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Pierce Transit
December 31, 2005

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July 17, 2006

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, 2005 is presented herein. Responsibility for the accuracy, completeness, and fairness of the presented data and the clarity of the presentation, including all disclosures, rests with Pierce Transit. 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.

This report has been prepared according to the guidelines recommended by the Government Finance Officers Association of the United States and Canada and in conformance with the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board.

This report is organized into three sections:

1. Introductory Section, including this letter of transmittal, 2004 Certificate of Achievement for Excellence in Financial Reporting, an Agency organization chart, and list of principal officials.
2. Financial Section, including the financial statements and accompanying notes, the independent auditor's opinion and management's discussion and analysis (MD&A). The financial statements, combined with other information, form the basis for the analysis in the MD&A. The MD&A provides "financial highlights", interprets the financial reports by analyzing trends and is intended to disclose any known significant events or decisions that affect Pierce Transit's financial condition.
3. Statistical Section, including additional data about Pierce Transit over the last ten years.

The Pierce County Public Transportation Benefit Area Corporation, AKA "Pierce Transit," was formed in 1979 when voters passed a 0.3 percent sales tax to fund public transportation. By authorizing this

taxing authority, a municipal corporation (Pierce Transit), was formed under Chapter 36.57A of the revised Code of Washington. In February 2002, Pierce County voters approved a ballot measure increasing local sales tax support from .3% to .6%. Sales tax collections based on the new tax rate began in July 2002. This additional sales tax revenue was used to restore service cut as a result of the loss of motor vehicle excise tax (MVET) revenues.

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

Pierce Transit's mission is to "deliver outstanding transportation services that match our customers' needs." Services are provided over a 414 square mile radius to an estimated population of 705,018. Pierce Transit's service area includes the cities and towns of Bonney Lake, Buckley, Dupont, Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Orting, Pacific, Puyallup, Ruston, Steilacoom, Sumner, Tacoma, and University Place along with extensive unincorporated areas of Pierce County. A Board of Commissioners governs the Agency. The Board is comprised of three members of the Tacoma City Council, two members of the Pierce County Council, the Pierce County Executive or his delegate, a member of the City of Lakewood council, one member selected by the City Councils of the cities of Puyallup and University Place, and an elected official chosen by the remaining small cities and towns. Appointments are based on three-year terms.

The Chief Executive Officer (CEO) is responsible for implementation of the policies legislated by the Board of Commissioners. In April, 2006, Lynne Griffith joined Pierce Transit as CEO. Ms. Griffith brings 35 years of demonstrated leadership in the transportation industry, serving most recently as Executive Director and Chief Executive Officer of C-Tran (Clark County Public Transportation Benefit Area) of Vancouver, Washington. Griffith also managed transit programs in the Atlanta, Georgia region.

In order to provide overall management for the Agency, six departments have been established, Executive, Maintenance, Operations, Development, Finance and Administration, and Human Resources.

II. PROFILE OF THE AGENCY

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

Pierce Transit's local fixed route bus service is provided along more than 48 routes throughout Pierce County. This service is centered on a network of transit centers hubs and park and ride lots. Pierce Transit supports regional express bus service in cooperation with Sound Transit, Puget Sound's Regional Transit Authority. Since 1999, the popular Seattle Express service from Tacoma to Seattle was funded by Sound Transit, and operated by Pierce Transit. In 2005, all local and express fixed route services combined carried 14.3 million passengers.

Specialized transportation services, commonly known as SHUTTLE, provide transportation to individuals in the community, who, due to a disability, are unable to use fixed route bus services. SHUTTLE is provided directly by Pierce Transit employees and through contracts with local transportation providers. In 2005, total ridership was 415,621.

The Agency's vanpool program was added to the mix of services in 1986. Since its inception, the vanpool program has expanded to 293 vans with over 2,938 daily riders. The vanpool program accounted for 4.8% of the Agency's total ridership in 2005, with 734,430 passenger boardings.

More people than ever look to Pierce Transit as an integral community partner. This year, we provided more than 191,216 rides in support of special events including the Puyallup Fair, Sound to Narrows Run, Mariners' games, Seahawk Games, and the Freedom Fair.

Major Initiatives

- In response to Pierce County's diverse transportation needs, Pierce Transit offers a variety of transportation services. An innovative service called Bus PLUS is Pierce Transit's newest addition to this service mix. Unlike traditional bus service that operates only along a designated route, Bus PLUS riders have the option of being picked up at a scheduled stop or scheduling a pick up at other pre-approved locations. Bus PLUS serves neighborhoods that do not have the population densities needed to cost-effectively support normal fixed route services. This successful service reflects Pierce Transit's collaborative effort with the community to redesign transit service to better serve their residents.
- Pierce Transit continued to add to its vanpool fleet and sponsored fifteen more vanpools in 2005 than in 2004.
- A project to replace Pierce Transit's mobile communication system is currently underway. The current radio system has exceeded its useful life and does not provide adequate radio coverage. This project will implement a mobile communication system that will enable reliable voice and data communication to all vehicles. In addition to replacing the current radio system, the system will be upgraded to include computer aided dispatch, mobile data, automatic vehicle location and other Intelligent Transportation System (ITS) capabilities. These new radio technologies will provide the opportunity to dramatically improve system safety and productivity. The cost of the project is currently estimated at approximately \$35.7 million.
- Coinciding with the opening of a second Tacoma Narrows Bridge in 2007, a significant increase in demand for bus and vanpool services is anticipated. Additional demand for transportation services will be motivated by the addition of two high occupancy vehicle lanes and the imposition of a toll across the bridge. This will create an increased demand for park and ride lot capacity in the Gig Harbor Peninsula area. In anticipation of this need, Pierce Transit is planning for an additional park and ride lot that will accommodate between 450-550 automobiles. The estimated project cost is \$21 million.
- Building 5, Pierce Transit's new, 26,500 square-foot, training and administration building located across the street from Pierce Transit's maintenance and operations facility was completed in 2005 for a cost of \$4.7 million. The new building allows for the consolidation of training space, enabling Pierce Transit to eliminate its leased Lakewood Training Center. Building 5 also houses the agency's Marketing, Shuttle and Commute Options departments.

III. ECONOMIC CONDITION AND OUTLOOK

Local economic conditions play a major part in sales tax revenue which is Pierce Transit's primary operating revenue source. Pierce Transit's sales tax rate of 6/10ths of 1% is anticipated to generate over \$72 million dollars in sales tax revenue in 2006. Sales tax has become an increasingly important component of Pierce Transit's operating revenues since the loss of Motor Vehicle Excise Tax (MVET) in 1999. In 1999, sales tax represented 39 percent of operating revenues. In 2006, sales tax is expected to account for 67 percent of Pierce Transit's operating revenues.

In creating the long-term financial plan and preparing the annual budget, local conditions and issues are closely examined. Pierce County's economy provides a stable base for economic growth. Growth in the local economy has a significant positive impact on Pierce Transit's sales tax revenues. Major manufacturers such as Boeing and Intel, along with other employers such as the Port of Tacoma and service employers like the

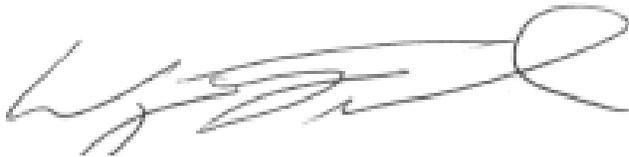
Franciscan Health System and Multicare Medical Center give Pierce County a diversified economic base. An improving airline industry, expanding port facilities and the stabilizing influence of a large federal workforce at the local military bases are expected to continue to feed moderate economic growth in 2006. This growth is expected to support Pierce Transit's six-year financial plan.

IV. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pierce Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2004. In order to be awarded a Certificate of Achievement, a governmental unit must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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



Wayne Fanshier
Vice President, Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pierce Transit,
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

Organizational Chart

Lynne Griffith
Chief Executive Officer

Jane Seymore
Vice President, Operations

Sandy Byers, CMC
Assistant to the CEO/Clerk of the Board

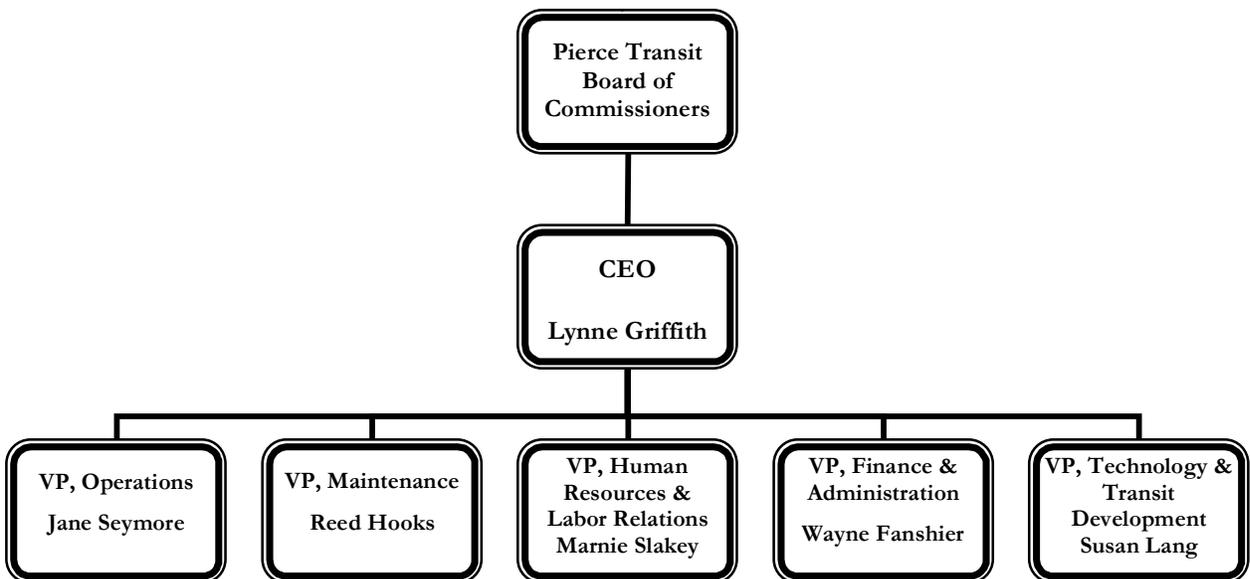
Reed Hooks
Vice President, Maintenance

Tom Wolfendale
General Counsel

Marnie Slakey
Vice President, Human Resources & Labor Relations

Wayne Fanshier, CPA
Vice President, Finance & Administration

Susan Lang
Vice President, Technology & Transit Development



PIERCE TRANSIT

Board Of Commissioners

Bill Baarsma
Chairman
Mayor of Tacoma
Term Expires 5/07

John Ladenburg
Vice Chairman
Pierce County Executive
Term Expires 5/08

Dave Enslow
Small Cities/
Towns Councilmember
Term Expires 5/07

Tom Stenger
Tacoma Councilmember
Term Expires 5/08

Terry Lee
Pierce County Councilmember
Term Expires 5/07

Calvin Goings
Pierce County Councilmember
Term Expires 5/09

Gerald Gehring
Puyallup/University
Place Councilmember
Term Expires 5/09

Rick Talbert
Tacoma Councilmember
Term Expires 5/09

John Arbeeny
Lakewood Councilmember
Term Expires 5/08

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**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 28, 2006

Board of Commissioners
Pierce Transit
Lakewood, Washington

We have audited the accompanying basic financial statements of Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Transit's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pierce Transit, Pierce County, Washington, as of December 31, 2005 and 2004, and the changes in financial position and cash flows, where applicable, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the years ended December 31, 2005, the Transit has implemented Governmental Accounting Standard's Board Statement 40, *Deposit and Investment Risk Disclosures*.

The Management's Discussion and Analysis on pages 10 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

**BRIAN SONNTAG, CGFM
STATE AUDITOR**



MANAGEMENT'S DISCUSSION AND ANALYSIS

Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the year ended December 31, 2005. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Financial Highlights

- Net income for 2005, before contributions, was \$8.7 million, an increase of \$4.8 million from 2004. This increase in net income was a result of increased sales tax revenue and operating assistance. The \$8.7 million in net income and capital contributions of \$14.3 million accounted for the \$23.0 million increase in net assets.
- Pierce Transit's assets exceeded its liabilities at December 31, 2005 by \$205.5 million (net assets), an increase of \$23.0 million over December 31, 2004. Increases in net assets in 2005 as a result of operations indicate an improved financial position. Of the \$23.0 million increase in net assets, investments in capital assets increased by \$9.2 million and unrestricted assets increased by \$13.8 million over 2004 levels. The majority (\$11.1 million) of the \$13.8 million increase in unrestricted net assets was designated for future capital acquisitions.
- No additional debt was issued during 2005. According to their repayments schedule, the Certificates of Participation which were defeased in 1999 were paid in full during 2005 (see footnote 9 on page 39 in the Notes to the Financial Statements).

