

Pierce Transit

Comprehensive Annual Financial Report

YEAR ENDED DECEMBER 31, 2010 | PIERCE COUNTY, WASHINGTON

Taking action > Increasing efficiencies > Supporting each other > Improving data > Saving time
> Boosting productivity > Promoting success > Making partnerships > Sharing ideas > Building
collaborations > Promoting teamwork > Developing expertise > Streamlining processes > Reaching
out > Boosting productivity > Conserving resources > Communicating purpose > Making progress

Celebrating our employees

Do it **best** Do it **together** Do it for **less**



Pierce Transit

Comprehensive Annual Financial Report

YEAR ENDED DECEMBER 31, 2010 | PIERCE COUNTY, WASHINGTON

LYNNE M. GRIFFITH
CHIEF EXECUTIVE OFFICER

PREPARED BY **THE FINANCE, AUDIT & ADMINISTRATION DEPARTMENT**

WAYNE FANSHIER
VICE PRESIDENT | FINANCE, AUDIT & ADMINISTRATION

KATHY SULLIVANT
DIRECTOR OF FINANCE

LIZ PASSMORE
FINANCE MANAGER

This year's report highlights a few of Pierce Transit's **amazing employees**.
Read their stories to find out how their hard work is making a difference.

**Pierce Transit
Comprehensive Annual Financial Report
Year Ended December 31, 2010**

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Supporting our community



Do it **best**

NANCY MEAD | TRANSIT OPERATOR

On April 6th, Transit Operator Nancy Mead responded to a request for emergency assistance from Edgewood Fire and Rescue. Nancy had been returning to the garage to end her shift when she got the call for help. She didn't hesitate for a minute, and drove straight to the scene. Residents of an apartment complex had to evacuate while firefighters worked to contain a fire. Nancy and the Pierce Transit coach provided the displaced residents with a warm, dry shelter until the scene was successfully contained. Nancy stayed for four hours, providing a sympathetic ear and empathy to more than 30 residents.

Do it **together**

- 1 **DONNA BURGNER** | PLANNER
- 2 **RAMON HOLGUIN** | SCHEDULING SUPERVISOR
- 3 **SANDY JOHNSON** | SENIOR PLANNER
- 4 **MONTY MONTGOMERY** | SCHEDULER



This Planning team has been more than helpful in answering questions, providing On Time Performance tables and reports for the Service Support Data Analytics Project. It has been an enjoyable task to learn about the new data possibilities with this team from Planning, and these outstanding employees deserve recognition. Their insight and energy has opened new possibilities in monitoring overall system On Time Performance as well as potential Field Supervisor capabilities to have an immediate impact on service delivery.

Improving data

June 30, 2011

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, 2010 is presented herein. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal controls should not outweigh their benefits, Pierce Transit's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that its financial statements will be free from material misstatement. We believe the data, including management's discussion and analysis, the financial statements, supporting schedules and statistical tables, as presented, is accurate in all material aspects and that adequate internal controls are in place to ensure that it presents fairly the financial position and results of the operations of Pierce Transit. All disclosures necessary to enable the reader to gain the maximum understanding of Pierce Transit's business have been included.

The Washington State Auditor's Office has issued an unqualified ("clean") opinion on Pierce Transit's financial statements for the year ended December 31, 2010. The independent auditor's report is located at the front of the financial section of this report.

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

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

II. PROFILE OF THE AGENCY

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

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 services are provided over a 414 square mile radius to an estimated population of 758,510. Pierce Transit's service area includes the cities and towns of Bonney Lake, Buckley, Dupont, Edgewood, Fife, Fircrest, Gig Harbor, Lakewood, Milton, Orting, Puyallup, Ruston, Steilacoom, Sumner, Tacoma, University Place, and the portions of Auburn and Pacific in Pierce County 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 delegate, a member of the City of Lakewood council, one member selected by the City Councils of the cities of Puyallup and University Place, an elected official chosen by the remaining small cities and towns, and an representative of the Amalgamated Transit Union. Appointments are based on three-year terms.

The Chief Executive Officer (CEO) is responsible for implementation of the policies authorized by the Board of Commissioners. In order to provide overall management for the Agency, four departments have been established, Executive, Transportation Services, Human Resources & Technology, and Finance, Audit and Administration.

Pierce Transit provides fixed route, specialized transportation (SHUTTLE), vanpool, rideshare, Bus PLUS, and inter-county 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 fixed route bus service is provided along more than 50 routes throughout Pierce County, including local fixed route, Bus PLUS, contracted service and express service. This service is centered on a network of transit center hubs and park and ride lots. Pierce Transit supports regional express bus service in cooperation with Sound Transit, Puget Sound's Regional Transit Authority. Since 1999, the popular Seattle Express service from Tacoma to Seattle has been funded by Sound Transit, and operated by Pierce Transit. Pierce Transit operates 11 routes for Sound Transit service. In 2010, all local and express fixed route services combined (including Sound Transit services) carried 16.4 million passengers.

Specialized transportation services, known as SHUTTLE, provide transportation to individuals in the community, who, due to a disability, are unable to use fixed route bus services. SHUTTLE is provided directly by Pierce Transit employees and through contracts with local transportation providers. In 2010, total ridership was 446,451.

The Agency's vanpool program was added to the mix of services in 1986. Since its inception, the vanpool program has expanded to 326 vans with 3,092 daily weekday riders. With 825,308 passenger boardings, the vanpool program accounted for 5.4% of the Agency's total ridership in 2010 (excluding Sound Transit ridership).

