u>252,032,743</u>	<u>2,626,673</u>	<u>(6,299,589)</u>	<u>-</u>	<u>248,359,827</u>
Total Capital Assets (gross)	<u>281,125,740</u>	<u>9,167,119</u>	<u>(6,867,559)</u>	<u>(2,532,323)</u>	<u>280,892,977</u>
Less accumulated depreciation for:					
Structures	(47,378,425)	(2,768,655)	172,908	-	(49,974,172)
Site Improvements	(43,076,502)	(595,332)	-	-	(43,671,834)
Machinery & Equipment	(70,226,181)	(10,067,910)	6,126,681	-	(74,167,410)
Total accumulated depreciation	<u>(160,681,108)</u>	<u>(13,431,897)</u>	<u>6,299,589</u>	<u>-</u>	<u>(167,813,416)</u>
Total Capital Assets (net)	<u>\$120,444,632</u>	<u>\$(4,264,778)</u>	<u>\$ (567,970)</u>	<u>\$ (2,532,323)</u>	<u>\$113,079,561</u>

*Adjustments include items previously deferred and items reclassified as assets from work in progress

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

Summary of Changes in Capital Assets
Year Ended December 31, 2011

Description	Balance January 1, 2011	Additions	Retirements	Adjustment	Balance December 31, 2011
Capital assets not being depreciated:					
Land	\$ 19,066,078	\$ 882,883	\$ -	\$ -	\$ 19,948,961
Work in Progress	15,856,138	8,520,528	-	(15,232,630)	9,144,036
Total capital assets not being depreciated	<u>34,922,216</u>	<u>9,403,411</u>	<u>-</u>	<u>(15,232,630)</u>	<u>29,092,997</u>
Depreciable capital assets:					
Structures	69,594,633	615,880	-	-	70,210,513
Site Improvements	47,359,699	1,051,956	-	-	48,411,655
Machinery & Equipment	135,676,097	11,777,779	(14,043,300)	-	133,410,575
Total depreciable capital assets at cost	<u>252,630,429</u>	<u>13,445,615</u>	<u>(14,043,300)</u>	<u>-</u>	<u>252,032,743</u>
Total Capital Assets (gross)	<u>287,552,645</u>	<u>22,849,026</u>	<u>(14,043,300)</u>	<u>(15,232,630)</u>	<u>281,125,740</u>
Less accumulated depreciation for:					
Structures	(44,712,814)	(2,665,611)	-	-	(47,378,425)
Site Improvements	(42,197,773)	(878,729)	-	-	(43,076,502)
Machinery & Equipment	(73,289,411)	(10,980,070)	14,043,300	-	(70,226,180)
Total accumulated depreciation	<u>(160,199,998)</u>	<u>(14,524,410)</u>	<u>14,043,300</u>	<u>-</u>	<u>(160,681,108)</u>
Total Capital Assets (net)	<u>\$127,352,647</u>	<u>\$ 8,324,616</u>	<u>\$ -</u>	<u>\$ (15,232,630)</u>	<u>\$120,444,632</u>

*Adjustments include items previously deferred and items reclassified as assets from work in progress

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

Buildings & Site Improvements	\$ 4,548,157
Equipment	8,604,002
Park and Ride Lots/Transit Centers	-
Total Work in Progress	<u>\$ 13,152,159</u>

A number of projects were in process at the end of 2012. Commitments on capital projects as of December 31, 2012 totaled \$6,048,257 and are itemized as follows: buildings and site improvements \$375,658 and equipment \$5,672,599. Projects underway as of December 31, 2012 included base facility improvements, a signal priority project, hybrid bus purchase, SHUTTLE vehicles, and a CCTV project.

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

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

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

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

K. UNEARNED REVENUE - Revenues are recorded when earned. Unearned revenue as of December 31, 2012 and 2011 was \$466,167 and \$1,627,417, respectively. The large balance in 2011 was due to an insurance settlement payment held to cover expenditures related to the CNG fire. Unearned revenues were drawn down as expenditures occurred.

L. NET POSITION - Net position is increased when revenues are greater than expenses and decreased when expenses exceed revenues. Net position is reserved or designated to the extent that restricted assets exceed liabilities payable from those assets. See Note 4 for details of reserved and designated net position. Net position includes the following subsidies of operations:

- Sales Tax - In February 2002, Pierce County voters approved a ballot measure increasing the local sales tax support from .3% to .6%. The sales tax increase went into effect July 1, 2002. The sales tax increase replaces funding that was lost when the Motor Vehicle Excise Tax (MVET) was eliminated in 2000. The sales tax collected in 2012 totaled \$65,190,106 resulting in a less than one percent increase from 2011 sales tax revenue of \$64,512,697. On May 8, 2012, Pierce Transit's service and taxing boundaries were reduced from serving 19 nineteen jurisdictions to serving fourteen jurisdictions. The sales tax collection boundary reduction went into effect on October 1, 2012.
- Federal Operating Assistance - Federal operating grants.
- State Operating Assistance - Operating grants from the State of Washington.
- Capital Contributions - Donated assets or grants for the acquisition of capital assets.

M. VACATION AND SICK LEAVE - Employees accrue vacation by reason of tenure at annual rates ranging from 12 to 31 days per year. Employees are not allowed to accumulate more than 2 years of vacation leave accrual at any point in time. Total vacation accruals are listed as follows:

Pierce Transit
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	<u>2012</u>	<u>2011</u>
Vacation-Current	\$ 2,728,108	\$ 3,061,777
Vacation-Non-Current	303,123	340,197
Total Vacation Leave Liability	<u>\$ 3,031,231</u>	<u>\$ 3,401,974</u>

Employees accumulate sick leave at the rate of 8 hours per month with no maximum accumulation specified. Total sick leave accruals as of December 31, 2012 and 2011 were \$6,718,426 and \$7,189,522 respectively. Sick leave is recorded as an expense at the time of payment, which occurs upon usage or termination. Fifty percent of the value is paid upon retirement or death of the employee, 20% is paid upon termination for any other reason. The estimated liability for these sick leaves payouts is as follows:

	<u>2012</u>	<u>2011</u>
Current Liability based on usage or terminations	\$ 1,560,798	\$ 1,741,038
Non-current Liability based on expected future payoffs	1,363,201	1,349,542
Total Sick Leave Liability	<u>\$ 2,923,999</u>	<u>\$ 3,090,580</u>

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

	<u>2012</u>	<u>2011</u>
Balance beginning of year	\$ 4,802,816	\$ 5,060,023
Employee leave earned	3,756,999	4,524,768
Employee leave paid	(4,270,908)	(4,781,975)
Current Employee Leave Payable	<u>\$ 4,288,907</u>	<u>\$ 4,802,816</u>