Overview of the Financial Statements

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

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

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

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

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

Pierce Transit's financial statements can be found on page 20 to 23 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 24 to 41 of this report.

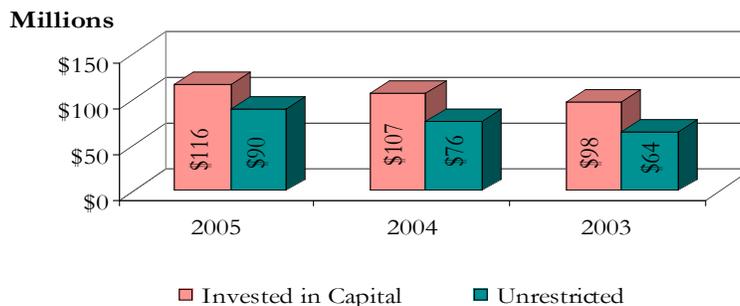
Financial Statement Analysis

As noted earlier, net assets may serve as a useful indication of the Agency's financial position. For the year ended December 31, 2005, assets exceed liabilities by \$205.5 million, an increase of 12.6 percent over 2004.

Pierce Transit Summary Statement for Net Assets For the years ending December 31, 2005, 2004 and 2003

| | 2005 | 2004 | 2003 |
|----------------------------------|-----------------------|-----------------------|-----------------------|
| Assets: | | | |
| Current Assets | \$ 53,787,701 | \$ 48,400,372 | \$ 47,740,670 |
| Restricted and Designated Assets | 53,602,590 | 42,468,789 | 30,909,508 |
| Other Non-current assets | - | - | 84 |
| Capital Assets (net) | 115,927,548 | 106,752,212 | 97,750,689 |
| Total Assets | <u>\$ 223,317,839</u> | <u>\$ 197,621,373</u> | <u>\$ 176,400,951</u> |
| Liabilities: | | | |
| Current Liabilities | \$ 12,448,807 | \$ 9,655,597 | \$ 9,244,137 |
| Current Liabilities Payable From | | | |
| Restricted Assets | 2,008,468 | 1,984,046 | 1,811,926 |
| Non-current Liabilities | 3,389,084 | 3,528,256 | 3,818,316 |
| Total Liabilities | <u>17,846,359</u> | <u>15,167,899</u> | <u>14,874,379</u> |
| Net Assets: | | | |
| Invested in Capital Assets | 115,927,548 | 106,752,212 | 97,750,689 |
| Net Assets | 89,543,932 | 75,701,262 | 63,775,883 |
| Total Net Assets | <u>205,471,839</u> | <u>182,453,474</u> | <u>161,526,572</u> |
| Total Liabilities and Net Assets | <u>\$ 223,317,839</u> | <u>\$ 197,621,373</u> | <u>\$ 176,400,951</u> |

Net Assets by Type



A large majority of Pierce Transit's net assets (\$115.9 million) reflect its investment in capital assets (e.g. revenue vehicles, passenger facilities, and shop equipment). The Agency uses these capital assets to provide transportation to the community. These are committed assets and this portion of the net asset balance is not available for future spending. A portion (\$53.6 million) of the remaining net asset balance of \$89.5 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 \$35.9 million is available to support future obligations for transportation operations.

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

Pierce Transit
Comparative Statement of Revenues, Expenses and Changes in Net Assets
For the years ending December 31, 2005, 2004 and 2003

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|----------------------|----------------------|----------------------|
| Operating Revenues | \$ 24,787,446 | \$ 23,351,313 | \$ 22,589,069 |
| Operating Expenses | (81,949,100) | (75,723,197) | (68,555,468) |
| Depreciation | (12,567,124) | (12,274,862) | (13,485,834) |
| Operating Loss | (69,728,778) | (64,646,746) | (59,452,233) |
| Operating Subsidies | 76,582,094 | 66,477,601 | 66,213,577 |
| Non-operating Expenses | (1,893,611) | (131,825) | (157,997) |
| Non-operating Revenues | 3,749,902 | 2,257,558 | 1,555,231 |
| Net Non-operating Income | 78,438,385 | 68,603,334 | 67,610,811 |
| Net Income (Loss) Before Contributions | 8,709,607 | 3,956,588 | 8,158,578 |
| Capital Grants | 14,308,399 | 16,970,314 | 2,585,421 |
| Change in Net Assets | <u>\$ 23,018,006</u> | <u>\$ 20,926,902</u> | <u>\$ 10,743,999</u> |

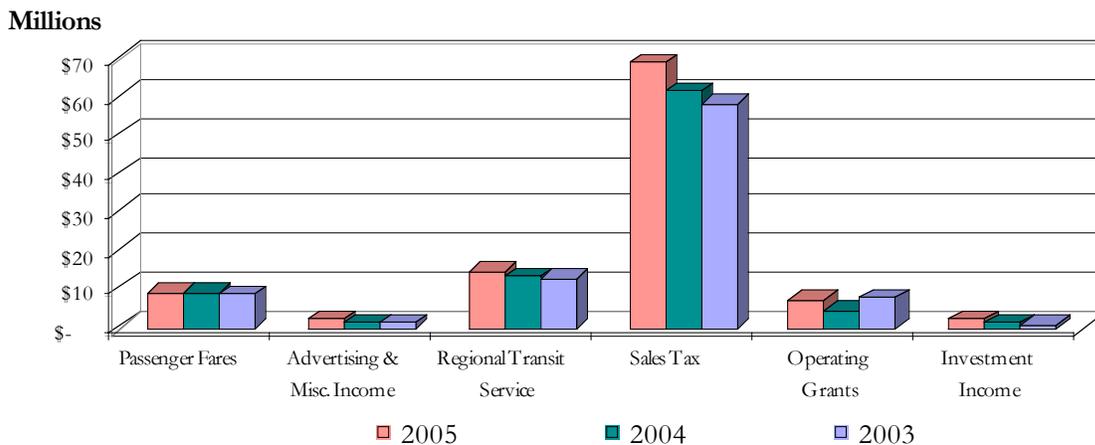
A description of operating & non-operating revenues follows:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------|-----------------------|----------------------|----------------------|
| Operating Revenues | | | |
| Passenger Fares | \$ 9,096,278 | \$ 9,368,453 | \$ 8,937,797 |
| Advertising | 851,602 | 442,379 | 673,295 |
| Regional Transit Service | 14,839,566 | 13,540,481 | 12,977,977 |
| Total Operating Revenues | <u>24,787,446</u> | <u>23,351,313</u> | <u>22,589,069</u> |
| Non-Operating Revenues: | | | |
| Operating Subsidies: | | | |
| Sales Tax | 69,126,119 | 61,770,952 | 58,189,718 |
| Operating Grants | 7,455,975 | 4,706,649 | 8,023,859 |
| Other Non-Operating Revenues: | | | |
| Investment Income | 2,393,870 | 1,218,453 | 685,934 |
| Miscellaneous Income | 1,356,032 | 1,039,105 | 869,297 |
| Total Non-Operating Revenues | <u>80,331,996</u> | <u>68,735,159</u> | <u>67,768,808</u> |
| Total Revenues | <u>\$ 105,119,442</u> | <u>\$ 92,086,472</u> | <u>\$ 90,357,877</u> |

Revenue highlights for 2005 include:

- Pierce Transit’s passenger fares consist of revenues from the sale of passes and tickets as well as cash fares collected on-board revenue vehicles. Fare revenues decreased slightly in 2005.
- Advertising revenues increased by \$409,223 over 2004 due to the timing of contractual guarantees.
- Regional transit service is the fixed route express service provided for Sound Transit, Puget Sound’s Regional Transit Authority. An inter-local agreement between Pierce Transit and Sound Transit has been established for the operation of this service. The agreement is for a period of five years. The current operating agreement ends on December 31, 2009. Revenues generated from this regional transit service were \$14.8 million in 2005, an increase of 10% over 2004. This increase is a result of a change in the number of service hours as well as the rate Pierce Transit charges for this providing service.
- Sales tax, accounting for nearly 66% of Pierce Transit’s operating revenue, grew by \$7.4 million, an increase of 12% over 2004. This increase was a result of a strong local economy.
- The majority of operating grant revenue is received from the Federal Transit Administration (FTA). Operating grants received in 2005 totaled \$7.5 million compared to \$4.7 million in 2004.
- Investment income increased nearly 97% from 2004 earnings. This increase was primarily due to a larger investment portfolio and modest increases in interest rates.

Operating Revenue by Source



Operating Expenses

Expenses by service mode are indicative of how Pierce Transit allocates its resources to serve the community. Service modes include:

- Fixed Route (FR) – Regularly scheduled buses operating on established routes.
- Demand Response (SHUTTLE) – Provides transportation in accordance with the Americans with Disabilities Act (ADA) regulations for patrons who cannot use fixed route service. SHUTTLE is a demand response, door-to-door transportation service. SHUTTLE is provided through a combination of directly operated and purchased transportation service.
- Vanpool – Prearranged groups of passengers, traveling to the same destination on similar schedules, form vanpool groups. These groups are provided a vehicle and one of the passengers is selected as the driver. Vanpool fare prices are designed to recover nearly the entire program's operating costs.

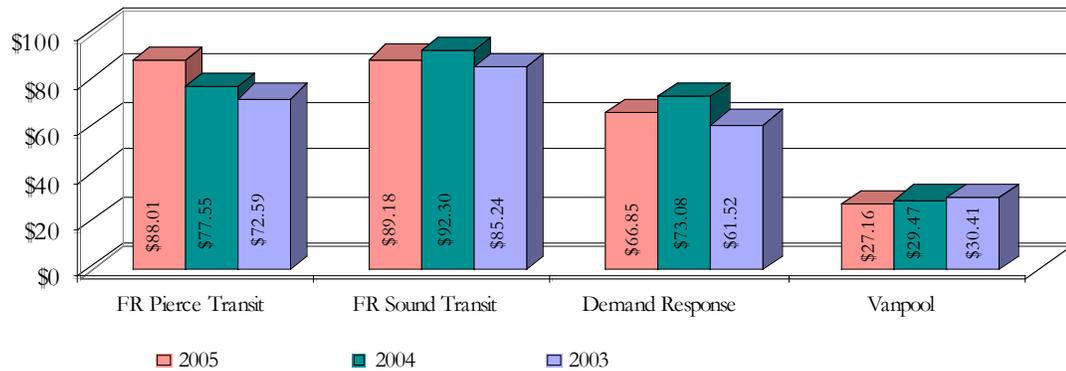
Total operating expenses, exclusive of depreciation, are most directly impacted by the number of service hours Pierce Transit operates. Service hours include drive time while in service, deadhead and layover. Following is a table representing the number of service hours by type of service for 2005, 2004 and 2003:

| Service Hours: | 2005 | 2004 | 2003 |
|----------------------------|------------------|------------------|----------------|
| Fixed Route-Pierce Transit | 580,073 | 563,830 | 556,199 |
| Fixed Route-Sound Transit | 172,410 | 176,505 | 169,586 |
| Demand Response | 186,147 | 174,765 | 181,480 |
| Vanpool | 104,239 | 99,500 | 84,250 |
| Total | <u>1,042,869</u> | <u>1,014,600</u> | <u>991,515</u> |

The costs associated with these service modes follow:

| Operating Expenses: | 2005 | 2004 | 2003 |
|--------------------------------|----------------------|----------------------|----------------------|
| Fixed Route-Pierce Transit | \$ 50,517,034 | \$ 43,727,420 | \$ 40,374,052 |
| Fixed Route-Sound Transit | 16,247,848 | 16,291,485 | 14,454,934 |
| Demand Response | 12,359,269 | 12,772,331 | 11,164,370 |
| Vanpool | 2,824,949 | 2,931,961 | 2,562,112 |
| Operating Expenses by Mode | <u>81,949,100</u> | <u>75,723,197</u> | <u>68,555,468</u> |
| Depreciation & Amortization | <u>12,567,124</u> | <u>12,274,862</u> | <u>13,485,834</u> |
| Total Operating Expenses | <u>94,516,224</u> | <u>87,998,059</u> | <u>82,041,302</u> |
| Non Operating Expenses: | | | |
| Items Previously Deferred | 61,865 | 1,277 | 15,209 |
| Grant Exchange Funds | 1,714,333 | - | - |
| Interest Expense | <u>117,413</u> | <u>130,548</u> | <u>142,788</u> |
| Total Non-Operating Expenses | <u>1,893,611</u> | <u>131,825</u> | <u>157,997</u> |
| Total Expenses | <u>\$ 96,409,835</u> | <u>\$ 88,129,884</u> | <u>\$ 82,199,299</u> |