More people than ever look to Pierce Transit as an integral community partner. This year more than 115,570 rides were provided in support of special events including the Puyallup Fair, Sound to Narrows Run, Mariners baseball games, Seahawk football games, and the 4th of July celebration.

Major Initiatives

Pierce Transit has scaled back its programs significantly in response to the economic downturn and declining sales tax revenues. Projects completed in 2010 include the regional fare collection (ORCA) project, the mobile communications project and the purchase of 9 hybrid ARRA funded buses. Initiatives have been planned but each project will be reviewed before it is implemented to ensure that only required expenditures will be made. Planned initiatives and capital projects include:

- Technology equipment replacements and upgrades in the amount of \$4.2 million, including Federal Emergency Management Agency (FEMA)-funded investments (\$1.5 million) in the surveillance system at the Tacoma Dome Station (TDS) and the main base vehicle lots.
- Required capital maintenance in the amount of \$5.7 million at base, park and ride, and transit center facilities.
- Revenue vehicle fleet replacements in the amount of \$2.8 million.
- Required replacement of administrative and shop equipment and tools in the amount of \$4.1 million.

III. ECONOMIC CONDITION AND OUTLOOK

The current economic climate is being dubbed The Great Recession and has lasted seven straight quarters from the end of 2008 through the summer of 2010. The Great Recession has had a major impact on workers. Between 2007 and 2010, 7.8 million nonfarm jobs were lost nationally. However, the economy both nationally and locally shows signs of healing.

There is still a long way to go before the economy recovers to pre-recession levels and the economic recovery is likely to be slow and uncertain. By the end of 2010, the national economy had recouped only 800,000 of the nearly 8 million jobs lost during the recession. In 2011, Pierce County's economy is expected to grow by a little more than three percent. The impetus to the recovery will come from a growing medical services industry, activity at Joint Base Lewis-McChord and a diversified business services sector. An expected bright spot is the resurgence of the Port of Tacoma's log business because of demand from China. Even with this slow growth in the local economy, 2011 employment in Pierce County is still anticipated to be about 12,000 jobs below pre-recession employment levels.

In 2011, Pierce County's unemployment rate is expected to average about 8.9%, somewhat better than the 2010 rate. As the Pierce County recovery takes hold and unemployment declines, total personal income will slowly begin increasing. This modest growth in personal income will contribute to the slow growth of the local economy. Rising personal income will return purchasing power in Pierce County to 2006 levels. This will add modest increases to retail spending.

Local economic conditions and retail spending play major roles in the generation of sales tax revenue which is Pierce Transit's primary operating revenue source. Pierce Transit's sales tax rate of 0.6% is anticipated to generate nearly \$62 million in sales tax revenue in 2011. Sales tax is the largest component of Pierce Transit's operating revenues, and is expected to contribute 55% of total operating revenues in 2011 (70% excluding Sound Transit regional transit service revenue).

Pierce Transit's heavy reliance on sales tax makes it particularly sensitive to economic downturns. Pierce Transit has experienced a significant decline in sales tax collections, the Agency's primary funding source, since December 2007. As a result of declining sales tax revenues, a ballot proposition was put forth to the voters of Pierce County on February 8, 2011 giving Pierce Transit authority to impose its remaining sales tax authority of 3/10% of 1 percent, or 3 cents on per \$10 of taxable sales. Voters rejected this proposition. As a result, the Board of Commissioners directed staff to implement a thirty-five percent service reduction, with a 20 percent reduction in June 2011 and a fifteen percent reduction in October 2011. These service reductions will decrease the Agency's expenditures to sustainable levels.

The PT Tomorrow project continues in its effort to design a financially sustainable transit system that the public values and uses. The PT Tomorrow initiative is an outreach effort to educate our employees, riders, and the general public about today's challenges and tomorrow's opportunities. The core objective behind the PT Tomorrow outreach effort is to inform, ask, and listen. Public meetings are being held to gather input on proposed service reduction plans. As the Agency plans for service decreases of twenty percent in June, 2011 and fifteen percent in October, 2011, this information will be used as the Board of Commissioners makes decisions on the final design of a reduced system.

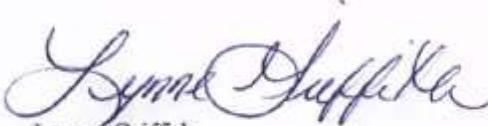
Looking forward, we have three objectives: maintain service at the highest possible level, improve the efficiency and effectiveness of the service, and continue to plan for the future. These objectives are part of the Pierce Transit (PT) Tomorrow project developed by our Board of Commissioners in 2008 and will assist the Agency in meeting our mission of connecting communities with safe, reliable, customer-friendly transit options.

IV. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Pierce Transit for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2009. This was the twenty-fourth year that Pierce Transit has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must establish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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



Lynne Griffith
Chief Executive Officer



Wayne Fanshier
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, 2009

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.