	<u>2012</u>	<u>2011</u>
Balance beginning of year	\$ 1,689,739	\$ 1,771,584
Employee leave earned	1,635,916	1,600,562
Employee leave paid	(1,659,331)	(1,682,407)
Long-term Employee Leave Payable	<u>\$ 1,666,324</u>	<u>\$ 1,689,739</u>

2. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as of December 31, 2012 and 2011, respectively as follows:

Composition of Cash and Cash Equivalents:

	<u>2012</u>	<u>2011</u>
Demand Deposits	\$ 4,561,531	\$ 8,912,448
Investments having original maturities of less than 3 months	-	-
Total Cash and Cash Equivalents	<u>\$ 4,561,531</u>	<u>\$ 8,912,448</u>

All bank deposits are entirely insured by the Federal Deposit Insurance Corporation and by the Washington Public Deposit Protection Commission.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

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

During 2012 and 2011, Pierce Transit's portfolio complied with the investment policies discussed above. Management intends to hold time deposits and securities until maturity. Investments are stated at fair value on the balance sheet. Changes in fair value are included as revenue in the financial statements. The fair value of securities is based on quoted market prices. The fair value of the position in the Washington Local Government Investment Pool is the same as the value of the pool shares. No investment losses occurred during 2012 or 2011.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity of its fair value to changes in market interest rates. Pierce Transit's investment policy is designed to manage the exposure to interest rate risk through diversification and by purchasing a combination of shorter and longer term investments that mature evenly over time. Pierce Transit's policy does not allow any investments over two years in maturity. Pierce Transit's weighted average maturity for December 31, 2012 and 2011 was 8 days and 8 days, respectively.

Information of the sensitivity of fair values of investments to interest rate fluctuations is provided by the following table showing maturities of all investments held by Pierce Transit as of December 31, 2012 and 2011.

Pierce Transit
Notes to Financial Statements
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Investment Type	Fair Value	2012 Investment Maturities (in months)				Total
		0-3	4-6	6-12	12-24	
Local Government						
Investment Pool	\$ 87,770,470	\$ 87,770,470	\$ -	\$ -	\$ -	\$ 87,770,470
U. S. Agencies	1,000,000	-	1,000,000	-	-	1,000,000
	<u>\$88,770,470</u>	<u>\$ 87,770,470</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,770,470</u>

Investment Type	Fair Value	2011 Investment Maturities (in months)				Total
		0-3	4-6	6-12	12-24	
Local Government						
Investment Pool	\$ 77,184,805	\$ 77,184,805	\$ -	\$ -	\$ -	\$ 77,184,805
U. S. Agencies	4,499,520	1,000,000	2,500,000	999,520	-	4,499,520
	<u>\$81,684,325</u>	<u>\$ 78,184,805</u>	<u>\$ 2,500,000</u>	<u>\$ 999,520</u>	<u>\$ -</u>	<u>\$81,684,325</u>

Disclosures Relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. As of December 31, 2012, one percent of Pierce Transit's investments are in the following U.S. Agencies: Federal Home Loan Banks (FHLB) and Federal National Mortgage Association (FNMA). All the U.S. Agencies held by Pierce Transit have an AAA rating from Standard & Poor's and Aaa from Moody's.

Concentration of Credit Risk

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

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

Custodial Credit Risk

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

Pierce Transit
Notes to Financial Statements
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3. RECEIVABLES

Amounts due to Pierce Transit for year ended December 31, 2012 and 2011 (net of uncollectible) are detailed as follows:

UNRESTRICTED RECEIVABLES

	<u>2012</u>	<u>2011</u>
Accounts Receivable	\$ 1,045,535	\$ 197,680
Interest Receivable	-	1,076
Sales Tax Receivable	10,880,016	11,522,261
Total Receivables	<u>11,925,551</u>	<u>11,721,017</u>
Due from Other Governments:		
Federal Operating Assistance	1,632,805	-
Other Operating Partnerships	1,235,162	1,358,127
Fuel Tax Refund & CNG Credit	1,119,866	408,671
Regional Transit Service Revenues	8,463,702	8,120,695
Total Due from Other Governments	<u>12,451,535</u>	<u>9,887,493</u>
Total Unrestricted Receivables	<u>24,377,086</u>	<u>21,608,510</u>

RESTRICTED RECEIVABLES

Accounts Receivable	-	35,515
Interest Receivable	116	4,679
Total Receivables	<u>116</u>	<u>40,194</u>
Due from Other Governments:		
Capital Grants	52,184	46,445
Other Capital Partnerships	49,737	174,692
Regional Transit Service Revenues	-	22,289
Total Restricted Due from Other Governments	<u>101,921</u>	<u>243,426</u>
Total Restricted Receivables	<u>102,037</u>	<u>283,620</u>
Total Receivables	<u>\$24,479,123</u>	<u>\$21,892,130</u>

Pierce Transit
Notes to Financial Statements
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4. RESERVED AND DESIGNATED NET POSITION

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

A. DESIGNATED FOR CAPITAL - Net position designated for capital was \$21,748,469 for 2012 and \$25,717,429 for 2011.

B. DESIGNATED FOR INSURANCE - Pierce Transit's Board of Commissioners established a self-insurance fund in 1982 (See Note 7). Net position designated for unemployment, liability self-insurance, and workers compensation for the periods ended December 31, 2012 and 2011 were \$1,050,634 and \$2,788,385, respectively.

5. EMPLOYEE BENEFITS

A. RETIREMENT - Pierce Transit contributes monthly to two separate retirement systems. Both systems are cost sharing multi-employer defined benefit public employee retirement systems. The Agency contributions, as well as employee contributions, are based on the gross pay of an employee. Tacoma Transit employees electing to retain Tacoma Employees' Retirement System (TERS) when Pierce Transit took over the operations of Tacoma Transit in 1980 are covered by TERS which is a defined benefit plan. The Public Employees Retirement System (PERS) covers all other employees.

Pierce Transit participates in PERS Plan 1, PERS Plan 2, and PERS Plan 3. The PERS system is comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Employees joining PERS after 10/1/77 are members of Plan 2 or Plan 3. As of September 1, 2002 employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. This option must be exercised within 90 days of employment. An employee is enrolled in Plan 2 until a choice is made. Employees who fail to make a choice within 90 days of employment default to PERS Plan 3. PERS is mandatory for all regular employees except for personnel working less than 70 hours per month in five months in a calendar year.

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

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Years Ended December 31, 2012 and 2011

benefits when due is presented in the PERS and TERS Comprehensive Annual Financial Report of June 30, 2012 and December 31, 2011 respectively.