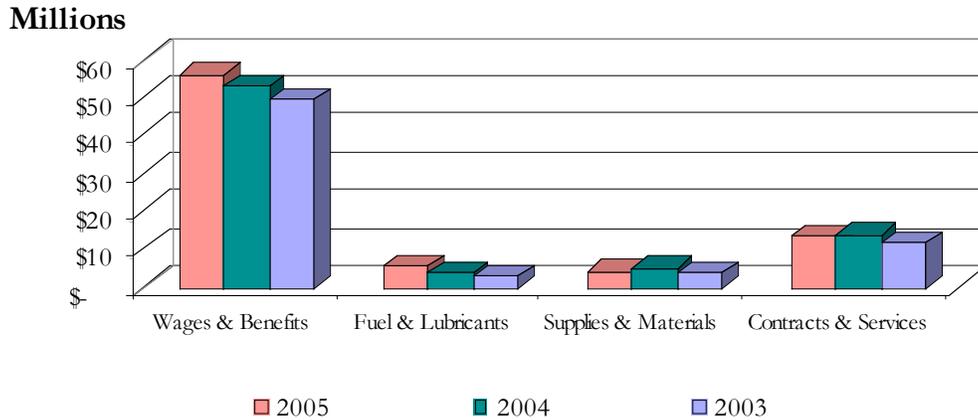
Operating Cost per Service Hour by Mode



Another way of looking at expenses is by expense type or object code:

| Operating Expenses: | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|-------------------------------------|----------------------|----------------------|----------------------|
| Wages & Benefits | \$ 57,785,602 | \$ 53,276,898 | \$ 49,732,380 |
| Fuel & Lubricants | 5,386,453 | 3,731,581 | 3,166,655 |
| Supplies & Materials | 4,851,849 | 4,944,439 | 4,050,431 |
| Contracts & Services | 13,925,196 | 13,770,279 | 11,606,002 |
| Total Operating Expenses | <u>81,949,100</u> | <u>75,723,197</u> | <u>68,555,468</u> |
| Non Operating Expenses: | | | |
| Depreciation & Amortization | 12,567,124 | 12,274,862 | 13,485,834 |
| Items Previously Deferred | 61,865 | 1,277 | 15,209 |
| Grant Exchange Funds | 1,714,333 | - | - |
| Interest Expense | 117,413 | 130,548 | 142,788 |
| Total Non-Operating Expenses | <u>14,460,735</u> | <u>12,406,687</u> | <u>13,643,831</u> |
| Total Expenses | <u>\$ 96,409,835</u> | <u>\$ 88,129,884</u> | <u>\$ 82,199,299</u> |

2005 Operating Expenditures by Type



Total expenses, excluding depreciation, increased by 8% over 2004 levels. Several factors, including service levels and contractual wage and benefit increases contributed to the rise in operating expenses.

Personnel costs which make up 71% of operating expenses increased by 6% over 2004 levels. Contractual wage increases of 2.5%, the health benefit premium increase of 8%, and the increase in the number of service hours accounted for the change in operating costs. National increases in the price of fuel, as well as an increase in the number of service hours operated, contributed to a 44% increase in fuel costs as compared to 2004.

Capital Assets

Pierce Transit's investment in capital assets as of December 31, 2005 totaled \$115.9 million, net of accumulated depreciation. 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. Net capital assets increased by 9 percent, or \$9 million during the year. This is the net result of the addition of \$21.7 million in assets and \$12.5 million in depreciation for 2005.

Capital contributions in 2005 totaled \$14.3 million. Capital grants funded 66 percent of Pierce Transit's capital acquisitions in 2005. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 11.

Major capital asset acquisitions during 2005 include the following:

- Twenty CNG buses, 104 Vanpool Vans, 10 Bus PLUS vehicles, 80 SHUTTLE vehicles and additional support vehicles.
- Property improvements and building improvements including a new training center (Building 5).
- Bus stop and transit center improvements to multiple locations throughout Pierce County.
- A variety of maintenance and computer equipment.
- Replacement of the financial & maintenance computer system and a signal priority project.

Debt Administration

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

Outstanding bond debt as of December 31, 2005 totaled \$2,525,000. It consists of limited sales tax general obligation bonds issued in 1999 with varying interest rates between 3.0% to 4.3% and maturities ranging from November 1, 1999 through November 1, 2011. This debt has been rated Aaa by Moody's Investors Service and is insured by Financial Guaranty Insurance Company (FGIC). A more detailed description of Pierce Transit's debt activity is found in footnote 4 and 9 of the financial section of this report.

Pierce Transit's authorized debt limit without a vote of the people is .375 percent of the value of the taxable property within its boundaries. The estimated non-voted debt capacity is \$108,549,812. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25 percent of assessed valuation, or \$365,753,335. This estimate is based on the assessed value of the cities and towns of Tacoma, Puyallup, Lakewood, University Place, Dupont, Orting, Steilacoom, Gig Harbor, Fircrest, Ruston, Fife, Milton, Sumner, Edgewood, Bonney Lake and Buckley, which are served by Pierce Transit. This estimate does not include any of the assessed valuation from the unincorporated areas of Pierce County within Pierce Transit's jurisdiction. As of December 31, 2005, Pierce Transit has a remaining total debt capacity of 99% and a remaining voted debt capacity of 97%.

Reserve Policies

Pierce Transit's Board of Commissioners had 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.

Factors Affecting Financial Condition

Local Economy

- A three percent increase in employment in 2005 in the Puget Sound Region helped to spur strong growth in the Pierce County economy. Regional retail sales grew by 6.4 percent in 2005. This strong growth in retail sales was fueled by strong growth in personal income, an influx of new residents to the region and falling unemployment. The solid performance of the economy is expected to continue in 2006 and will positively impact Pierce Transit's sales tax revenues.
- Because 2005 economic growth was exceptionally strong, a more moderate growth is anticipated in 2006. A strengthening economy, continued military personnel rotations, a healthy housing sector and solid retail expansion will stimulate local economic growth in the coming year.

Long Term Financial Outlook

- Pierce Transit expects to increase fixed route service hours approximately 17% by 2011. Current revenue and expenditure projections support this level of increase. Pierce Transit has identified expanded express services, more frequent peak hour services and more direct services to popular destinations as its most critical service needs for the next six years.
- Pierce Transit has developed a financial plan that relies upon sales tax revenues, fare revenues, regional transit service revenues from Sound Transit, and grant funds. In order to keep pace with inflation, two fare increases are planned over the next six years.
- Throughout the next six years, capital spending will focus on maintaining existing facilities and equipment and expanding facilities and equipment in order to improve customer service and support service expansion objectives. To do this, Pierce Transit will purchase replacement and expansion vehicles, expand base facilities, provide new park and ride lots, place shelters at existing stops and implement new technologies that provide better customer information and service.
- Pierce Transit will support operating expenses of \$649 million and capital expenses of \$166 million over the next six years. The planned expenses totaling \$815 million with modest fund balances will provide prudent reserves to help manage future uncertainties.

Request for Information

This financial report is designed to provide a general overview of Pierce Transit's finances for all those who have an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice President of Finance & Administration, PO Box 99070, Lakewood, WA 98499-0070.

End of Management's Discussion and Analysis

Comparative Statement of Net Assets

December 31, 2005 and 2004

| CURRENT ASSETS | 2005 | 2004 |
|--|-----------------------|-----------------------|
| Cash & Cash Equivalents | \$ 5,362,970 | \$ 4,596,887 |
| Investments | 27,258,536 | 23,203,375 |
| Accounts Receivable | 4,565,711 | 3,262,861 |
| Interest Receivable | 121,013 | 275,585 |
| Sales Tax Receivable | 12,724,096 | 11,391,182 |
| Due From Other Governments | 1,458,957 | 3,784,122 |
| Prepaid Expenses | 252,175 | 263,825 |
| Inventories | 2,044,243 | 1,622,535 |
| TOTAL CURRENT ASSETS | 53,787,701 | 48,400,372 |
| CURRENT RESTRICTED ASSETS | | |
| Cash & Cash Equivalents | 140,064 | 64,459 |
| Investments | 52,997,252 | 42,171,308 |
| Accounts Receivable | 71,517 | - |
| Interest Receivable | 268,889 | 74,845 |
| Due From Other Governments | 124,868 | 158,177 |
| TOTAL CURRENT RESTRICTED ASSETS | 53,602,590 | 42,468,789 |
| TOTAL CURRENT ASSETS | 107,390,291 | 90,869,161 |
| LONG TERM ASSETS | | |
| CAPITAL ASSETS | | |
| Land | 17,339,804 | 16,470,104 |
| Work in Progress | 5,017,323 | 6,675,911 |
| Structures & Improvements | 66,626,356 | 64,335,558 |
| Site Improvements | 43,918,591 | 41,081,799 |
| Machinery & Equipment | 94,067,431 | 86,644,307 |
| Leasehold Improvements | 79,250 | 79,250 |
| Less: Accumulated Depreciation | (111,121,207) | (108,534,717) |
| TOTAL CAPITAL ASSETS | 115,927,548 | 106,752,212 |
| TOTAL LONG TERM ASSETS | 115,927,548 | 106,752,212 |
| TOTAL ASSETS | \$ 223,317,839 | \$ 197,621,373 |

See accompanying notes to the financial statements.

Comparative Statement of Net Assets

December 31, 2005 and 2004

| CURRENT LIABILITIES | 2005 | 2004 |
|----------------------------------|-------------------|------------------|
| Warrants Payable | \$ 1,338,659 | \$ 307,219 |
| Accounts Payable | 3,970,362 | 2,987,317 |
| Wages and Benefits Payable | 2,476,419 | 2,027,990 |
| Employee Leave Payable | 3,977,809 | 3,786,427 |
| Due to Other Governments | 413,895 | 494,319 |
| Retainage Payable | 271,663 | 52,325 |
| TOTAL CURRENT LIABILITIES | 12,448,807 | 9,655,597 |

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

| | | |
|-------------------------------------|-------------------|-------------------|
| Warrants Payable | 41,526 | 76,640 |
| Accounts Payable | 64,810 | 83,689 |
| Interest Payable | 204,986 | 196,358 |
| Provision for Uninsured Claims | 1,317,146 | 1,262,359 |
| Bonds Payable-Current Portion | 380,000 | 365,000 |
| TOTAL RESTRICTED LIABILITIES | 2,008,468 | 1,984,046 |
| TOTAL CURRENT LIABILITIES | 14,457,275 | 11,639,643 |

LONG-TERM LIABILITIES

| | | |
|------------------------------------|-------------------|-------------------|
| Employee Leave Payable | 1,486,334 | 1,323,679 |
| Bonds Payable-Non-Current Portion | 2,145,000 | 2,525,000 |
| Unamortized Bond Refunding Gain | (242,250) | (320,423) |
| TOTAL LONG-TERM LIABILITIES | 3,389,084 | 3,528,256 |
| TOTAL LIABILITIES | 17,846,359 | 15,167,899 |

NET ASSETS

| | | |
|---|-----------------------|-----------------------|
| Invested in Capital Assets | 115,927,548 | 106,752,212 |
| Unrestricted Net Assets | 89,543,932 | 75,701,262 |
| TOTAL NET ASSETS | 205,471,480 | 182,453,474 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 223,317,839 | \$ 197,621,373 |

See accompanying notes to the financial statements.

Comparative Statement of Revenues, Expenses and Changes in Net Assets

Years ended December 31, 2005 and 2004

| OPERATING INCOME | 2005 | 2004 |
|---|-----------------------|-----------------------|
| Passenger Fares | \$ 9,096,278 | \$ 9,368,453 |
| Advertising | 851,602 | 442,379 |
| Regional Transit Service | 14,839,566 | 13,540,481 |
| TOTAL OPERATING REVENUES | 24,787,446 | 23,351,313 |
| OPERATING EXPENSES | | |
| Operations | 45,657,013 | 43,112,594 |
| Maintenance | 15,760,591 | 14,862,971 |
| Non-Vehicle Maintenance | 4,248,971 | 3,243,924 |
| General & Administration | 16,282,525 | 14,503,708 |
| Depreciation & Amortization | 12,567,124 | 12,274,862 |
| TOTAL OPERATING EXPENSES | 94,516,224 | 87,998,059 |
| OPERATING INCOME (LOSS) | (69,728,778) | (64,646,746) |
| NON-OPERATING INCOME (EXPENSE) | | |
| Operating Subsidies: | | |
| Sales Tax | 69,126,119 | 61,770,952 |
| Operating Grants | 7,455,975 | 4,706,649 |
| Other: | | |
| Expense of Items Previously Deferred | (61,865) | (1,277) |
| Investment Income | 2,393,870 | 1,218,453 |
| Grant Exchange Funds | (1,714,333) | - |
| Miscellaneous Non-operating Income | 1,005,346 | 947,521 |
| Gain (Loss) on Disposal of Assets | 350,686 | 91,584 |
| Interest Expense | (117,413) | (130,548) |
| NET NON-OPERATING INCOME | 78,438,385 | 68,603,334 |
| NET INCOME (LOSS) BEFORE CONTRIBUTIONS | 8,709,607 | 3,956,588 |
| Capital Contributions | 14,308,399 | 16,970,314 |
| NET INCOME (LOSS) AFTER CONTRIBUTIONS | 23,018,006 | 20,926,902 |
| NET ASSETS-BEGINNING | 182,453,474 | 161,526,572 |
| NET ASSETS-ENDING | \$ 205,471,480 | \$ 182,453,474 |

See accompanying notes to the financial statements.