President

Executive Director

Principal Officials

Organizational Chart

Lynne Griffith
Chief Executive Officer

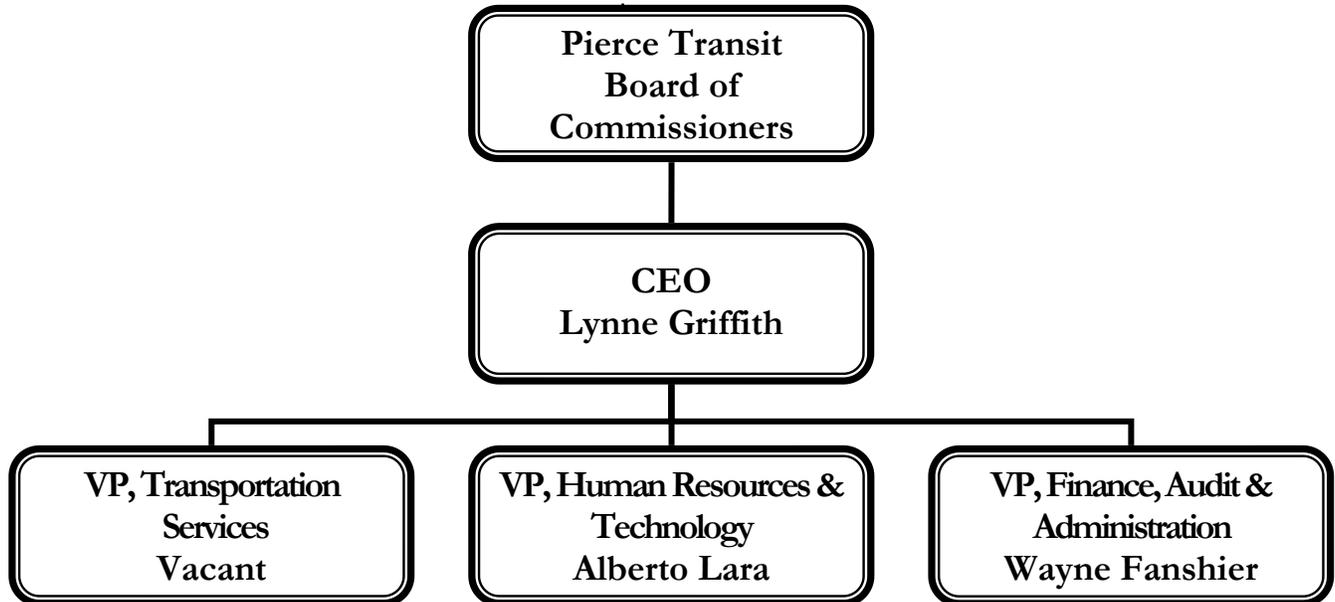
Vacant
Vice President, Transportation Services

Treva Percival, CMC
Assistant to the CEO/Clerk of the Board

Alberto Lara
Vice President, Human Resources &
Technology

Tom Wolfendale
General Counsel

Wayne Fanshier, CPA
Vice President, Finance, Audit &
Administration



PIERCE TRANSIT

Principal Officials

Board Of Commissioners

Terry Lee

Chairman of the Board
Pierce County Councilmember
Term Expires 5/11

Claudia Thomas

Vice Chairman of the Board
Lakewood Councilmember
Term Expires 5/12

Tim Farrell

Pierce County Councilmember
Term Expires 5/12

Jake Fey

Tacoma Councilmember
Term Expires 5/12

Neil Johnson

Small Cities/Towns Representative
Mayor of Bonney Lake
Term Expires 5/13

Don Mallory

Puyallup/University Place
Representative
Puyallup Councilmember
Term Expires 5/12

Spiro Manthou

Tacoma Councilmember
Term Expires 5/12

Pat McCarthy

Pierce County Executive
Term Expires 5/12

Marilyn Strickland

Mayor of Tacoma
Term Expires 5/12

PIERCE TRANSIT

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Streamlining processes



Do it for **less**

- 1 **MARCIA LINVILLE** | TRANSIT OPERATOR
- 2 **JOE ROCHON** | TRANSIT OPERATOR
- 3 **HAZEL WHITISH** | FIXED ROUTE ASSISTANT MANAGER

Transit Operators Marcia Linville and Joe Rochon assisted Assistant Manager Hazel Whitish to develop a new shake-up signing program. It reduces the number of signing days from 25 to 9, which means \$18,000 of savings each year! Their research and innovative ideas “do it for less.”

Promoting teamwork

Do it **together**

- 1 **TAMMY APTHORP** | VANPOOL COORDINATOR
- 2 **ELLEN CINTRON** | VANPOOL COORDINATOR
- 3 **LYNNE CUNNINGHAM** | VANPOOL COORDINATOR
- 4 **BRENDA DAVIS** | VANPOOL COORDINATOR
- 5 **JODY GUY** | VANPOOL COORDINATOR
- 6 **HEIDI HUNTER** | VANPOOL COORDINATOR
- 7 **TRACY KLEIN** | VANPOOL SPECIALIST
- 8 **KIM MCGILVERY** | VANPOOL COORDINATOR
- 9 **KIM PONTSLER** | VANPOOL COORDINATOR

PT’s Vanpool team works closely together—even outside the office! As volunteers in the “Adopt A Highway” litter program, the team has been collecting trash along Highway 512 since 2008. On their own time, this eco-minded group has collected countless bags of trash—showing that PT employees care about the environment. This work mirrors their teamwork on the job, building successful vanpool groups. Customers value their commitment, as evidenced by frequent compliments, such as “I’m very excited to be part of this vanpool! Everyone is so supportive and willing to help...this is a great deal!”





**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

June 16, 2011

Board of Commissioners
Pierce Transit
Tacoma, Washington

We have audited the accompanying basic financial statements of the Pierce Transit, Pierce County, Washington, as of and for the years ended December 31, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pierce Transit, Pierce County, Washington, as of December 31, 2010 and 2009, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during the year ended December 31, 2010, the Transit has implemented the Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets.