The payroll for Pierce Transit employees covered by these retirement systems was \$51,320,096 for the year ended December 31, 2012 with a total payroll for 2012 of \$54,207,729. Payroll for Pierce Transit employees covered by retirement systems as of December 31, 2011 was \$57,514,886, with a total payroll of \$60,657,649. Employees covered by the Tacoma Employees Retirement Systems (TERS) are required by State statute and City ordinance to contribute 9.20% of gross wages to the plan with 10.8% being contributed by the employer. Employees covered by the Public Employees Retirement System (PERS) are required by State statute to contribute 6% of gross wages for Plan 1 participants and 4.64% for Plan 2 participants. Pierce Transit is required by the same authority to contribute the remaining amounts necessary to pay benefits when due. The employer's contribution for PERS employees was 7.25% through March 31, 2012, 7.08% through June 30, 2012, increasing to 7.21% through December 31, 2012. PERS Plan 3 employees can contribute 5% to 15% of their gross wages.

Pierce Transit does not provide any post employment benefits for early retirement, post-retirement, or either voluntary or involuntary terminations.

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

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

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

During 2010, 2011, and 2012, Pierce Transit and its employees made the required contributions. Contribution amounts and rates expressed as a percentage of the covered payroll for the three years ended December 31 are as follows:

	PERS Plan 1		PERS Plan 2		PERS Plan 3		TERS	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Employee	6.00%	\$ 71,760	3.90%	\$ 2,045,258	5-15%	\$ 260,146	8.28%	\$ 42,985
Employer	5.31%	63,507	5.31%	2,784,747	5.29%	232,640	9.72%	50,718
Total 2010		\$ 135,267		\$ 4,830,005		\$ 492,786		\$ 93,703
Employee	6.00%	\$ 54,289	4.64%	\$ 2,206,159	5-15%	\$ 249,892	8.74%	\$ 39,906
Employer	7.25%	54,772	7.25%	3,223,001	7.25%	264,887	10.26%	46,846
Total 2011		\$ 109,061		\$ 5,429,160		\$ 514,779		\$ 86,752
Employee	6.00%	\$ 38,766	4.64%	\$ 2,156,098	5-15%	\$ 215,620	9.20%	\$ 41,446
Employer	7.21%	46,524	7.21%	3,349,057	7.21%	266,884	10.80%	48,654
Total 2012		\$ 85,290		\$ 5,505,155		\$ 482,504		\$ 90,100

B. DEFERRED COMPENSATION PLAN - Pierce Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Plans are offered and administered through Great West Life & Annuity Insurance Company and ICMA Retirement Corporation. Pierce Transit contributes from 1% to 5.5% of the annual salary of all participating employees. In 2012, Pierce Transit contributed \$1,686,520. Pierce Transit contributed \$1,469,327

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

to this plan in 2011. Pierce Transit temporarily discontinued the employer match for non-represented employees during 2011 but reinstated the match for all employees in 2012. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Beginning in fiscal year 1998, existing assets in the plan are held in a qualified custodial account. The custodian holds the Plan's assets for the exclusive benefit of participants and beneficiaries. The Plan's assets are not the legal property of Pierce Transit and are not subject to claims of the Agency's creditors. Therefore, deferred compensation funds are not shown on the balance sheet.

6. COMMITMENTS AND CONTINGENCIES

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

Smart Card (ORCA)-Since 1996, seven regional transit agencies have been developing a regional smart card fare payment system. Participating agencies include Pierce Transit, King County Metro, Sound Transit, Everett Transit, Washington State Ferries, Kitsap Transit and Community Transit. A smart card is an intelligent fare card that stores information including fare type and stored value in either cash or transit passes. The smart card system has been named One Regional Card for All (ORCA) and simplifies and establishes a common, non-cash fare system throughout the region. The original agreement, signed in April 2003, established the respective roles and responsibilities of the Agencies in the development and operating phases of the ORCA system. The system was phased in beginning in April 2009 and an amended agreement establishing the design, implementation, operation and maintenance of the ORCA was signed. This amended agreement further defines and establishes a framework for the operating phase of the system. The participating agencies have committed to utilizing the system for a minimum of 10 years and funding proportionate shares of regionally shared costs.

The system is governed by a Joint Board consisting of one representative from each participating agency. The funds collected through the sale of ORCA fare media to the public by participating agencies is remitted to Sound Transit acting as fiscal agent under the terms of the interlocal agreement. Fare revenue is apportioned by the fiscal agent and remitted to the participating agency that provided the transit service.

Pierce Transit's financial statements reflect its portion of ORCA fare revenues and expenses. ORCA fare revenue as of December 31, 2012 was \$4,185,855 with operating expenses of \$388,997. In 2011, ORCA revenue totaled \$4,540,147 and operating expense of \$368,996. Pierce Transit's share of funds held by the fiscal agent as of December 31, 2012, and 2011 reported within Pierce Transit's financial statements, amounted to \$376,725 and \$315,182 respectively. Other than the funds held by the fiscal agent Pierce Transit has no equity interest.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2012 and 2011

7. INSURANCE

For auto/general liability and public officials' claims prior to January 1, 2010, Pierce Transit was self-insured with a retention of \$1,000,000 and excess insurance up to \$16 million. As of January 1, 2010, Pierce Transit became a full member of the Washington State Transit Insurance Pool (WSTIP) and now retains first-dollar coverage for auto/general up to \$12 million per occurrence. As a member of the Pool, the Agency is able to take advantage of collective retentions, competitive re-insurance rates and an exchange of best practices that help to reduce liability exposure. In addition to auto/general liability, WSTIP policies include property coverage of up to \$350 million (\$10,000 deductible) per occurrence, crime coverage of up to \$1 million (\$10,000 deductible) per loss, cyber-liability coverage up to \$20 million, and public officials' liability coverage of up to \$12 million (\$5,000 deductible) per occurrence. Pierce Transit continues to insure pollution/underground storage tank liability through an independent broker, with coverage up to \$1 million (\$25,000 deductible) per occurrence.

Pierce Transit continues to be self-insured for unemployment compensation and workers' compensation (industrial insurance), with excess workers' compensation (EWC) retained consistent with statutory requirements. Self-insurance assets have been set aside for these workers' compensation claims, which are administered by a third-party administrator.

On December 31, 2012, the self-insurance assets totaled \$2,811,113, of which a liability of \$1,587,733 is recorded as a liability for all general liability tail claims (claims prior to 2010), workers' compensation and unemployment compensation claims for which it may be ultimately liable, including a provision for claims incurred but not yet reported. As of December 31, 2011, Pierce Transit's self-insurance assets totaled \$4,676,630 of which a liability of \$1,310,157 was recorded as a provision for liability claims. These liabilities are Pierce Transit's best estimate of claims based upon available information. No outstanding liabilities have been removed from the balance sheet due to the purchase of annuity contracts from third parties in the name of claimants.