Comparative Statement of Cash Flows

Years ended December 31, 2005 and 2004

| | 2005 | | 2004 |
|--|---------------|----|---------------|
| INCREASE(DECREASE)IN CASH AND CASH EQUIVALENTS: | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Cash Received From Customers | \$ 24,461,678 | \$ | 23,558,614 |
| Cash Payments to Suppliers for Goods & Services | (34,176,200) | | (32,153,183) |
| Cash Payments to Employees for Services | (45,468,676) | | (42,404,438) |
| Net Cash Used By Operating Activities | (55,183,198) | | (50,999,007) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | | |
| Sales Tax Received | 67,793,205 | | 61,084,368 |
| Operating Grants Received | 5,324,194 | | 6,668,342 |
| Net Cash Provided By Noncapital Financing Activities | 73,117,399 | | 67,752,710 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Acquisition and Construction of Capital Assets | (20,378,454) | | (21,110,400) |
| Capital Grants and Contributions | 15,955,247 | | 14,593,007 |
| Principal Paid on Debt | (365,000) | | (355,000) |
| Interest Paid on Debt | (108,785) | | (119,669) |
| Proceeds From Sale of Equipment | 331,186 | | 96,831 |
| Net Cash Used By Capital and Related Financing Activity | (4,565,806) | | (6,895,231) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of Investment Securities | (194,585,429) | | (139,494,178) |
| Proceeds from Maturities of Investment Securities | 179,704,324 | | 129,198,223 |
| Interest on Investments | 2,354,398 | | 904,257 |
| Change in Investment Value | 0 | | 0 |
| Net Cash Used By Investing Activities | (12,526,707) | | (9,391,698) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 841,688 | | 466,774 |
| Cash and Cash Equivalents at Beginning of Year | 4,661,346 | | 4,194,572 |
| Cash and Cash Equivalents at End of Year | \$ 5,503,034 | \$ | 4,661,346 |

See accompanying notes to the financial statements.

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

| | | | |
|----------------|-----------------|----|--------------|
| Operating Loss | \$ (69,728,778) | \$ | (64,646,746) |
|----------------|-----------------|----|--------------|

ADJUSTMENTS TO RECONCILE OPERATING TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

| | | | |
|-------------------------------|------------|--|------------|
| Depreciation and Amortization | 12,567,124 | | 12,274,862 |
|-------------------------------|------------|--|------------|

CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:

| | | | |
|---|-----------------|----|--------------|
| (Increase) Decrease in Accounts Receivable | (1,374,367) | | 1,496,180 |
| (Increase) Decrease in Inventories | (421,708) | | 31,891 |
| (Increase) Decrease in Prepaid Expenses | 11,650 | | (20,453) |
| (Increase) Decrease Sales Tax Receivable | (1,332,914) | | (686,584) |
| (Increase) Decrease in Due from Other Governments | 2,358,474 | | 301,959 |
| Increase (Decrease) in Warrants Payable | 996,326 | | (799,859) |
| Increase (Decrease) in Accounts Payable | 964,166 | | 1,402,569 |
| Increase (Decrease) in Wages and Benefits Payable | 802,466 | | 495,238 |
| Increase (Decrease) in Due to Other Governments | (80,424) | | (949,112) |
| Increase (Decrease) in Provision for Uninsured Claims | 54,787 | | 101,048 |
| TOTAL ADJUSTMENTS | 14,545,580 | | 13,647,739 |
| Net Cash Used By Operating Activities | \$ (55,183,198) | \$ | (50,999,007) |

See accompanying notes to the financial statements.

December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. ENTITY - The Pierce County Public Transportation Benefit Area Corporation, AKA Pierce Transit, is a municipal corporation formed under the authority of Chapter 36.57A of the Revised Code of Washington. Pierce Transit operates fixed route, specialized transportation (SHUTTLE), and vanpool transportation services in the urbanized area of Pierce County.

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

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

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

In accordance with Government Accounting Standards Board (GASB) Statement No. 20, the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principals Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

The financial statements are prepared on the basis of Governmental Accounting Standards Board (GASB), Statement Number 34, "Basic Financial Statements" and related standards. This statement provides for significant changes in terminology and includes recognition of capital grants in the Comparative Statement of Revenues, Expenses and Changes in Net Assets; a presentation of net assets; as well as an inclusion of a

December 31, 2005

management discussion and analysis and other changes. Pierce Transit adopted this statement effective for the period ending December 31, 2002.

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 expenses and grant reimbursements are budgeted on a project basis. Approved but unspent projects are carried over to the following budget year.

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

The first step in developing an Agency budget is a review of the Agency goals. These goals then act as a focus for the development of programs and objectives. Concurrently with the development of program 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 Staff reviews the programs, objectives, and expenditure requests to balance the total budget with the projected revenues and service requirements and priorities. Once the preliminary budget is balanced, the Board of Commissioners reviews the budget requests. During this period, the Board holds a public hearing on the budget proposals. When the budget review and final adjustments are complete, the budget is adopted by resolution.

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

December 31, 2005

A schedule of budgeted versus actual revenues and expenses for the periods ending December 31, 2005 and 2004, is as follows:

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2005

| | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) VARIANCE |
|----------------------------|-----------------------|-----------------------|--|
| Passenger Fares | \$ 9,821,400 | \$ 9,096,278 | \$ (725,122) |
| Advertising | 763,900 | 851,602 | 87,702 |
| Regional Transit Service | 16,365,000 | 14,839,566 | (1,525,434) |
| Interest Income | 983,300 | 2,393,870 | 1,410,570 |
| Sales Tax | 62,147,200 | 69,126,119 | 6,978,919 |
| Operating Grants | 7,738,700 | 7,455,975 | (282,725) |
| Capital Grants | 24,199,200 | 14,308,399 | (9,890,801) |
| Miscellaneous Revenues | 1,892,500 | 1,005,345 | (887,155) |
| Gain on Disposal of Assets | - | 350,686 | 350,686 |
| TOTAL* | \$ 123,911,200 | \$ 119,427,840 | \$ (4,483,360) |

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year ended December 31, 2005

| | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) VARIANCE |
|---|-----------------------|-----------------------|--|
| Personnel | \$ 62,192,000 | \$ 57,785,602 | \$ 4,406,398 |
| Fuel and Lubricants | 4,715,517 | 5,386,453 | (670,936) |
| Supplies and Materials | 5,049,375 | 4,851,849 | 197,526 |
| Contracts and Services | 14,946,708 | 13,925,196 | 1,021,512 |
| Depreciation and Amortization | - | 12,567,124 | (12,567,124) |
| Expense of Items Previously Deferred | - | 61,865 | (61,865) |
| Capital Acquisitions | 58,984,074 | 21,717,527 | 37,266,547 |
| Interest Expense | 118,000 | 117,413 | 587 |
| Grant Exchange Fund | 2,805,900 | 1,714,333 | 1,091,567 |
| Bond Principal | 365,000 | 365,000 | - |
| TOTAL* | \$ 149,176,574 | \$ 118,492,362 | \$ 30,684,212 |

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

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SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2004

| | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) VARIANCE |
|----------------------------|-----------------------|-----------------------|--|
| Passenger Fares | \$ 9,068,200 | \$ 9,368,453 | \$ 300,253 |
| Advertising | 664,000 | 442,379 | (221,621) |
| Regional Transit Service | 14,624,500 | 13,540,481 | (1,084,019) |
| Interest Income | 1,330,800 | 1,218,453 | (112,347) |
| Sales Tax | 59,187,800 | 61,770,952 | 2,583,152 |
| Operating Grants | 3,676,100 | 4,706,649 | 1,030,549 |
| Capital Grants | 30,568,000 | 16,970,314 | (13,597,686) |
| Miscellaneous Revenues | 1,811,000 | 947,521 | (863,479) |
| Gain on Disposal of Assets | - | 91,584 | 91,584 |
| TOTAL* | \$ 120,930,400 | \$ 109,056,786 | \$ (11,873,614) |

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year ended December 31, 2004

| | BUDGET | ACTUAL | FAVORABLE (UNFAVORABLE) VARIANCE |
|---|-----------------------|-----------------------|--|
| Personnel | \$ 56,954,662 | \$ 53,276,898 | \$ 3,677,764 |
| Fuel and Lubricants | 3,614,004 | 3,731,581 | (117,577) |
| Supplies and Materials | 4,868,032 | 4,944,439 | (76,407) |
| Contracts and Services | 14,130,876 | 13,770,279 | 360,597 |
| Depreciation and Amortization | - | 12,274,862 | (12,274,862) |
| Expense of Items Previously Deferred | - | 1,277 | (1,277) |
| Capital Acquisitions | 56,685,934 | 21,187,250 | 35,498,684 |
| Interest Expense | 135,000 | 130,548 | 4,452 |
| Bond Principal | 355,000 | 355,000 | - |
| TOTAL* | \$ 136,743,508 | \$ 109,672,134 | \$ 27,071,374 |

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

December 31, 2005

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

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

| | <u>2005</u> | <u>2004</u> |
|-----------------------------|--------------------|-------------------|
| Passenger Fares | \$ 9,096,278 | \$ 9,368,453 |
| Advertising | 851,602 | 442,379 |
| Regional Transit Service | 14,839,566 | 13,540,481 |
| Investment Income | 2,393,870 | 1,218,453 |
| Misc. Non-Operating Revenue | 1,005,345 | 947,521 |
| Operating Subsidies | 76,582,094 | 66,477,601 |
| Gain on Disposal of Assets | 350,686 | 91,584 |
| TOTAL | <u>105,119,441</u> | <u>92,086,472</u> |

Revenues From the Budget vs. Actual Schedule:

| | | |
|--------------------|-----------------------|-----------------------|
| Capital Grants | 14,308,399 | 16,970,314 |
| TOTAL | <u>119,427,840</u> | <u>109,056,786</u> |
| GRAND TOTAL | <u>\$ 119,427,840</u> | <u>\$ 109,056,786</u> |

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

| | <u>2005</u> | <u>2004</u> |
|--------------------------------------|-------------------|-------------------|
| Operations | \$ 45,657,013 | \$ 43,112,594 |
| Maintenance | 15,760,591 | 14,862,971 |
| Non-Vehicle Maintenance | 4,248,971 | 3,243,924 |
| General & Administration | 16,282,525 | 14,503,708 |
| Depreciation and Amortization | 12,567,124 | 12,274,862 |
| Expense of Items Previously Deferred | 61,865 | 1,277 |
| Interest Expense | 117,413 | 130,548 |
| Grant Exchange Funds | 1,714,333 | - |
| TOTAL | <u>96,409,835</u> | <u>88,129,884</u> |

Expenses From the Budget vs. Actual Schedule

| | | |
|------------------------|-----------------------|-----------------------|
| Capital Acquisitions | 21,717,527 | 21,187,250 |
| Bond Principal Payment | 365,000 | 355,000 |
| TOTAL | <u>22,082,527</u> | <u>21,542,250</u> |
| GRAND TOTAL | <u>\$ 118,492,362</u> | <u>\$ 109,672,134</u> |

December 31, 2005

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, 2005 total \$2,803,278 compared to \$10,007,448 on December 31, 2004. Encumbrances are not shown on the financial statements.

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

F. INVESTMENTS - Investments are carried at fair value based on quoted market prices. Pierce Transit adopted GASB Statement no. 40, Deposit and Investment Risk Disclosures, effective January 1, 2005.

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

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

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

Furnishings and equipment are capitalized if they have individual values of at least \$5,000 and the useful life extends over more than one fiscal year. Buildings and other structures are capitalized if the cost is at least \$10,000 with a ten-year useful life that extends over more than one fiscal year.

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

The Summary of Changes in Capital Assets as of December 31, 2005 and 2004, respectively, follows.