In accordance with *Government Auditing Standards*, we will also issue our report dated June 16, 2011, on our consideration of the Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report will be issued under separate cover in the Transit's Single Audit Report. The purpose of that report is to describe the scope of our testing of internal

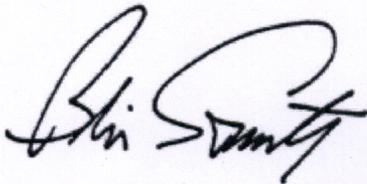


control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Transit. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Working together



Do it **together**

- 1 **BILL CASSIO** | DEPUTY CHIEF OF TRANSIT POLICE
- 2 **SYLVIA DAUGHTREY** | COMMUNICATION CENTER MANAGER
- 3 **CARLOS DAVIS** | FLEET MANAGER-BUS
- 4 **RAY HAWKINS** | COMMUNICATION CENTER ASSISTANT MANAGER
- 5 **RON MOYER** | INFORMATION TECHNOLOGY PROJECT MANAGER

Bill Cassio, Sylvia Daughtrey, Carlos Davis, Ray Hawkins, and Ron Moyer have been working together diligently with Pierce County to create an inter-local agreement to take over maintenance of our radio system infrastructure. This would allow a \$400,000 savings in 2010 as the warranty expires, and continuing savings in coming years. This also permits the County and all public safety agencies throughout the County to partner with us on sharing our radio infrastructure – while we can expand and share their radio infrastructure when we need to expand our service area.

Do it for **less**

JEFF FORSLUND | PURCHASING COORDINATOR

About five years ago, Jeff Forslund volunteered to begin selling some surplus property on eBay, and has since become our eBay expert. Doing this is a lot of work, but compared to traditional auctions, the difference in income is significant. Selling mostly computer equipment and accessories, he's netted almost \$55,000. Jeff has also become a "top-rated" seller on eBay, which means we now pay 20% less in fees. Way to go, Jeff!



Increasing efficiencies

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009

Following is management's discussion and analysis (MD&A) of Pierce Transit's financial activities for the years ended December 31, 2010 and 2009. This discussion should be reviewed in conjunction with the financial statements, which follow this report.

Financial Highlights

- Net income for 2010, before contributions, was \$(13.6) million, compared to \$(11.5) million for 2009 and \$(6.2) million in 2008. The 2010 decrease in net income was the result of a 4 percent loss in revenues. Capital contributions of \$9.1 million and a \$(13.6) million net loss accounted for the approximately \$4.4 million decrease in net assets in 2010. The net loss indicates that reserves are being used to fund current operations and a deterioration of Pierce Transit's financial position.
- Pierce Transit's assets exceeded its liabilities on December 31, 2010 by \$229.6 million (net assets) compared to \$234 million in 2009 and \$242.7 million in 2008. Investments in capital assets decreased by \$.5 million, \$3.4 million and \$9.3 million in 2010, 2009 and 2008 respectively. Unrestricted net assets decreased by \$5.1 million in 2010, \$6.6 million in 2009 and by \$7.1 million in 2008. These reserves will be used to fund operating and capital commitments over the next six years. The Six-Year Financial Plan is sustainable at the 2010 Budget level through 2012. Beyond that time, new funding or service reductions will be necessary to continue Pierce Transit's current operating commitments.
- No additional debt was issued during the last three years.

Overview of the Financial Statements

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

Pierce Transit's financial statements report information about the Agency using accounting methods similar to those used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded as soon as they result in liabilities for benefits received. The Comparative Statement of Net 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

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009**

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

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

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided with the financial statements. The Notes to the Financial Statements can be found on page 26 to 46 of this report.

Financial Statement Analysis

As noted earlier, net assets may serve as a useful indication of the Agency's financial position. Total net assets exceed liabilities by \$229.6 million, \$234 million and \$242.7 million in 2010, 2009 and 2008 respectively.

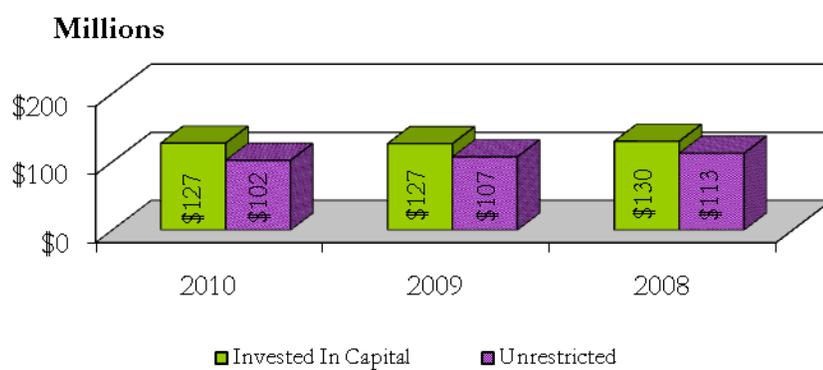
**Summary Statement for Net Assets
For the years ending December 31, 2010, 2009 and 2008**

	2010	2009	2008
Assets:			
Current Assets	\$ 86,934,214	\$ 94,234,770	\$ 91,302,943
Other Non-Current Assets	33,547,430	31,146,750	41,598,738
Capital Assets (net)	127,352,648	126,721,089	130,107,977
Total Assets	\$ 247,834,292	\$ 252,102,609	\$ 263,009,658
Liabilities:			
Current Liabilities	\$ 11,778,546	\$ 13,036,293	\$ 14,008,290
Other Non-Current Liabilities	6,481,910	5,058,343	6,341,428
Total Liabilities	18,260,456	18,094,636	20,349,718
Net Assets:			
Invested in Capital Assets, net of related debt	127,352,648	126,721,090	128,772,977
Unrestricted Net Assets	102,221,188	107,286,883	113,886,963
Total Net Assets	229,573,836	234,007,973	242,659,940
Total Liabilities and Net Assets	\$ 247,834,292	\$ 252,102,609	\$ 263,009,658

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009**

A large majority of Pierce Transit's 2010 capital assets (\$127.4 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 (\$29.7 million) of the remaining net asset balance of \$102.2 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 \$72.5 million is available to support future obligations for transportation operations.