A reconciliation of claims liabilities follows:

	<u>2012</u>	<u>2011</u>
Balance beginning of year	\$ 1,310,157	\$ 2,643,122
Provision for incurred claims	3,236,159	1,613,123
Payments made for claims	(2,958,583)	(2,946,088)
Claims liabilities year ended	<u>\$ 1,587,733</u>	<u>\$ 1,310,157</u>

8. DEBT

Pierce Transit did not have any debt as of December 31, 2012 or December 31, 2011.

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Serving Individuals with Special Needs



Pierce Transit also partners with a variety of organizations that serve individuals with disabilities:

Catholic Community Services

CenterForce

MultiCare Adult Day Health

Pierce County Community Connections

Pierce County Coordinated Transportation Coalition

Tacoma Area Coalition of Individuals with Disabilities

The Mustard Seed Project

For more information about the Tools 4 Success event visit:

Tools4SuccessConference.org

In Pierce County, a wide variety of social services are available to individuals with disabilities who are seeking employment. One challenge is making people aware of all that's available. With this in mind, Tools 4 Success was born 15 years ago. The event brings in vendors from Pierce and King Counties who help individuals with disabilities find employment, education, and other opportunities. This event takes place at Tacoma Community College during spring break, providing an ideal environment for participants to attend classes, visit vendor booths, and attend the key note speaker's address. Attendance has grown to over 300 individuals.

Tools 4 Success is special due to many committed organizations. The planning committee has representatives from Bates Technical College, City of Tacoma, Disability Rights Washington, Division of Vocational Rehabilitation, ENSO, Greater Lakes Mental Health Care, PAVE, Pierce County Community Connections, Pierce Transit, TCC, and Self-Advocates of Washington. Additional supporters are Joesepi's Restaurant, Tacoma Goodwill, Tacoma Public Library, TACID, University of Washington - Seattle, Washington Initiative for Supported Employment, and White River Connections Program - Student Guides.

Pierce Transit has been part of the planning committee since its inception and continues to support this and other great community functions. PT has a booth at the event each year to educate participants about its Travel Training and SHUTTLE services, and how public transit can help people lead a rich, mobile lifestyle.



**Pierce Transit
Statistical Section
Year ended December 31, 2012**

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

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

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Financial Trends
Net Assets by Component
2003 - 2012**

	Invested in		Total
	Capital Assets	Unrestricted	
2003	97,750,689	63,775,883	161,526,572
2004	106,752,212	75,701,262	182,453,474
2005	115,927,548	89,543,932	205,471,480
2006	116,669,627	107,790,306	224,459,933
2007	120,825,987	119,269,028	240,095,015
2008	128,772,977	113,886,963	242,659,940
2009	126,721,089	107,286,883	234,007,973
2010	127,352,648	102,221,188	229,573,836
2011	120,444,631	98,748,344	219,192,975
2012	113,079,561	106,645,685	219,725,246

**Financial Trends
Expense Comparisons by Type
2003 – 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Personnel	\$49,732,380	\$53,276,898	\$57,785,602	\$60,736,927	\$67,667,670	\$77,278,554	\$79,346,300	\$82,910,872	\$82,413,780	\$76,615,405
Fuel & Lubricants	3,166,655	3,731,581	5,386,453	5,917,776	4,763,794	7,123,019	5,718,378	7,409,316	10,620,144	8,698,804
Supplies & Materials	4,050,431	4,944,439	4,851,849	4,636,806	5,962,609	5,921,096	5,246,793	5,534,848	6,200,926	5,683,897
Contracts & Services	11,606,002	13,770,279	13,925,196	15,974,894	17,065,225	18,258,165	18,273,761	22,341,235	22,749,993	20,721,754
Depreciation & Amortization	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786	14,117,400	14,005,135	12,828,624	14,524,411	13,431,897
Capital Acquisition	5,897,918	21,187,250	21,717,527	14,426,046	20,005,358	23,593,957	13,182,990	13,841,193	8,520,528	6,540,446
Losses on Disposal of Assets	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	340,000	355,000	365,000	380,000	395,000	415,000	1,335,000	-	-	-
Interest	142,788	130,548	117,413	103,543	94,799	77,616	45,252	-	-	-
Expense	15,209	1,277	61,865	50,590	132,357	234,942	2,460,260	381,012	909,998	126,620
Previously Deferred Items										
Grant										
Exchange Funds			1,714,333	711,191	1,758,451	860,301	952,540	1,113,622	1,106,447	884,000
Total	\$88,437,217	\$109,672,134	\$118,492,362	\$116,618,920	\$133,591,049	\$147,880,050	\$140,566,409	\$146,360,722	\$147,046,227	\$132,702,823

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Financial Trends
Changes in Net Position
2003 – 2012**