December 31, 2005

**Summary of Changes in Capital Assets
As of December 31, 2005**

| Description | Balance January 1, 2005 | Additions | Retirements | Adjustment | Balance December 31, 2005 |
|--|-------------------------------|---------------------|--------------------|---------------------|---------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 16,470,104 | \$ - | \$ - | \$ 869,700 | \$ 17,339,804 |
| Work in Progress | 6,675,912 | 21,287,267 | - | (22,945,857) | 5,017,323 |
| Total capital assets not being depreciated | <u>23,146,016</u> | <u>21,287,267</u> | <u>-</u> | <u>(22,076,157)</u> | <u>22,357,127</u> |
| Depreciable capital assets: | | | | | |
| Structures | 64,335,558 | - | - | 2,290,799 | 66,626,356 |
| Site Improvements | 41,081,799 | - | - | 2,836,792 | 43,918,591 |
| Machinery & Equipment | 86,644,307 | 430,260 | (9,893,834) | 16,886,698 | 94,067,431 |
| Leasehold Improvements | 79,250 | - | - | - | 79,250 |
| Total depreciable capital assets at cost | <u>192,140,914</u> | <u>430,260</u> | <u>(9,893,834)</u> | <u>22,014,289</u> | <u>204,691,628</u> |
| Total Capital Assets (gross) | <u>215,286,930</u> | <u>21,717,527</u> | <u>(9,893,834)</u> | <u>(61,868)</u> | <u>227,048,755</u> |
| Less accumulated depreciation for: | | | | | |
| Structures | (26,845,221) | (3,495,769) | - | 385,535 | (29,955,454) |
| Site Improvements | (35,230,799) | (1,602,060) | - | (385,535) | (37,218,394) |
| Machinery & Equipment | (46,379,448) | (7,382,494) | 9,893,834 | - | (43,868,108) |
| Leasehold Improvements | (79,250) | - | - | - | (79,250) |
| Total accumulated depreciation | <u>(108,534,718)</u> | <u>(12,480,323)</u> | <u>9,893,834</u> | <u>-</u> | <u>(111,121,207)</u> |
| Total Capital Assets (net) | <u>\$106,752,212</u> | <u>\$ 9,237,204</u> | <u>\$ -</u> | <u>\$ (61,868)</u> | <u>\$115,927,548</u> |

December 31, 2005

**Summary of Changes in Capital Assets
As of December 31, 2004**

| Description | Balance January 1, 2004 | Additions | Retirements | Adjustment | Balance December 31, 2004 |
|--|-------------------------------|---------------------|--------------------|-----------------|---------------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 16,470,104 | \$ - | \$ - | \$ - | \$ 16,470,104 |
| Work in Progress | 3,734,813 | 2,923,856 | - | 17,243 | 6,675,912 |
| Total capital assets not being depreciated | <u>20,204,917</u> | <u>2,923,856</u> | <u>-</u> | <u>17,243</u> | <u>23,146,016</u> |
| Depreciable capital assets: | | | | | |
| Structures | 63,321,043 | 1,014,515 | - | - | 64,335,558 |
| Site Improvements | 41,088,059 | 10,983 | - | (17,243) | 41,081,799 |
| Machinery & Equipment | 73,057,972 | 17,237,896 | (3,651,561) | - | 86,644,307 |
| Leasehold Improvements | 79,250 | - | - | - | 79,250 |
| Total depreciable capital assets at cost | <u>177,546,324</u> | <u>18,263,394</u> | <u>(3,651,561)</u> | <u>(17,243)</u> | <u>192,140,914</u> |
| Total Capital Assets (gross) | <u>197,751,241</u> | <u>21,187,250</u> | <u>(3,651,561)</u> | <u>-</u> | <u>215,286,930</u> |
| Less accumulated depreciation for: | | | | | |
| Structures | (23,185,687) | (3,659,534) | - | - | (26,845,221) |
| Site Improvements | (33,506,615) | (1,724,184) | - | - | (35,230,799) |
| Machinery & Equipment | (43,229,000) | (6,802,009) | 3,651,561 | - | (46,379,448) |
| Leasehold Improvements | (79,250) | - | - | - | (79,250) |
| Total accumulated depreciation | <u>(100,000,552)</u> | <u>(12,185,727)</u> | <u>3,651,561</u> | <u>-</u> | <u>(108,534,718)</u> |
| Total Capital Assets (net) | <u>\$ 97,750,689</u> | <u>\$ 9,001,523</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$106,752,212</u> |

December 31, 2005

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 |
| Other Vehicles | 3 to 5 years |
| Machinery, Equipment, and Furniture | 5 years |

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

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

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

K. DEFERRED PASSENGER REVENUE - Revenues are recorded when earned. Deferred passenger revenue as of December 31, 2005 and 2004, was \$0.

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

Net assets include the following subsidies of operations:

Sales Tax - In February 2002, Pierce County voters approved a ballot measure increasing the local sales tax support from .3% to .6%. The sales tax increase went into effect July 1, 2002. The sales tax increase replaces funding that was lost when the Motor Vehicle Excise Tax (MVET) was eliminated in 2000. The sales tax collected in 2005 totaled \$69,126,119, resulting in a twelve percent increase over 2004 sales tax revenue of \$61,770,952.

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

Federal Operating Assistance - Federal operating grants.

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

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

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

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|---------------------|---------------------|
| Vacation-Current | \$ 2,444,360 | \$ 2,367,080 |
| Vacation-Non-current | 271,596 | 263,009 |
| Total Vacation Leave Liability | <u>\$ 2,715,956</u> | <u>\$ 2,630,089</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, 2005 and 2004 were \$6,293,748 and \$6,029,031 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 are as follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Current Liability based on usage or terminations | \$ 1,533,449 | \$ 1,419,347 |
| Non-current Liability based on expected future payoffs | 1,214,738 | 1,060,670 |
| Total Sick Leave Liability | <u>\$ 2,748,187</u> | <u>\$ 2,480,017</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 long-term employee leave payable follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Balance beginning of year | \$ 1,323,679 | \$ 1,326,912 |
| Employee leave earned | 1,324,280 | 1,034,333 |
| Employee leave paid | (1,161,625) | (1,037,566) |
| Long-term employee leave payable as of 12/31 | <u>\$ 1,486,334</u> | <u>\$ 1,323,679</u> |

2. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as of December 31, 2005 and 2004, respectively as follows:

Composition of Cash and Cash Equivalents:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Demand Deposits | \$ 1,393,726 | \$ 1,093,356 |
| Investments having original maturities of less than 3 months | 4,109,308 | 5,560,808 |
| Total Cash and Cash Equivalents | <u>\$ 5,503,034</u> | <u>\$ 6,654,164</u> |

All bank deposits are entirely insured.

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The investment practices of Pierce Transit are governed by an investment policy adopted by the Board of Commissioners. Allowable investments are limited as follows:

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

During 2005 and 2004, 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 2005 or 2004.

In 2005, Pierce Transit implemented GASB Statement No. 40 – Deposit and Investment Risk Disclosures (an amendment to GASB Statement 3), which modifies and expands existing disclosure requirements for deposits and investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity of its fair value to changes in market interest rates. Pierce Transit's weighted average maturity as for December 31, 2005 and 2004, was 105 days and 99 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, 2005 and 2004.

December 31, 2005

| Investment Type | Fair Value | 2005 Investment Maturities(in months) | | | | | Total |
|----------------------|----------------------|---------------------------------------|---------------------|----------------------|---------------------|----------------------|-------|
| | | 0-3 | 4-6 | 6-12 | 12-24 | | |
| Local Government | | | | | | | |
| Investment Pool | \$ 48,283,826 | \$ 48,283,826 | \$ - | \$ - | \$ - | \$ 48,283,826 | |
| Repurchase Agreement | 3,910,573 | 3,910,573 | - | - | - | 3,910,573 | |
| Banker's Acceptances | 2,624,045 | 1,819,422 | 804,623 | | | 2,624,045 | |
| U. S. Agencies | 29,546,652 | 4,016,971 | 6,996,105 | 10,589,063 | 7,944,513 | 29,546,652 | |
| | <u>\$ 84,365,096</u> | <u>\$ 58,030,792</u> | <u>\$ 7,800,728</u> | <u>\$ 10,589,063</u> | <u>\$ 7,944,513</u> | <u>\$ 84,365,096</u> | |

| Investment Type | Fair Value | 2004 Investment Maturities(in months) | | | | | Total |
|----------------------|----------------------|---------------------------------------|---------------------|----------------------|--------------------|---------------------|-------|
| | | 0-3 | 4-6 | 6-12 | 12-24 | | |
| Local Government | | | | | | | |
| Investment Pool | \$ 35,034,238 | \$35,034,238 | \$ - | \$ - | \$ - | \$35,034,238 | |
| Repurchase Agreement | 3,567,990 | 3,567,990 | - | - | - | 3,567,990 | |
| Banker's Acceptances | 5,143,939 | 2,578,087 | 2,565,852 | - | - | 5,143,939 | |
| U. S. Agencies | 25,196,506 | 1,992,818 | 3,230,287 | 11,473,401 | 8,500,000 | 25,196,506 | |
| | <u>\$ 68,942,673</u> | <u>\$43,173,133</u> | <u>\$ 5,796,139</u> | <u>\$ 11,473,401</u> | <u>\$8,500,000</u> | <u>\$68,942,673</u> | |

Disclosures Relating to Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignments of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is un-rated 2a-7 like pool, as defined by GASB 31.

Concentration of Credit Risk

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

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

Custodial Credit Risk

Custodial credit risk for investments generally applies to direct investments in marketable securities. With the exception of the Washington State Local Government Investment Pool, Pierce Transit's marketable

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securities are insured, registered, or held by Pierce Transit or its agent in Pierce Transit's name. Pierce Transit's overnight repurchase agreements are collateralized by liquid, marketable securities having a market value of at least 102% of the repurchase price. Custodial credit risk does not apply to Pierce Transit's indirect investment in securities through the use of the local government investment pool.

3. RECEIVABLES

Amount due to Pierce Transit for periods ending December 31, 2005 and 2004 (net of uncollectables) are detailed as follows:

UNRESTRICTED RECEIVABLES

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|-------------------|-------------------|
| Accounts Receivable | \$ 4,565,711 | \$ 3,262,861 |
| Interest Receivable | 121,013 | 275,585 |
| Sales Tax Receivable | <u>12,724,096</u> | <u>11,391,182</u> |
| Total Receivables | <u>17,410,820</u> | <u>14,929,628</u> |
| Due from Other Governments: | | |
| Capital Grants | 930,759 | 2,577,607 |
| Operating Grants | 493,261 | 289 |
| Fuel Tax Refund | - | 75,524 |
| Regional Transit Service Revenues | <u>34,937</u> | <u>1,130,702</u> |
| Total Due from Other Governments | <u>1,458,957</u> | <u>3,784,122</u> |
| Total Unrestricted Receivables | <u>18,869,777</u> | <u>18,713,750</u> |

RESTRICTED RECEIVABLES

| | | |
|-----------------------------------|---------------------|---------------------|
| Accounts Receivable | 71,517 | - |
| Interest Receivable | 268,889 | 74,845 |
| Regional Transit Service Revenues | <u>124,868</u> | <u>158,177</u> |
| Total Restricted Receivables | <u>465,274</u> | <u>233,022</u> |
| Total Receivables | <u>\$19,335,051</u> | <u>\$18,946,772</u> |

4. BONDS PAYABLE

In 1999, Pierce Transit issued \$3,795,000 of limited sales tax general obligation bonds. This debt has been rated Aaa by Moody's Investors Service and is insured by Financial Guaranty Insurance Company (FGIC). These bonds were issued to advance refund bonds issued in 1992 with maturity dates between 2003 and 2011 (see Footnote 9). Bond payments are made from sales tax revenues. On December 31, 2005 the total outstanding debt was \$2,525,000 of which \$380,000 is recorded as a current liability and \$2,145,000 is recorded as a non-current bond payable liability.

December 31, 2005

The schedule of future debt service requirements is as follows:

| Year Ended Dec 31 | 1999 bonds Principal | 1999 Bonds Interest | Total Limited Obligation Debt Service |
|-------------------|-------------------------|---------------------|---|
| 2006 | \$ 380,000 | \$ 103,543 | \$ 483,543 |
| 2007 | 395,000 | 88,722 | 483,722 |
| 2008 | 415,000 | 72,923 | 487,923 |
| 2009 | 430,000 | 56,322 | 486,322 |
| 2010 | 445,000 | 38,693 | 483,693 |
| 2011 | 460,000 | 19,780 | 479,780 |
| Total | \$ 2,525,000 | \$ 379,983 | \$ 2,904,983 |

5. RESERVED AND DESIGNATED NET ASSETS

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

A. DESIGNATED FOR CAPITAL - Net assets designated for capital equal \$46,501,165 for 2005 and were \$34,463,716 for 2004.

B. DESIGNATED FOR INSURANCE - Pierce Transit's Board of Commissioners established a self-insurance fund in 1982 (See also Footnote 8). Net assets designated for unemployment, liability self-insurance, and workers compensation for the period ending December 31, 2005 and 2004, were \$5,585,483 and \$6,503,290, respectively.