Net Assets by Type



**Comparative Statement of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2010, 2009 & 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues	\$ 39,753,579	\$ 35,670,160	\$ 32,293,853
Operating Expenses	(118,196,271)	(108,585,232)	(108,580,834)
Depreciation	(12,828,624)	(14,005,135)	(14,117,400)
Operating Loss	<u>(91,271,316)</u>	<u>(86,920,207)</u>	<u>(90,404,381)</u>
Operating Subsidies	75,263,852	76,653,625	81,257,659
Non-Operating Revenues	3,925,496	2,255,354	4,148,311
Non-Operating Expenses	<u>(1,494,634)</u>	<u>(3,458,052)</u>	<u>(1,172,859)</u>
Net Non-Operating Income	<u>77,694,714</u>	<u>75,450,927</u>	<u>84,233,111</u>
Net Income (Loss) Before Contributions	(13,576,602)	(11,469,280)	(6,171,270)
Capital Grants	<u>9,142,465</u>	<u>2,817,313</u>	<u>8,736,195</u>
Change in Net Assets	<u>\$ (4,434,137)</u>	<u>\$ (8,651,967)</u>	<u>\$ 2,564,925</u>

Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009

A description of operating & non-operating revenues follows:

Operating Revenues	2010	2009	2008
Passenger Fares	\$ 14,504,805	\$ 15,460,517	\$ 13,882,370
Advertising	1,120,406	905,896	968,104
Regional Transit Service	24,128,368	19,303,747	17,443,379
Total Operating Revenues	<u>39,753,579</u>	<u>35,670,160</u>	<u>32,293,853</u>
Non-Operating Revenues			
Operating Subsidies:			
Sales Tax	65,338,852	63,335,030	71,752,351
Operating Grants	9,925,000	13,318,595	9,505,308
Other Non-Operating Revenues:			
Investment Income	346,746	1,014,361	3,220,825
Miscellaneous Income	3,578,750	1,240,993	927,486
Total Non-Operating Revenues	<u>79,189,348</u>	<u>78,908,979</u>	<u>85,405,970</u>
Total Revenues	<u>\$ 118,942,927</u>	<u>\$ 114,579,139</u>	<u>\$ 117,699,823</u>

Revenue highlights for 2010 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. Pierce Transit has partnered with six other Central Puget Sound transit agencies on a regional fare collection system (ORCA). ORCA was fully implemented in 2010 and replaced the Puget Pass regional fare program. In both systems, customers can purchase fare media from any of the six partners, regardless of where the media is used. Under the Puget Pass system, fare revenue was allocated among the partners using an estimated average fare per boarding. The ORCA system is able to keep track of actual trip usage and fare revenues are allocated based on that usage rather than estimates.

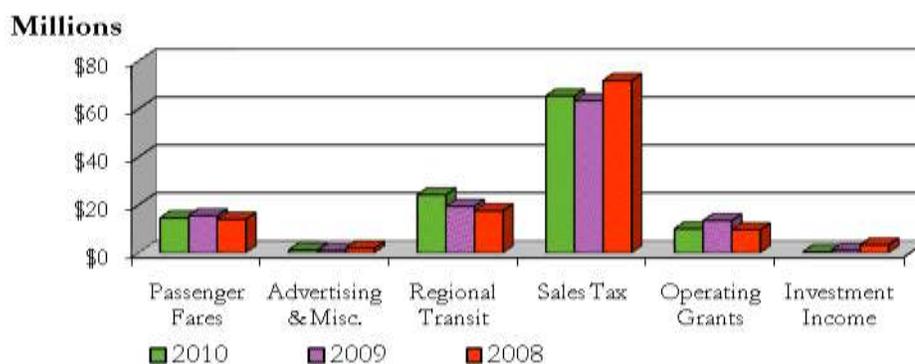
Fare revenues decreased in 2010 by \$1 million to \$14.5 million. This was largely due to the change in the average fare per boarding under the ORCA fare collection system. Fare revenues in 2009 and 2008 were \$15.4 million and \$13.9 million respectively. Fare revenues increased in 2009 over 2008 levels because of a fare increase in January 2009.

- Advertising revenues were \$1.1 million in 2010, \$.9 million in 2009 and \$1 million in 2008. These fluctuations were 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 two years. The current operating agreement ends on December 31, 2012. Revenues generated from this regional transit service were \$24.1 million in 2010, an increase of 25% over 2009. Regional transit service revenues were \$19.3 million and \$17.4 million in 2009 and 2008 respectively. These increases were a result of a change in the number of service hours as well as the rate Pierce Transit charges for providing this service.

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- Sales tax, accounting for 55% of Pierce Transit's total revenue (excluding capital), increased by \$2.0 million, an increase of 3.2% over 2009. Sales tax revenue increased slightly in 2010 which represented a small increase in taxable sales in Pierce County. Sales tax revenue was \$65.3 million in 2010, as compared to \$63.3 million in 2009 and \$71.8 million in 2008. The decrease between 2009 and 2008 was a result of increased unemployment and a recessionary economy.
- The majority of operating grant revenue is received from the Federal Transit Administration (FTA). Operating grants received in 2010 totaled \$9.9 million compared to \$13.3 million in 2009 and \$9.5 million in 2008. The changes in grant revenues are because operating grant contracts are awarded on an annual basis and vary from year to year.
- Investment income decreased nearly 65.8% from 2009 earnings. 2010 investment earnings were \$.4 million compared to \$1 million in 2009 and \$3.2 million in 2008. The decrease is primarily due to a shrinking investment portfolio and lower interest rates.