Operating Revenue	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passenger Fares	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165	\$13,882,370	\$15,460,517	\$14,504,805	\$13,502,385	12,219,240
Advertising	673,295	442,378	851,602	1,094,081	816,563	968,104	905,896	1,120,406	738,817	658,345
Regional Transit Service	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606	17,443,379	19,303,747	24,128,368	30,257,858	30,980,869
Total Operating Revenue	22,589,069	23,351,312	24,787,446	27,700,692	30,083,334	32,293,853	35,670,160	39,753,579	44,499,060	43,858,454
Non-Operating Revenue										
Sales Tax	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577	71,752,351	63,335,030	65,338,852	64,512,697	65,190,106
MVET	-	-	-	-	-	-	-	-	-	-
Operating Grants	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290	9,505,308	13,318,595	9,925,000	9,982,473	10,180,153
Investment Income	685,934	1,218,453	2,393,870	4,161,786	5,590,687	3,220,825	1,014,361	346,746	100,949	198,874
Miscellaneous Income Gain(Loss)on Disposal of Assets	779,793 89,504	947,521 91,584	1,005,346 350,686	969,860 284,261	1,401,198 108,715	805,296 122,190	1,149,909 91,084	3,209,822 368,928	5,280,795 99,912	4,934,093 (183,396)
Total Non-Operating Revenue	67,768,808	68,735,159	80,331,996	87,038,110	91,176,467	85,405,970	78,908,979	79,189,348	79,976,826	80,319,830
Total Revenue	90,357,877	92,086,471	105,119,442	114,738,802	121,259,801	117,699,823	114,579,139	118,942,927	124,475,886	124,178,284
Operating Expense										
Fixed Route	54,828,986	60,018,905	66,764,882	70,476,920	76,043,175	86,654,338	86,680,889	96,282,650	98,836,124	90,192,642
Demand Response	11,164,370	12,772,330	12,359,269	13,856,252	15,807,504	17,637,236	17,806,552	17,597,639	18,513,933	17,229,379
Vanpool	2,562,112	2,931,961	2,824,949	2,933,231	3,608,619	4,289,260	4,097,791	4,315,982	4,634,786	4,297,219
Depreciation & Amortization	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786	14,117,400	14,005,135	12,828,624	14,524,411	13,431,897
Total Operating Expense	82,041,302	87,998,058	94,516,224	100,947,550	111,205,084	122,698,234	122,590,367	131,024,895	136,509,254	125,151,137
Non-Operating Expense										
Expense of Deferred Items	15,209	1,277	61,865	50,590	132,357	234,942	2,460,260	381,012	909,998	126,620
Interest Expense	142,788	130,548	117,413	103,543	94,799	77,616	45,252	-	-	-
Grant Exchange Funds	-	-	1,714,333	711,191	1,758,451	860,301	952,540	1,113,622	1,106,447	884,000
Total Non-Operating Expense	157,997	131,825	1,893,611	865,324	1,985,607	1,172,859	3,458,052	1,496,634	2,016,445	1,010,620
Total Expense	82,199,299	88,129,883	96,409,835	101,812,874	113,190,691	123,871,093	126,048,419	132,519,529	138,525,699	126,162,377
Net Expense	8,158,578	3,956,588	8,709,607	12,925,928	8,069,110	(6,171,270)	(11,469,280)	(13,576,602)	(14,049,813)	(1,984,093)
Capital Grants	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374	8,736,195	2,817,313	9,142,465	3,668,952	2,516,365
Change in Net Position	\$10,743,999	\$20,926,902	\$23,018,006	\$18,456,051	\$16,167,484	\$2,564,925	\$(8,651,967)	\$(4,434,137)	\$(10,380,861)	\$(532,272)

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Revenue Capacity
Revenue and Subsidies Comparisons
2003 – 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passenger Fares	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165	\$13,882,370	\$15,460,517	\$14,504,805	\$13,502,385	\$12,219,240
School Service	-	-	-	-	-	-	-	-	-	-
Regional	-	-	-	-	-	-	-	-	-	-
Transit Fares	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606	17,443,379	19,303,747	24,128,368	30,257,858	30,980,869
Advertising	673,295	442,379	851,602	1,094,081	816,563	968,104	905,896	1,120,406	738,817	658,345
Interest Income	685,934	1,218,453	2,393,870	4,161,786	5,590,687	3,220,825	1,014,361	346,746	99,912	198,874
Sales Tax	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577	71,752,351	63,335,030	65,338,852	64,512,697	65,190,106
MVET	-	-	-	-	-	-	-	-	-	-
Operating Subsidies	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290	9,505,308	13,318,595	9,925,000	9,982,473	10,180,153
Capital Grants	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374	8,736,195	2,817,313	9,142,465	3,668,952	2,516,365
Gain on Disposal of Assets	89,504	91,584	350,686	816,663	108,715	122,190	91,084	368,928	99,912	(183,396)
Miscellaneous	779,793	947,521	1,005,345	969,860	1,401,198	805,296	1,149,909	3,209,822	5,280,795	4,934,093
Total	\$92,943,298	\$109,056,786	\$119,427,840	\$120,801,327	\$129,358,175	\$126,436,018	\$117,396,452	\$128,085,392	\$128,144,838	\$126,694,649

**Revenue Capacity
Fixed Route Farebox Recovery
2003 - 2012**

Year	Farebox Recovery
2003	18%
2004	16%
2005	14%
2006	17%
2007	16%
2008	16%
2009	19%
2010	17%
2011	15%
2012	16%

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Revenue Capacity
Fare History
2003 - 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cash Fares										
Adult	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 2.00	\$ 2.00	\$ 2.00
Senior/Disabled/Youth	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Passes										
Adult Pass	45.00	45.00	45.00	54.00	54.00	54.00	63.00	72.00	72.00	72.00
Senior/Disabled Pass	18.00	18.00	18.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00
Transfers	Free									

**Revenue Capacity
2003 & 2012 Taxable Sales Comparisons
Pierce County**

	2003		2012	
	Taxable Sales	Sales Tax	Taxable Sales	Sales Tax
Retail Trade	\$ 5,403,822,018	\$ 33,075,075	\$ 5,808,167,203	\$ 34,154,978
Services	923,377,572	5,650,601	2,025,629,261	11,911,731
Contracting	1,561,331,248	9,557,615	1,498,719,026	8,813,230
Manufacturing	229,309,813	1,403,465	205,564,554	1,208,824
Transportation/Utilities	446,924,074	2,734,998	58,441,058	343,663
Wholesaling	681,824,114	4,172,656	629,554,434	3,702,100
Finance/Insurance/Real Estate	175,798,072	1,075,485	856,616,130	5,037,339
Other Business	84,905,492	519,823	3,101,902	18,241
TOTAL	\$ 9,507,292,403	\$ 58,189,718	\$ 11,085,793,568	\$65,190,106

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Debt Capacity
Legal Debt Margin
2012**

	Non-voted	Maximum Debt Capacity*
Assessed Valuation	\$33,245,935,133	\$33,005,346,416
Debt Limitation (%)*	.375%	1.250%
Debt Limitation (\$)	\$ 124,672,257	\$ 412,566,830
Less: Outstanding Debt	-	-
Debt Margin	\$ 124,672,257	\$ 521,278,415

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

**Debt Capacity
Ratio of General Bonded Debt to Assessed Value and Net Bonded Debt per Capita
2003 – 2012**

	Population	Assessed Value (In Thousands)	General Bonded Debt	% Ratio of Bonded Debt to Assessed Value	Bonded Debt Per Capita
December 31					
2003	679,815	27,778,725	3,245,000	.02	4.78
2004	702,060	29,619,949	2,890,000	.01	4.11
2005	705,018	32,815,525	2,525,000	.01	3.58
2006	721,445	35,336,989	2,145,000	.01	2.97
2007	732,435	42,915,280	1,750,000	.01	2.38
2008	749,350	50,503,813	1,335,000	.01	1.78
2009	813,600	48,742,260	3,910,000	.02	6.07
2010	795,225	45,155,305	-	-	-
2011	802,150	41,959,937	-	-	-
2012	808,200	33,245,935	-	-	-

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Debt Capacity
Computation of Direct and Overlapping Debt
2012**