C. RESTRICTED FOR DEBT SERVICE - Cash, investments, and receivables restricted for debt service total \$92,460 for 2005, and \$70,035 for 2004. Current liabilities payable from these assets as of December 31, 2005 and 2004, were \$584,986 and \$561,358, respectively, leaving (\$492,526) and (\$482,263) current net assets restricted for debt service. The net asset balance is negative because bond covenants provide that debt service may be funded monthly such that total funds available equal the debt service payment on the due date; however, the current portion of the debt service payment is recorded in one lump sum.

6. EMPLOYEE BENEFITS

A. RETIREMENT - Pierce Transit contributes monthly to two separate retirement systems. Both systems are cost sharing multi-employer public employee retirement systems. The Agency contributions, as well as employee contributions, are based on the gross pay of an employee. Tacoma Transit employees

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

Information regarding the Public Employees Retirement System (PERS) is presented in the State Department of Retirement Systems Annual Financial Report. A copy of the report may be obtained by contacting the Department of Retirement Systems, 6825 Capital Boulevard, P.O. Box 48380, Olympia, WA 98504-8389. Information regarding the Tacoma Employees' Retirement System can be found in its annual report and may be obtained by writing to the Tacoma Employees' Retirement System, 747 Market Street, and Room 1544, Tacoma, WA 98402. Ten year historical trend information showing the retirement systems' progress in accumulating sufficient assets to pay benefits when due is presented in the PERS and TERS Comprehensive Annual Financial Report of June 30, 2005 and December 31, 2005 respectively. The payroll for Pierce Transit employees covered by these retirement systems was \$44,254,845 for the year ended December 31, 2005; Pierce Transit's total payroll for 2005, was \$45,917,105. Payroll for Pierce Transit employees covered by retirement systems as of December 31, 2004 was \$41,070,316, with a total payroll of \$42,426,167. Employees covered by the Tacoma Employees Retirement Systems (TERS) are required by State statute and City ordinance to contribute 6.44% of gross wages to the plan; employees covered by the Public Employees Retirement System (PERS) are required by State statute to contribute 6% of gross wages for Plan 1 participants. Pierce Transit is required by the same authority to contribute the remaining amounts necessary to pay benefits when due. Plan 2 participants were required to contribute 1.18% of gross wages for through June 18, 2005, increasing to 2.25% through December 31, 2005. PERS Plan 3 employees can contribute 5% to 15% of their gross wages. Pierce Transit does not provide post-retirement health care and life insurance benefits.

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

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

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

During 2005, 2004, and 2003, 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 | |
|------------|-------------|-------------------|-------------|---------------------|-------------|-------------------|-------|-------------------|
| | Rate | Amount | Rate | Amount | Rate | Amount | Rate | Amount |
| Employee | 6.00% | \$ 81,975 | 1.18% | \$ 309,390 | 5-15% | \$ 76,756 | 6.44% | \$ 72,368 |
| Employer | 1.40% | 18,988 | 1.40% | 460,782 | 1.40% | 16,289 | 7.56% | 85,042 |
| Total 2003 | | <u>\$ 100,963</u> | | <u>\$ 770,172</u> | | <u>\$ 93,045</u> | | <u>\$ 157,410</u> |
| Employee | 6.00% | \$ 94,289 | 1.18% | \$ 430,388 | 5-15% | \$ 119,869 | 6.44% | \$ 67,288 |
| Employer | 1.40% | 22,575 | 1.40% | 508,030 | 1.40% | 27,090 | 7.56% | 80,549 |
| Total 2004 | | <u>\$ 116,864</u> | | <u>\$ 938,418</u> | | <u>\$ 146,959</u> | | <u>\$ 147,837</u> |
| Employee | 6.00% | \$ 96,238 | 2.25% | \$ 677,661 | 5-15% | \$ 146,828 | 6.44% | \$ 65,695 |
| Employer | 2.44% | 30,695 | 2.44% | 754,594 | 2.44% | 47,253 | 7.56% | 77,716 |
| Total 2005 | | <u>\$ 126,933</u> | | <u>\$ 1,432,255</u> | | <u>\$ 194,081</u> | | <u>\$ 143,411</u> |

B. DEFERRED COMPENSATION PLAN - Pierce Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Pierce Transit contributes from 1% to 5.5% of the annual salary of all participating employees. In 2005, Pierce Transit contributed \$761,097. Pierce Transit contributed \$697,925 to this plan in 2004. 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

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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 Company's creditors. Therefore, deferred compensation funds are not shown on the balance sheet.

7. CONTINGENT LIABILITIES

Pierce Transit has various unresolved claims and suits against it as of December 31, 2005. Management, based upon the opinion of legal counsel, is of the opinion that the ultimate resolution of these actions will not have significant affect on the Agency's financial position or results of operations.

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

8. INSURANCE

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

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

| RISK | COVERAGE |
|---------------------------|--|
| General Liability | \$16,000,000 excess of \$1,000,000 deductible. |
| Workers Compensation | \$25,000,000 excess of \$1,000,000 deductible. |
| Vanpool Auto/Liability | \$60,000 uninsured motorists. |
| Fleet Fire | Actual replacement value, \$10,000 deductible. |
| Building Fire/Office | All risk and replacement cost coverage with a limit of liability of |
| Contents/Earthquake/Flood | \$100,000,000; \$10,000 deductible; \$100,000 minimum deductible for earthquake, \$100,000 for flood, and \$2,000,000 for data processing. |
| Fidelity Bonds | Public employees blanket bond in the amount of \$1,000,000 with \$100,000 deductible. |
| Money & Securities | Coverage for wrongful abstractions of money & securities inside and outside the premises. |
| Pollution Liability | \$1,000,000 subject to \$10,000 deductible for headquarters underground tanks only. |

December 31, 2005

On December 31, 2005, the self-insurance assets totaled \$7,008,965, of which a liability of \$1,317,416 is recorded as liability for all accident and workers compensation claims for which it may be ultimately liable, including a provision for claims incurred but not yet reported. As of December 31, 2004 Pierce Transit's self-insurance assets totaled \$7,925,978 of which a liability of \$1,262,359 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>2005</u> | <u>2004</u> |
|--------------------------------|---------------------|---------------------|
| Balance beginning of year | \$ 1,262,359 | \$ 1,161,311 |
| Provision for incurred claims | 2,119,490 | 2,103,020 |
| Payments made for claims | (2,064,433) | (2,001,972) |
| Claims liabilities end of year | <u>\$ 1,317,416</u> | <u>\$ 1,262,359</u> |

9. DEBT

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. The unamortized bond refunding gain as of December 31, 2005 is \$242,250. This difference is being amortized through the year 2011. The Agency completed the advance refunding to reduce its total debt service payments over the next 11 years.

In June 1993, Pierce Transit issued \$6,550,000 of Certificates of Participation. These bonds carried interest coupons from 3.0% to 5.6% and various maturities through November 2005. On August 27, 1999, Pierce Transit defeased the principal outstanding of \$3,815,000. It was determined the amount held in the Certificates of Participation escrow account of \$462,802 and a cash contribution from Pierce Transit of \$3,445,231 would be sufficient to pay, when due, the principal and interest requirements on the outstanding Certificates of Participation maturing on and after November 1, 1999. The funds have been placed in an irrevocable trust with an escrow agent to be paid as originally scheduled. As a result, the 1993 Certificates of Participation are considered defeased and the liability for these certificates have been removed from the balance sheet. As of December 31, 2005, the defeased debt was paid in full.

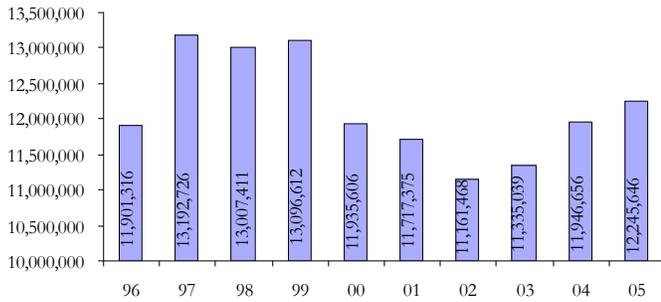
Pierce Transit did not have any short-term debt as of December 31, 2005.

End of Notes to the Financial Statements

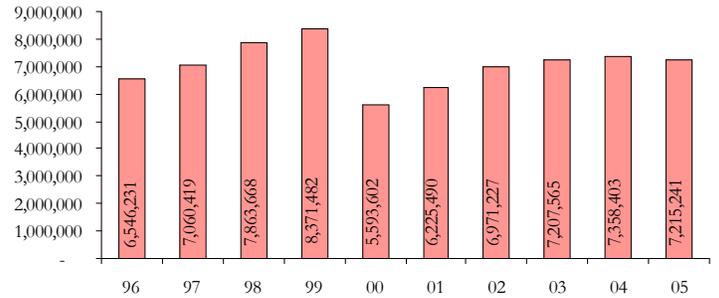
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Pierce Transit
Fixed Route Statistics
1996 - 2005

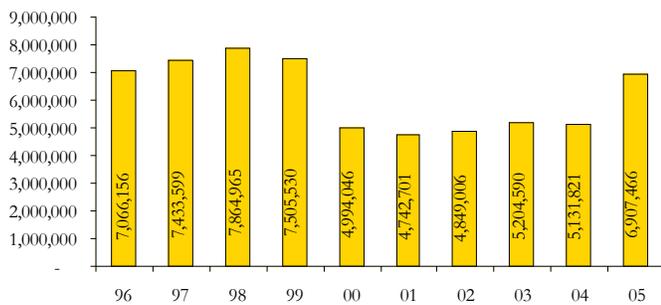
Annual Ridership



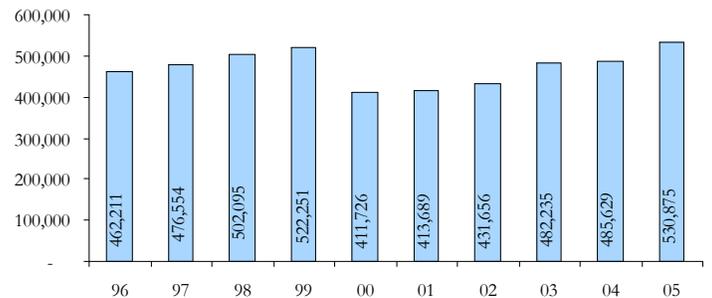
Annual Passenger Fare Revenues



Revenue Miles



Revenue Hours

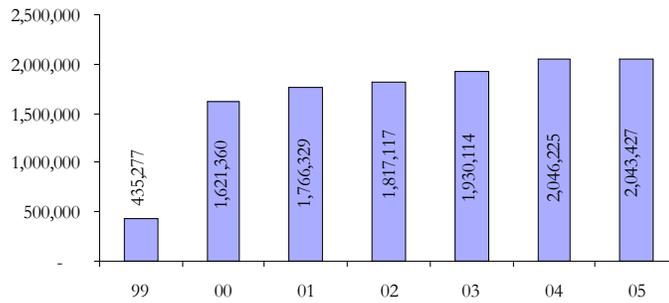


Source: National Transit Database (NTD)
Sound Transit Seattle Express service began September 1999.

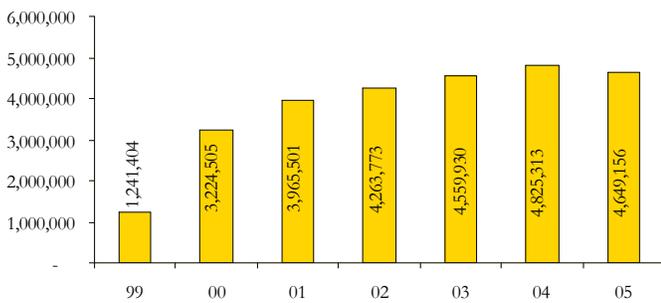
December 31, 2005

Sound Transit Fixed Route Statistics 1999 - 2005

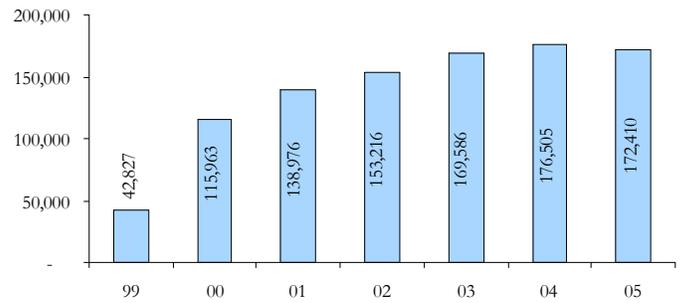
Annual Ridership



Revenue Miles



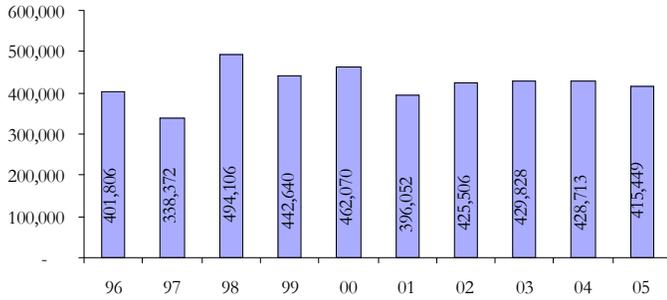
Revenue Hours



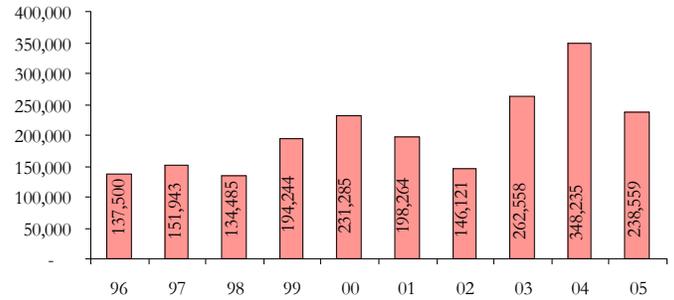
Fare revenue is returned to Sound Transit. This information is not available.
Sound Transit Seattle Express service began in September 1999.