Operating Revenue by Source



Operating Expenses

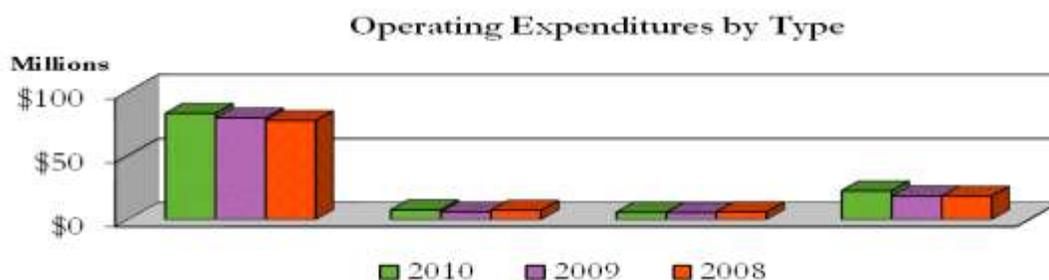
Total 2010 operating expenses, excluding depreciation and capital, totaled \$118.2 million increasing 8.9% over 2009 levels. Operating expenses for 2009 and 2008 remained steady at \$108.6 million. Several factors, including contractual wage and benefit increases as well as increased fuel costs and insurance premiums contributed to the rise in operating expenses between 2010 and 2009. Budget reductions and cost cutting measures resulted in no increase in operating expenses in between 2009 and 2008.

Operating Expenses:	2010	2009	2008
Wages & Benefits	\$ 82,910,872	\$ 79,346,300	\$ 77,278,554
Fuel & Lubricants	7,409,316	5,718,378	7,123,019
Supplies & Materials	5,534,848	5,246,793	5,921,096
Contracts & Services	22,341,235	18,273,761	18,258,165
Depreciation & Amortization	12,828,624	14,005,135	14,117,400
Total Operating Expenses	131,024,895	122,590,367	122,698,234

**Pierce Transit
Management's Discussion and Analysis
Years Ended December 31, 2010 and 2009**

Non Operating Expenses:

Items Previously Deferred	381,012	2,460,260	234,942
Grant Exchange Funds	1,113,622	952,540	860,301
Interest Expense	-	45,252	77,616
Total Non-Operating Expenses	<u>1,496,634</u>	<u>3,458,052</u>	<u>1,172,859</u>
Total Expenses	<u>\$ 132,519,529</u>	<u>\$ 126,048,419</u>	<u>\$ 123,871,093</u>



Wages and benefits for 2010 of \$82.9 million make up 70% of operating expenses and increased by 4.5% over 2009 levels. Contractual wage increases of 4.0% on July 1, 2010 accounted for the change in 2010 operating costs along with increased costs for contracts and services. Wages and benefits for 2009 and 2008 were \$79.3 million and \$77.3 million respectively and increased by 2.6% between 2008 and 2009. The increase between 2009 and 2008 was driven by a 3.8% wage increase on July 1, 2009.

Total operating expenses, exclusive of depreciation and capital, are most directly impacted by the number of service hours Pierce Transit operates. Service hours include drive time while in service, deadhead and layover. Following is a table representing the number of service hours by type of service for 2010, 2009 and 2008:

Service Hours:	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fixed Route Pierce Transit	618,566	642,555	660,657
Fixed Route Sound Transit	208,939	195,708	170,446
Specialized Transportation	225,293	250,178	241,887
Vanpool	137,821	134,966	147,610
Total	<u>1,190,619</u>	<u>1,223,407</u>	<u>1,220,600</u>

Capital Assets

Capital assets include revenue vehicles, support vehicles, projects in progress, land, buildings, shop equipment, passenger facilities, and other assets having a life of more than one year with an acquisition value of more than \$5,000. Pierce Transit's investment in capital assets as of December 31, 2010 totaled \$127.3 million, net of accumulated depreciation. This compares to a 2009 net investment in capital assets of \$126.7 million and a 2008 net investment in capital assets of \$128.8 million. Net 2010 capital assets increased by .5%, or \$.6 million. This is the net result of the increase of \$9.6 million in assets and \$9 million in accumulated depreciation for 2010. Net 2009 capital assets decreased by 2.6%, or \$3.4 million and increased by 7.7%, or \$9.3 million for 2008. The change in the rate of increase in net capital assets was largely driven by the acquisition of a radio system in 2008.

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Capital contributions in 2010 totaled \$9.1 million. Capital grants funded 66% of Pierce Transit's capital acquisitions in 2010. The Federal Transit Administration provides the majority of this funding. For a more detailed discussion on capital assets see footnote 1I.

Capital acquisitions during 2010 totaled \$13.8 million and included the following major capital assets:

- \$5.6 million for 9 hybrid diesel buses and 3 security vehicles
- \$1.8 million for property improvements and building improvements
- \$3.7 million for the continuation of work on a major radio system replacement and a regional fare collection system (ORCA)
- \$1.6 million for a signal priority project and a CCTV project
- \$1.1 million for technology projects and administrative equipment.