	Net Bonded Debt Outstanding	Percentage Applicable*	Authority Share
Pierce Transit	\$ -	100.00%	\$ -
City of Tacoma	197,272,000	30.54%	60,246,868
Pierce County	134,853,000	42.27%	57,002,363
			<u>\$117,249,231</u>
PTBA Population			560,000
Direct Debt as a % of Personal Income			.0000%
Direct and Overlapping Debt per Capita			\$ -

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

**Demographic and Economic Information
Pierce County Demographic and Economic Information
2003 - 2012**

Fiscal Year Dec 31	Pierce County Population	Median Household Income (1)	Personal Income (2) (In Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2003	731,969	47,084	21,131,368	28,801	142,050	8.2
2004	744,000	49,151	23,273,083	31,281	140,626	7.1
2005	755,900	50,678	24,440,169	32,448	139,032	5.9
2006	773,500	55,506	26,769,608	35,054	139,434	5.1
2007	790,500	56,426	28,949,941	37,446	139,945	4.7
2008	805,400	57,674	31,046,350	39,444	141,246	5.7
2009	813,600	56,555	32,332,969	40,577	141,182	9.3
2010	795,225	55,531	32,212,709	40,500	138,687	9.5
2011	802,150	56,114	33,117,849	40,992	132,480	8.5
2012	808,200	57,162	N/A	N/A	127,399	8.5

Sources: (1) Washington State Office of Financial Management
(2) US Census Bureau
(3) Superintendent of Public Instruction

(4) Washington State Department of Employment
(*) Not Available

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

Demographic and Economic Information

**Principal Employers
Comparisons of Employees and Percent of Total Employment
2012 and 2003**

Employer	2012			2003		
	Employees	Rank	Percent of Total County Population	Employees	Rank	Percent of Total County Population
Joint Base Lewis McChord	56,624	1	55.6%	42,436	1	55.5%
Local Public Schools (K-12)	13,352	2	13.1%	13,010	2	17.0%
MultiCare Health System	6,547	3	6.4%	3,587	4	4.7%
Washington State Employees	6,488	4	6.4%	6,991	3	9.2%
Franciscan Health Systems	5,709	5	5.6%	2,769	8	3.6%
City of Tacoma (Public Utilities Included)	3,620	6	3.6%			
Pierce County Government	2,872	7	2.8%	3,154	5	4.1%
Washington Higher Education	2,632	8	2.6%	2,491	9	3.3%
Emerald Queen Casino	2,200	9	2.2%	-	-	-
Walmart	1,785	10	1.7%	-	-	-
Fred Meyer				1,960	10	2.6%
Total	101,829		100%	76,398		100%
Pierce County Population	<u>808,200</u>			<u>731,969</u>		

Source: Tacoma-Pierce County Economic Development Board

Operating Information

**Pierce Transit Employee by Function
2003 - 2012**

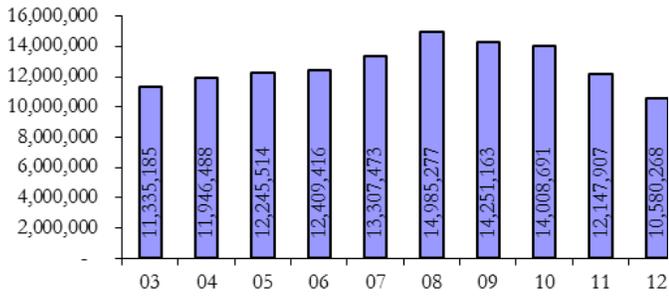
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operations	605	589	701	746	747	708	674	674	598	575
Maintenance	156	149	157	154	169	162	163	161	144	109
Administration	<u>128</u>	<u>127</u>	<u>145</u>	<u>153</u>	<u>174</u>	<u>168</u>	<u>145</u>	<u>144</u>	<u>139</u>	<u>132</u>
	889	865	1,003	1,053	1,090	1,038	982	979	881	816

*Contracted Employees not included in totals prior to 2005

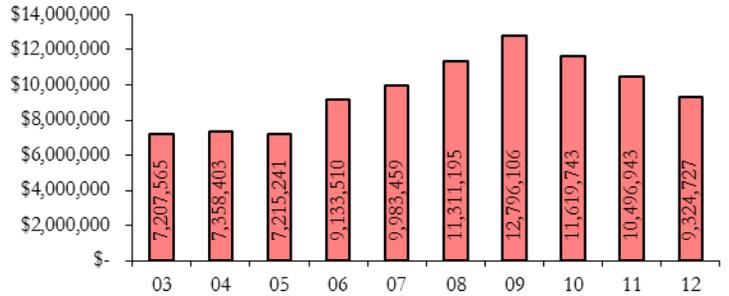
Pierce Transit
 Statistical Section
 Year ended December 31, 2012

Operating Information
 Fixed Route Statistics
 2003 – 2012

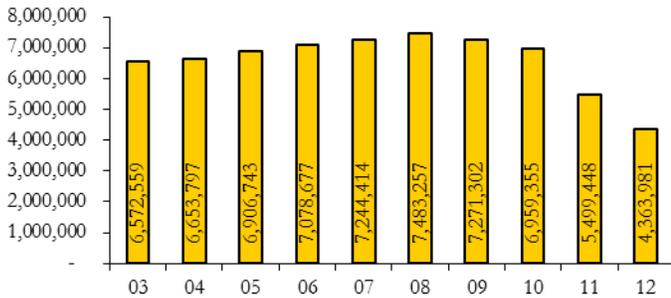
Annual Boardings



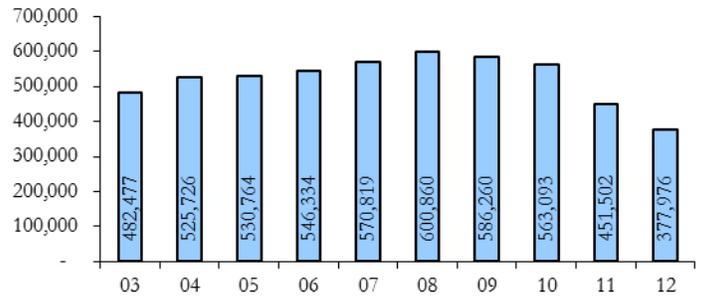
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours

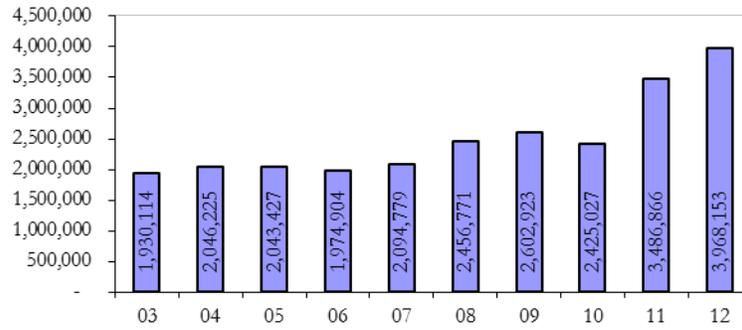


Source: National Transit Database (NTD)