Specialized Transportation (SHUTTLE)

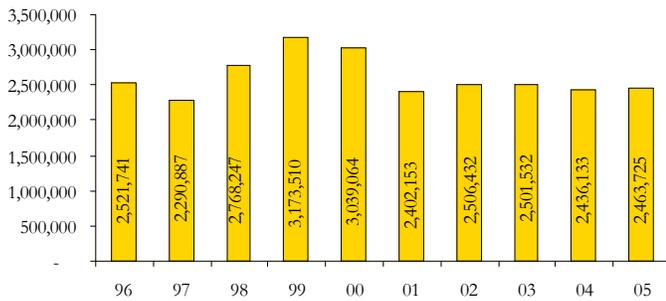
Annual Ridership



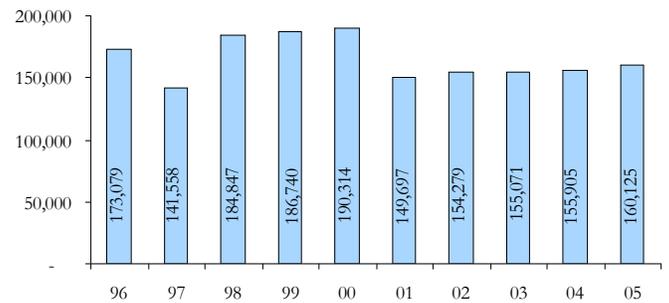
Annual Passenger Fare Revenues



Revenue Miles



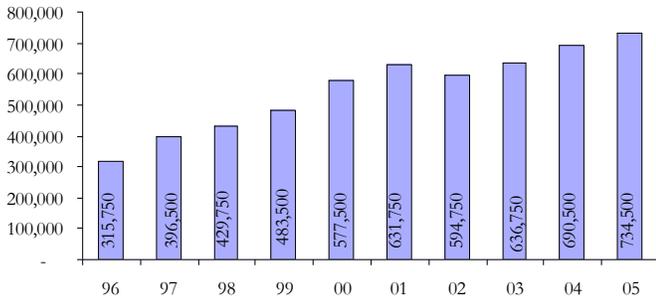
Revenue Hours



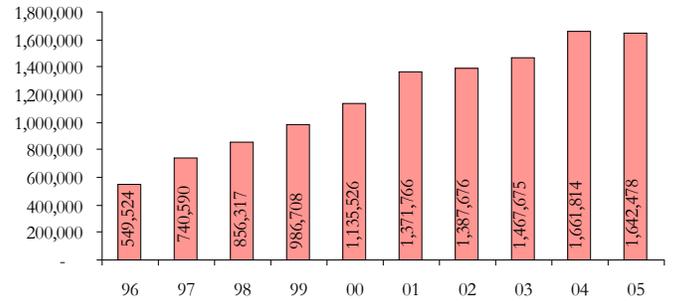
Includes directly operated and purchased transportation services.

Vanpool

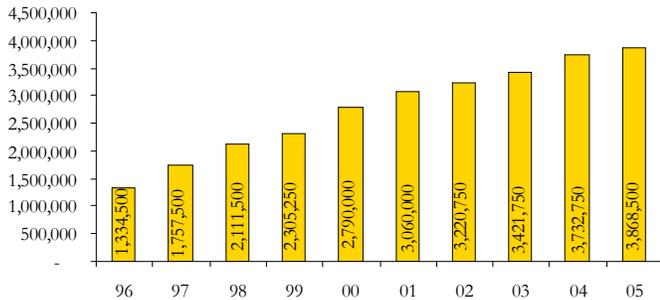
Annual Ridership



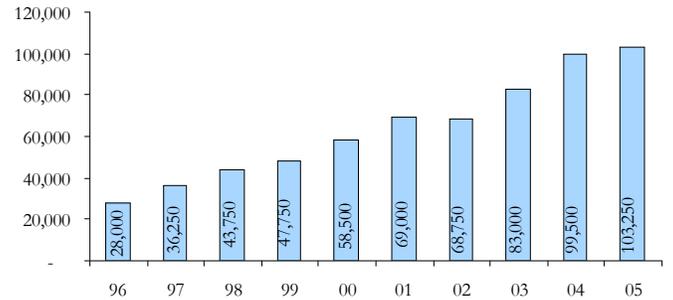
Annual Passenger Fare Revenues



Revenue Miles



Revenue Hours



Pierce Transit

Statistics

December 31, 2005

YEAR-END PERFORMANCE INDICATORS

PIERCE TRANSIT FIXED ROUTE (excluding Sound Transit):

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Annual Riders | 11,901,316 | 13,192,726 | 13,007,411 | 13,096,612 | 11,935,606 | 11,717,375 | 11,161,468 | 11,335,039 | 11,946,656 | 12,245,646 |
| Passengers Per Revenue Hour | 25.7 | 27.7 | 25.9 | 25.1 | 29.0 | 28.3 | 25.9 | 23.5 | 24.6 | 23.1 |
| Cost Per Passenger | \$ 2.69 | \$ 2.65 | \$ 2.88 | \$ 2.86 | \$ 2.61 | \$ 2.98 | \$ 3.34 | \$ 3.55 | \$ 3.84 | \$ 4.11 |
| Cost Per Revenue Mile | \$ 4.52 | \$ 4.71 | \$ 4.76 | \$ 5.00 | \$ 6.23 | \$ 7.37 | \$ 7.69 | \$ 7.72 | \$ 8.95 | \$ 7.29 |
| Cost Per Revenue Hour | \$ 69.15 | \$ 73.45 | \$ 74.50 | \$ 71.80 | \$ 75.59 | \$ 84.46 | \$ 86.36 | \$ 83.37 | \$ 94.56 | \$ 94.85 |

SHUTTLE:

| | | | | | | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Annual Riders | 401,806 | 338,372 | 494,106 | 442,640 | 462,070 | 396,052 | 425,506 | 429,828 | 428,713 | 415,449 |
| Passengers Per Revenue Hour | 2.3 | 2.4 | 2.7 | 2.4 | 2.4 | 2.6 | 2.8 | 2.8 | 2.8 | 2.6 |
| Cost Per Passenger | \$ 24.98 | \$ 30.70 | \$ 22.12 | \$ 27.02 | \$ 23.98 | \$ 26.88 | \$ 26.29 | \$ 25.97 | \$ 29.73 | \$ 29.67 |
| Cost Per Revenue Mile | \$ 3.98 | \$ 4.53 | \$ 3.95 | \$ 3.77 | \$ 3.65 | \$ 4.43 | \$ 4.46 | \$ 4.46 | \$ 5.23 | \$ 5.00 |
| Cost Per Revenue Hour | \$ 57.99 | \$ 73.38 | \$ 59.14 | \$ 64.05 | \$ 58.21 | \$ 71.12 | \$ 72.50 | \$ 72.00 | \$ 81.81 | \$ 76.99 |

VANPOOL:

| | | | | | | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Annual Riders | 315,750 | 396,500 | 429,750 | 483,500 | 577,500 | 631,750 | 594,750 | 636,750 | 690,500 | 734,500 |
| Passengers Per Revenue Hour | 11.3 | 10.9 | 9.8 | 10.1 | 9.9 | 9.2 | 8.7 | 7.7 | 6.9 | 7.1 |
| Cost Per Passenger | \$ 2.46 | \$ 2.16 | \$ 3.97 | \$ 4.21 | \$ 3.12 | \$ 2.84 | \$ 3.65 | \$ 4.02 | \$ 4.23 | \$ 3.82 |
| Cost Per Revenue Mile | \$ 0.58 | \$ 0.49 | \$ 0.81 | \$ 0.88 | \$ 0.64 | \$ 0.59 | \$ 0.67 | \$ 0.75 | \$ 0.78 | \$ 0.73 |
| Cost Per Revenue Hour | \$ 27.75 | \$ 23.62 | \$ 38.97 | \$ 42.64 | \$ 30.76 | \$ 26.00 | \$ 31.54 | \$ 30.87 | \$ 29.34 | \$ 27.19 |

FARE HISTORY

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Cash Fares | | | | | | | | | | |
| Adult | \$ 0.75 | \$ 0.90 | \$ 0.90 | \$ 1.00 | \$ 1.00 | \$ 1.00 | \$ 1.25 | \$ 1.25 | \$ 1.25 | \$ 1.25 |
| Student/Seniors | 0.75 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| Seniors | 0.75 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.25 | 1.25 | 1.25 | 1.25 |
| Shuttle | 0.35 | 0.45 | 0.45 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Seattle Express | 2.00 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| Olympia Express | 1.50 | 1.50 | 1.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Passes | | | | | | | | | | |
| Adult Pass | 26.00 | 34.00 | 34.00 | 36.00 | 36.00 | 36.00 | 45.00 | 45.00 | 45.00 | 45.00 |
| Senior/Disabled Pass | 10.00 | 15.00 | 15.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 |
| Olympia Express | 50.00 | 50.00 | 50.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 | 72.00 |
| Seattle Express | 60.00 | 75.00 | 75.00 | 90.00 | 90.00 | 90.00 | 90.00 | 90.00 | 90.00 | 90.00 |
| Transfers | Free |

FIXED ROUTE FAREBOX RETURN

| YEAR | FAREBOX RECOVERY |
|-------------|-------------------------|
| 1996 | 0.20 |
| 1997 | 0.20 |
| 1998 | 0.21 |
| 1999 | 0.22 |
| 2000 | 0.18 |
| 2001 | 0.18 |
| 2002 | 0.19 |
| 2003 | 0.18 |
| 2004 | 0.16 |
| 2005 | 0.14 |

VEHICLE CHART

Date of Incorporation: 1-1-80

Form of Government: Board of Commissioners

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Service Area Population | 607,700 | 616,285 | 622,875 | 635,290 | 643,690 | 658,475 | 670,820 | 679,815 | 702,060 | 705,018 |
| Service Area (Sq. Miles) | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 450 | 414 |
| Vehicles Available for Maximum Service | | | | | | | | | | |
| Pierce Transit Buses | 178 | 193 | 218 | 169 | 149 | 164 | 166 | 168 | 208 | 193 |
| SHUTTLE Vans * | 145 | 135 | 123 | 174 | 151 | 157 | 144 | 166 | 154 | 100 |
| Vanpool Vans | 110 | 149 | 180 | 197 | 218 | 249 | 250 | 270 | 284 | 293 |

Source: National Transit Database (NTD)

*Includes directly operated and purchased transportation services.