Debt Administration

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

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 Aa3 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 footnotes 4 and 9 of the financial section of this report.

Pierce Transit's authorized debt limit without a vote of the people is .375% of the value of the taxable property within its boundaries. The estimated non-voted debt capacity is \$182,783,476. Pierce Transit's maximum debt capacity (voted and non-voted) is 1.25% of assessed valuation, or \$605,873,816. This estimate is based on the assessed value of 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, 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, 2010, Pierce Transit had no outstanding debt.

Reserve Policies

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

- **Operating Reserve:** Pierce Transit will maintain the Operating Reserve at a minimum of two months of Agency operating expenditures. The Operating Reserve will be maintained at a level to provide sufficient working capital, to provide an adequate cash balance to finance cash flow requirements, to offset unanticipated downturns in revenues and to provide funds for emergency expenditure requirements.

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- Insurance Reserve: The Insurance Reserve will be set at a level to adequately protect the Agency from self-insurance risks.
- Capital Reserve: The minimum amount of the Capital Reserve will be set at a level equal to ten percent of the six-year average annual capital expenditures and fifty percent of the average annual grant funding programmed in the Six-Year Financial Plan. The capital reserve has been set at a level to enable the Agency to respond to urgent unanticipated capital expenditure requirements as well as to protect Pierce Transit from the uncertainty of Federal and State grant funding.
- Pierce Transit complied with its reserve policies during 2010.

Factors Affecting Financial Condition

Local Economy

- Sales tax revenue is projected to be 52% of Pierce Transit's operating revenues in 2011, compared to 55% in 2010. Local economic conditions play a major role in sales tax generation for Pierce Transit. The national recession is being felt locally. The current economic climate has been dubbed "The Great Recession" and has lasted seven straight quarters from the end of 2008 through the summer of 2010. The impact of the recession is most apparent in the unemployment rate, which rose sharply over the last three years from 4.6 percent to 9.6 percent. This increase in unemployment translates into a lack of consumer confidence which constrains sales tax revenue growth.
- Pierce Transit projects a modest increase of three percent tax revenues in 2011. Actual collections for 2010 were 3.2 percent, or \$2.0 million, above 2009 collections. This is far less than the 6.8% average increase in sales tax revenue over the six year period of 2002 through 2007, when the recession began. The economy is slowly recovering. Consumers are still uncertain about their jobs and the stability of the economic recovery. As new jobs are slowly being added, consumer confidence is rising. This helped to produce a small increase in sales tax revenues in 2010.

Long Term Financial Outlook

- Pierce Transit recognizes that its heavy reliance on sales tax revenues makes it more susceptible to economic fluctuations than most government agencies. In response, Pierce Transit has in place reserve policies to insulate it from short term revenue downturns and unanticipated expenditures. The operating reserve policy sets operating reserves to be equal to two months' operating expenses. This amounts to nearly \$21 million in 2011.
- Pierce Transit faces a deficit by the end of 2012. A ballot proposition was put forth to the voters of Pierce County on February 8, 2011 giving Pierce Transit authority to impose its remaining sales tax authority of 3/10% of 1 percent, or 3 cents on per \$10 of taxable sales. Voters rejected this proposition. As a result, the Board of Commissioners directed staff to implement a thirty-five percent service reduction, with a 20 percent reduction in June 2011 and a fifteen percent reduction in October 2011. These service reductions will decrease the Agency's expenditures to sustainable levels.
- Throughout the next six years, capital spending will be limited and will focus on vehicle replacement in order to ensure continuity of service. Expansion of facilities is not included in the Six-Year Financial Plan. No service increases are planned.

**Pierce Transit
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- After the thirty-five percent service reduction is implemented in 2011, the Six-Year Financial Plan is sustainable through 2016. Recognizing that economic conditions dramatically affect sales tax collections and the Agency's financial viability, this financial plan will continue to be carefully monitored.

End of Management's Discussion and Analysis

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Do it for **less**

- 1 **GREG GREER** | EQUIPMENT BODY REPAIRER
- 2 **JOHN JACKSON** | EQUIPMENT BODY REPAIRER
- 3 **CHARLIE MARQUARD** | EQUIPMENT BODY REPAIRER



Conserving resources

John Jackson, Greg Greer and Charlie Marquard in the Body Shop are recognized for their excellent work performed on the Sweeper truck #686. This 11-year-old vehicle was scheduled to be replaced with a new unit for \$88,000, but due to budget constraints PT must keep it in service. The crew repaired a rusted out sweeper hopper, installed a bumper, made many other repairs, and finished it off with a new coat of paint. The refurbished truck will provide a few more years of service and at a total cost of \$6,805, this work saved over \$80,000!

Saving lives

Do it **best**

EDWIN CLAUTIER | TRANSIT OPERATOR

Transit Operator Ed Clautier took appropriate action when a passenger began having a seizure on board his coach. Ed first contacted the Communications Center, calmly provided information, then went back to provide aid to the passenger. We believe Ed saved this passenger's life. He used the proper technique to keep the passenger from suffocating, turning him onto his side and staying with him until medical aid arrived. Ed's professionalism shows a true commitment to our customers and to the mission of this agency.