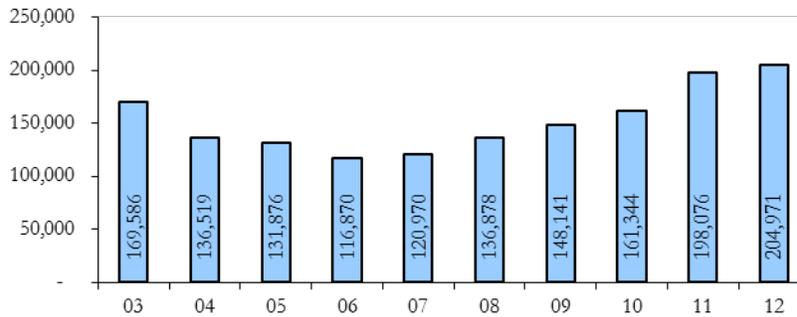
Pierce Transit
 Statistical Section
 Year ended December 31, 2012

Operating Information
 Sound Transit
 Fixed Route Statistics
 2003 – 2012

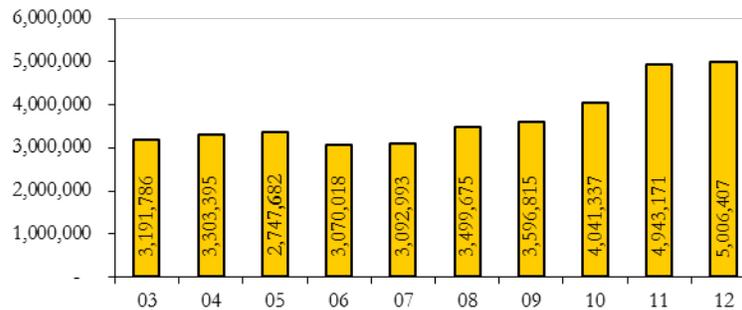
Annual Boardings



Actual Revenue Hours



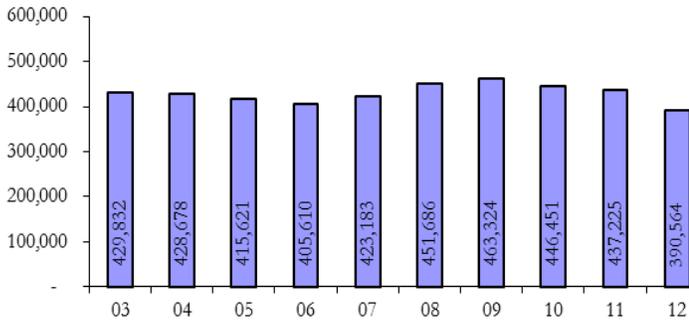
Revenue Miles



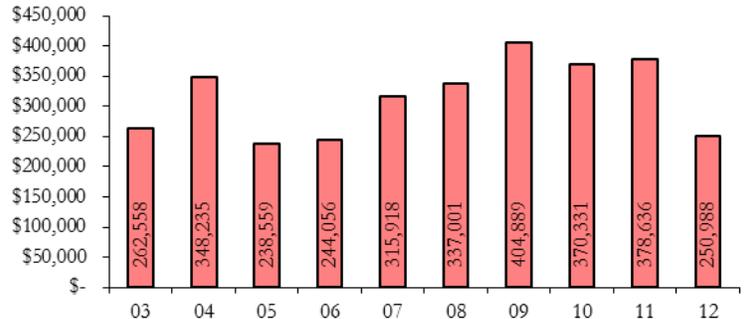
Pierce Transit
 Statistical Section
 Year ended December 31, 2012

Operating Information
Specialized Transportation (SHUTTLE)
 2003 – 2012

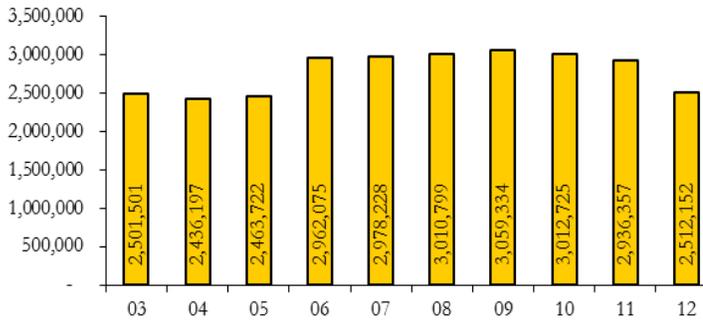
Annual Boardings



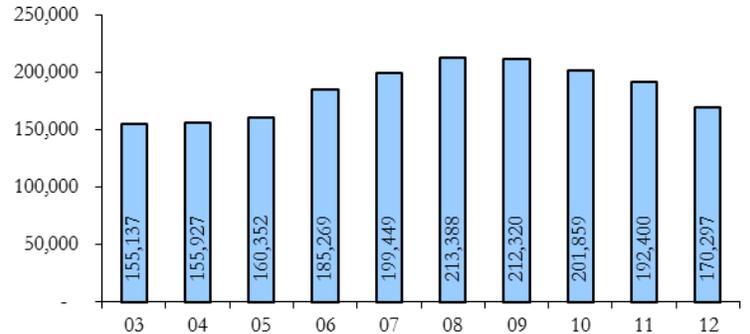
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours

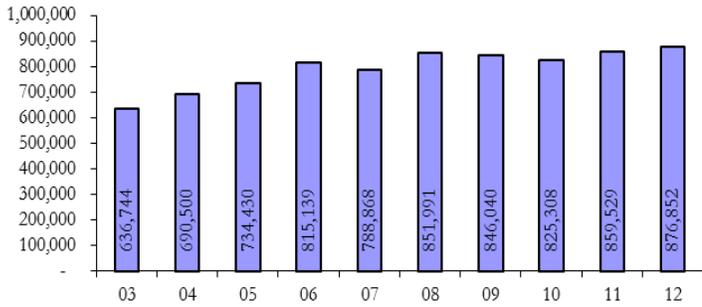


Includes directly operated and purchased transportation services.