December 31, 2005

PIERCE TRANSIT EMPLOYEE CHART

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Operations | 469 | 468 | 516 | 521 | 508 | 534 | 608 | 605 | 589 | 619 |
| Maintenance | 104 | 111 | 121 | 125 | 124 | 127 | 136 | 156 | 149 | 157 |
| Administration | 89 | 98 | 105 | 98 | 98 | 103 | 125 | 128 | 127 | 126 |

MAJOR PIERCE COUNTY EMPLOYERS

| <u>Major Corporate Employers</u> | <u>Employees</u> |
|----------------------------------|------------------|
| Franciscan Health System | 4,137 |
| Multicare Health System | 3,779 |
| Fred Meyer Stores | 2,159 |
| Emerald Queen Casino | 1,591 |
| Safeway Stores | 1,508 |
| Good Samaritan Hospital | 1,496 |
| Intel Corporation | 1,250 |
| The Boeing Company(Frederickson) | 1,200 |
| Milguard Manufacturing, Inc | 1,178 |
| McDonalds Restaurants | 1,031 |

2005 TAXABLE SALES FOR PIERCE COUNTY

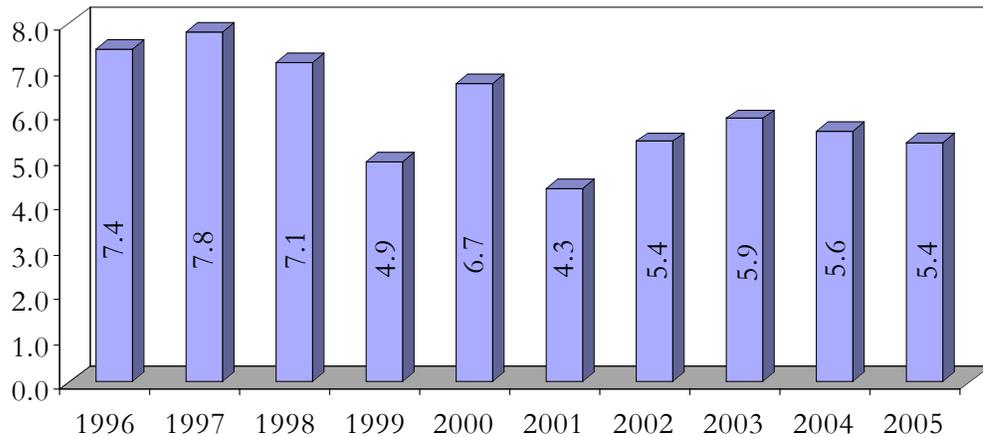
This table shows the sales tax subsidy received by Pierce Transit and the estimated taxable sales for Pierce County based on the Quarterly Business Review published by the Department of Revenue, State of Washington.

| | TAXABLE SALES | SALES TAX |
|--------------------------|-------------------------|----------------------|
| Retail Trade | \$ 5,573,548,357 | \$ 34,197,575 |
| Services | 1,662,457,291 | 10,200,326 |
| Contracting | 2,051,674,875 | 12,588,445 |
| Manufacturing | 345,358,176 | 2,119,011 |
| Trans/Comm. Utilities | 42,876,689 | 263,078 |
| Wholesaling | 694,591,170 | 4,261,797 |
| Finance/Ins./Real Estate | 891,082,061 | 5,467,405 |
| Other Business | 4,642,010 | 28,482 |
| TOTAL | \$11,266,230,629 | \$ 69,126,119 |

December 31, 2005

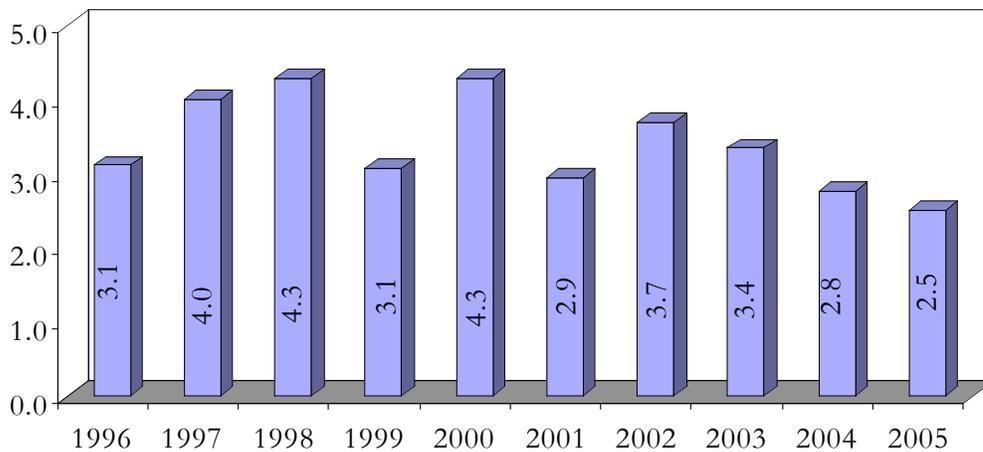
CURRENT RATIO

This measure of the Agency's ability to meet short-term obligations is determined by dividing total current assets restricted and unrestricted by all liabilities payable from those assets. A ratio of 2 to 1 is usually considered satisfactory.



QUICK RATIO

This measures the Agency's liquidity by considering only unrestricted cash, investments, and receivables due within 30 days as being available to meet short term obligations payable from unrestricted funds. A ratio of 1 to 1 is usually considered satisfactory.



Pierce Transit

Statistics

December 31, 2005

REVENUE AND SUBSIDIES COMPARISONS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Passenger Fares | \$7,030,830 | \$7,749,236 | \$8,830,046 | \$9,576,682 | \$6,960,413 | \$7,837,840 | \$8,505,024 | \$8,937,797 | \$9,368,453 | \$9,096,278 |
| School Service | 222,555 | 224,665 | 48,286 | - | - | - | - | - | - | - |
| Regional Transit Fares | - | - | 610,810 | 2,626,172 | 8,458,643 | 10,475,947 | 11,246,071 | 12,977,977 | 13,540,481 | 14,839,566 |
| Advertising | 504,574 | 718,927 | 1,049,250 | 657,322 | 990,828 | 838,843 | 466,549 | 673,295 | 442,379 | 851,602 |
| Interest Income | 1,314,509 | 1,542,748 | 1,704,390 | 1,693,506 | 2,498,545 | 1,754,036 | 760,368 | 685,934 | 1,218,453 | 2,393,870 |
| Sales Tax | 19,391,062 | 20,257,447 | 22,550,155 | 24,218,060 | 25,788,866 | 26,677,899 | 41,138,256 | 58,189,718 | 61,770,952 | 69,126,119 |
| MVET | 20,155,456 | 20,918,074 | 23,099,360 | 22,609,654 | 296,941 | - | - | - | - | - |
| Operating Subsidy | 1,954,747 | 2,209,018 | 984,069 | 620,713 | 16,833,392 | 9,190,891 | 5,540,152 | 8,023,859 | 4,706,649 | 7,455,975 |
| Capital Grants | 5,994,253 | 14,025,433 | 16,329,270 | 16,366,706 | 24,357,497 | 4,711,290 | 7,290,641 | 2,585,421 | 16,970,314 | 14,308,399 |
| Gain on Disposal of Assets | 61,576 | 507 | - | 602,547 | 366,356 | - | 65,597 | 89,504 | 91,584 | 350,686 |
| Miscellaneous | 118,426 | 328,030 | 84,192 | 419,886 | 52,412 | 711,483 | 704,771 | 779,793 | 947,521 | 1,005,345 |
| Total | \$56,747,988 | \$67,974,085 | \$75,289,828 | \$79,391,248 | \$86,603,893 | \$62,198,229 | \$75,717,429 | \$92,943,298 | \$109,056,786 | \$119,427,840 |

EXPENSES AND EXPENDITURES COMPARISONS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| Personnel | \$31,166,912 | \$33,596,071 | \$36,176,231 | \$39,874,327 | \$37,874,327 | \$41,180,072 | \$44,656,262 | \$49,732,380 | \$53,276,898 | \$57,785,602 |
| Fuel & Lubricants | 1,529,800 | 1,597,050 | 1,201,878 | 1,594,940 | 2,409,896 | 2,132,899 | 2,243,299 | 3,166,655 | 3,731,581 | 5,386,453 |
| Supplies & Materials | 2,316,360 | 2,676,007 | 3,228,496 | 3,017,864 | 2,663,933 | 3,572,809 | 3,625,479 | 4,050,431 | 4,944,439 | 4,851,849 |
| Contracts & Services | 8,055,166 | 8,722,246 | 9,691,496 | 11,627,076 | 9,775,987 | 9,859,752 | 12,326,267 | 11,606,002 | 13,770,279 | 13,925,196 |
| Depreciation & Amortization | 9,040,690 | 8,853,231 | 8,985,096 | 11,125,833 | 9,050,003 | 12,474,363 | 13,347,738 | 13,485,834 | 12,274,862 | 12,567,124 |
| Capital Acquisition | 6,712,607 | 15,684,475 | 18,506,882 | 19,751,030 | 30,026,065 | 5,480,620 | 12,351,346 | 5,897,918 | 21,187,250 | 21,717,527 |
| Loss on Disposal of Assets | - | - | 2,317 | - | - | 425 | - | - | - | - |
| Debt Service | | | | | | | | | | |
| Principal | 745,000 | 755,000 | 780,000 | 315,000 | 305,000 | 305,000 | 325,000 | 340,000 | 355,000 | 365,000 |
| Lease Principal | 477,359 | 506,277 | 325,029 | 109,252 | - | - | - | - | - | - |
| Interest Expense | 489,612 | 587,355 | 524,584 | 418,226 | 286,939 | 269,729 | 251,279 | 142,788 | 130,548 | 117,413 |
| Previously Deferred Items | - | - | 478 | - | - | 16,174 | 464,330 | 15,209 | 1,277 | 61,865 |
| Grant | | | | | | | | | | |
| Exchange Funds | | | | | | | | | | 1,714,333 |
| Total | \$60,533,506 | \$72,977,712 | \$79,422,487 | \$87,491,053 | \$92,392,150 | \$75,291,842 | \$89,591,000 | \$88,437,217 | \$109,672,134 | \$118,492,362 |

CAPITAL GRANT HISTORY

Pierce Transit

Statistics

December 31, 2005

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| FTA GRANTS | | | | | | | | | | |
| Section 3 | \$ 3,270,867 | \$ 3,891,968 | \$ 1,510,707 | \$ 1,369,963 | \$ 5,699,938 | \$ 1,151,973 | \$ 1,132,955 | \$ 157,643 | \$ 2,131,762 | \$ 2,774,048 |
| Section 8 | 123 | - | - | 13,404 | 6,726 | (6,647) | 36,715 | 610 | - | - |
| Section 9 | 1,882,738 | 8,652,481 | 13,992,479 | 9,187,104 | 12,104,446 | 1,814,148 | 6,056,583 | 2,278,019 | 14,921,797 | 10,261,877 |
| Section 4 | - | - | - | - | - | - | 132 | 454 | - | - |
| WA STATE | | | | | | | | | | |
| Grants | 840,525 | 1,471,206 | 826,084 | 1,840,637 | (251,801) | 1,378,994 | - | 114,274 | (99,912) | 215,807 |
| MUNICIPAL/LOCAL | | | | | | | | | | |
| Partnerships | - | 9,778 | - | 3,955,598 | 6,798,188 | 372,822 | 64,256 | 34,421 | 16,667 | 1,056,667 |
| TOTALS | \$ 5,994,253 | \$ 14,025,433 | \$ 16,329,270 | \$ 16,366,706 | \$ 24,357,497 | \$ 4,711,290 | \$ 7,290,641 | \$ 2,585,421 | \$ 16,970,314 | \$ 14,308,399 |

LEGAL DEBT MARGIN

| | Non-voted | Maximum Debt Capacity* |
|------------------------|-------------------|---------------------------|
| Assessed Valuation | \$ 29,619,949,949 | \$ 29,462,266,823 |
| Debt Limitation (%)* | .375% | 1.250% |
| Debt Limitation (\$) | \$ 111,074,812 | \$ 368,278,335 |
| Less: Outstanding Debt | 2,525,000 | 2,525,000 |
| Debt Margin | \$ 108,549,812 | \$ 365,753,335 |

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

**RATIO OF GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

Pierce Transit

Statistics

December 31, 2005

| December 31 | Population | Assessed Value (In Thousands) | General Bonded Debt | Ratio of Bonded Debt to Assessed Value | Bonded Debt Per Capita |
|-------------|------------|----------------------------------|------------------------|--|---------------------------|
| 1996 | 611,984 | \$ 18,172,526 | \$ 9,780,000 | .05 | \$ 15.98 |
| 1997 | 616,285 | 19,362,430 | 9,025,000 | .05 | 14.64 |
| 1998 | 622,875 | 20,186,728 | 8,255,000 | .04 | 13.25 |
| 1999 | 635,290 | 21,667,412 | 4,505,000 | .02 | 7.09 |
| 2000 | 643,290 | 23,550,341 | 4,215,000 | .02 | 6.55 |
| 2001 | 658,475 | 25,533,759 | 3,910,000 | .02 | 6.07 |
| 2002 | 670,820 | 26,350,592 | 3,585,000 | .02 | 5.35 |
| 2003 | 679,815 | 27,778,725 | 3,245,000 | .02 | 4.78 |
| 2004 | 702,060 | 29,619,949 | 2,890,000 | .01 | 4.25 |
| 2005 | 705,018 | 29,619,949 | 2,525,000 | .01 | 4.25 |

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

| | Net Bonded Debt Outstanding | Percentage Applicable* | Authority Share |
|---|--------------------------------|---------------------------|----------------------|
| Pierce Transit | \$ 2,525,000 | 100.00% | \$ 2,525,000 |
| City of Tacoma | 140,796,000 | 30.54% | 42,999,098 |
| Pierce County | 84,955,531 | 42.27% | 35,910,703 |
| | | | <u>\$ 81,434,801</u> |
| PTBA Population | | | 705,018 |
| Direct and Overlapping Debt per Capita | | | \$ 47.76 |

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