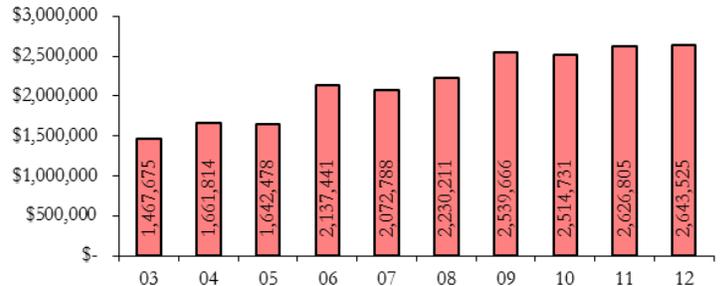
Pierce Transit
 Statistical Section
 Year ended December 31, 2012

Operating Information
 Vanpool Statistics
 2003 – 2012

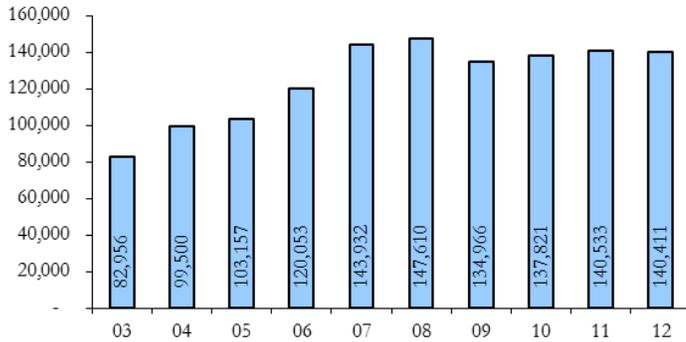
Annual Boardings



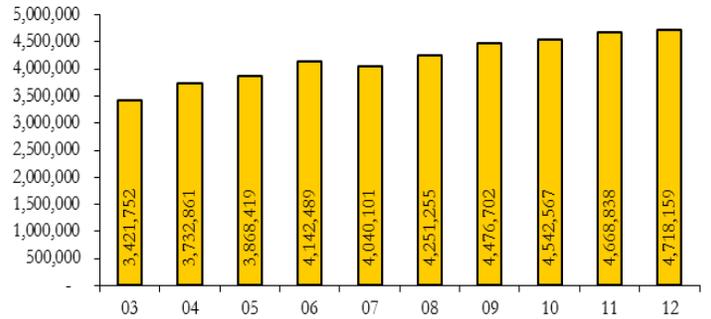
Annual Passenger Fare Revenues



Actual Revenue Hours



Revenue Miles



**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Operating Information
Key Performance Measures
2003 – 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
PIERCE TRANSIT FIXED ROUTE (excluding Sound Transit):										
Annual Boardings	11,335,185	11,946,488	12,245,514	12,409,416	13,307,473	14,985,277	14,251,163	14,008,691	12,147,907	10,580,268
Cost per Service Hour	\$ 72.36	\$ 81.50	\$ 86.80	\$ 90.36	\$ 96.96	\$ 104.96	\$ 107.47	\$ 114.02	\$ 139.91	\$ 136.99
Farebox Recovery	18%	16%	14%	17%	16%	16%	19%	17%	16%	16%
Passengers per Service Hour	20.4	21.2	21.1	20.6	21.1	22.7	22.7	22.7	24.5	25.4
Cost per Passenger	\$ 3.55	\$ 3.84	\$ 4.11	\$ 4.38	\$ 4.59	\$ 4.63	\$ 4.77	\$ 5.03	\$ 5.53	\$ 5.40
SHUTTLE:										
Annual Boardings	429,832	428,678	415,621	405,610	423,539	451,686	463,324	446,451	437,225	390,564
Cost per Service Hour	\$ 63.97	\$ 72.47	\$ 66.23	\$ 64.17	\$ 66.26	\$ 72.92	\$ 71.67	\$ 73.25	\$ 87.66	\$ 91.43
Farebox Recovery	2%	3%	2%	2%	2%	2%	2%	2%	2%	2%
Passengers per Service Hour	2.5	2.4	2.2	1.9	1.8	1.9	1.9	2.02	2.04	2.07
Cost per Passenger	\$ 25.97	\$ 29.73	\$ 29.67	\$ 34.23	\$ 37.32	\$ 39.05	\$ 38.70	\$ 36.23	\$ 42.94	\$ 44.11
VANPOOL:										
Annual Boardings	636,744	690,500	734,430	815,139	788,868	851,991	846,040	825,308	859,529	876,852
Cost per Service Hour	\$ 30.44	\$ 28.98	\$ 26.93	\$ 24.93	\$ 25.07	\$ 29.06	\$ 31.33	\$ 31.32	\$ 29.74	\$ 30.60
Farebox Recovery	57%	57%	59%	71%	57%	52%	57%	58%	63%	62%
Passengers per Service Hour	7.6	6.9	7.1	6.7	5.5	5.8	6.27	5.99	6.12	6.24
Cost per Passenger	\$ 4.02	\$ 4.23	\$ 3.82	\$ 3.71	\$ 4.57	\$ 5.03	\$ 4.77	\$ 5.23	\$ 4.86	\$ 4.90

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

**Operating Information
Vehicles Available for Maximum Service
2003 – 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pierce Transit Buses	168	208	193	176	176	218	189	182	182	173
SHUTTLE Vans	166	154	100	118	146	145	157	171	167	100
Vanpool Vans	<u>270</u>	<u>284</u>	<u>293</u>	<u>300</u>	<u>320</u>	<u>328</u>	<u>328</u>	<u>326</u>	<u>326</u>	<u>347</u>
	604	646	586	594	642	691	674	679	675	620

**Pierce Transit
Statistical Section
Year ended December 31, 2012**

**Grant Information
Capital Grant History
2003 – 2012**

FTA	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Section 3	\$ 157,643	\$ 2,131,762	\$ 2,774,048	\$ 343,103	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,944
Section 4	454	-	-	-	-	-	-	-	-	28,808
Section 8	610	-	-	-	-	-	-	-	-	-
Section 9	2,278,019	14,921,797	10,261,877	4,687,911	7,528,260	3,172,893	1,474,753	6,741,534	1,886,861	1,931,859
Other	-	-	-	-	53,793	148,056	96,502	82,380	383,078	17,256
WA STATE										
Misc Grants	65,161	(99,912)	215,807	344,798	504,380	223,262		478,620	1,125,916	473,901
MUNICIPAL/ LOCAL										
Partnerships	83,534	16,667	1,056,667	154,311	11,941	5,191,984	1,246,058	1,839,931	(26,903)	(45,050)
	<u>\$ 2,585,421</u>	<u>\$ 16,970,314</u>	<u>\$ 14,308,399</u>	<u>\$ 5,530,123</u>	<u>\$ 8,098,374</u>	<u>\$ 8,736,195</u>	<u>\$ 2,817,313</u>	<u>\$ 9,142,465</u>	<u>\$ 3,668,952</u>	<u>\$ 2,516,364</u>



Pierce Transit

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