**Pierce Transit
Financial Statements
Years Ended December 31, 2010 and 2009**

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Pierce Transit

Comparative Statement of Net Assets

December 31, 2010 and 2009

CURRENT ASSETS	2010	2009
Cash & Cash Equivalents	\$ 7,045,826	\$ 3,982,180
Investments	58,198,378	64,409,675
Accounts Receivable	188,354	114,844
Interest Receivable	7,216	591
Sales Tax Receivable	11,631,545	11,256,829
Due From Other Governments	6,769,682	11,802,149
Prepaid Expenses	272,996	82,114
Inventories	2,820,217	2,586,388
TOTAL CURRENT ASSETS	86,934,214	94,234,770
CURRENT RESTRICTED ASSETS		
Cash & Cash Equivalents	143,835	215,596
Investments	31,629,660	30,079,667
Accounts Receivable	-	259,517
Interest Receivable	9,310	23,130
Due From Other Governments	1,764,625	568,840
TOTAL CURRENT RESTRICTED ASSETS	33,547,430	31,146,750
TOTAL CURRENT ASSETS	120,481,644	125,381,520
CAPITAL ASSETS		
Land	19,066,078	19,066,078
Work in Progress	15,856,138	38,739,686
Structures & Improvements	69,594,633	68,983,826
Site Improvements	47,359,700	47,053,251
Machinery & Equipment	135,676,097	104,014,623
Less: Accumulated Depreciation	(160,199,998)	(151,136,375)
TOTAL CAPITAL ASSETS	127,352,648	126,721,089
TOTAL ASSETS	\$ 247,834,292	\$ 252,102,609

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Net Assets

December 31, 2010 and 2009

CURRENT LIABILITIES	2010	2009
Checks Payable	\$ 509,246	\$ 668,840
Accounts Payable	3,269,873	2,553,791
Unearned Revenue	193,929	196,480
Wages and Benefits Payable	1,447,654	1,069,546
Employee Leave Payable	5,060,023	4,886,675
Due to Other Governments	1,296,127	3,653,211
Retainage Payable	1,694	7,750
TOTAL CURRENT LIABILITIES	11,778,546	13,036,293
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Checks Payable	326,476	28,782
Accounts Payable	1,706,718	401,911
Retainage Payable	34,010	819
Provision for Uninsured Claims	2,643,122	2,787,907
TOTAL RESTRICTED LIABILITIES	4,710,326	3,219,419
TOTAL CURRENT LIABILITIES	16,488,872	16,255,712
LONG-TERM LIABILITIES		
Employee Leave Payable	1,771,584	1,838,924
TOTAL LONG-TERM LIABILITIES	1,771,584	1,838,924
TOTAL LIABILITIES	18,260,456	18,094,636
NET ASSETS		
Invested in Capital Assets, net of related debt	127,352,648	126,721,090
Unrestricted Net Assets	102,221,188	107,286,883
TOTAL NET ASSETS	229,573,836	234,007,973
TOTAL LIABILITIES AND NET ASSETS	\$ 247,834,292	\$ 252,102,609

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Revenues, Expenses and Changes in Net Assets

Years ended December 31, 2010 and 2009

	2010	2009
OPERATING INCOME		
Passenger Fares	\$ 14,504,805	\$ 15,460,517
Advertising	1,120,406	905,896
Regional Transit Service	24,128,368	19,303,747
TOTAL OPERATING REVENUE	<u>39,753,579</u>	<u>35,670,160</u>
OPERATING EXPENSES		
Operations	69,186,925	64,856,874
Maintenance	22,021,255	19,152,993
Non-Vehicle Maintenance	6,243,353	4,486,786
General & Administration	20,744,738	20,088,579
Depreciation & Amortization	12,828,624	14,005,135
TOTAL OPERATING EXPENSES	<u>131,024,895</u>	<u>122,590,367</u>
OPERATING INCOME (LOSS)	<u>(91,271,316)</u>	<u>(86,920,207)</u>
NON-OPERATING INCOME (EXPENSE)		
Operating Subsidies:		
Sales Tax	65,338,852	63,335,030
Operating Grants	9,925,000	13,318,595
Other:		
Expense of Items Previously Deferred	(381,012)	(2,460,260)
Investment Income	346,746	1,014,361
Grant Exchange Funds	(1,113,622)	(952,540)
Miscellaneous Non-Operating Income	3,209,822	1,149,909
Gain (Loss) on Disposal of Assets	368,928	91,084
Interest Expense	-	(45,252)
NET NON-OPERATING INCOME	<u>77,694,714</u>	<u>75,450,927</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	(13,576,602)	(11,469,280)
Capital Contributions	9,142,465	2,817,313
NET INCOME (LOSS) AFTER CONTRIBUTIONS	<u>(4,434,137)</u>	<u>(8,651,967)</u>
NET ASSETS-BEGINNING	234,007,973	242,659,940
NET ASSETS-ENDING	<u>\$ 229,573,836</u>	<u>\$ 234,007,973</u>

See accompanying notes to the financial statements.

Pierce Transit

Comparative Statement of Cash Flows

Years ended December 31, 2010 and 2009

INCREASE(DECREASE)IN CASH AND CASH EQUIVALENTS:

CASH FLOWS FROM OPERATING ACTIVITIES:

	2010	2009
Cash Received From Customers	\$ 43,171,769	\$ 40,599,108
Cash Payments to Suppliers for Goods & Services	(35,197,100)	(29,974,707)
Cash Payments to Employees for Services	(82,426,756)	(82,254,921)
Miscellaneous Non-Operating Income	3,209,822	1,149,909
Net Cash Used By Operating Activities	<u>(71,242,265)</u>	<u>(70,480,611)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Sales Tax Received	64,964,136	63,808,914
Operating Grants Received	9,222,297	7,455,801
Grant Exchange Funds	(1,113,622)	(952,540)
Net Cash Provided By Noncapital Financing Activities	<u>73,072,811</u>	<u>70,312,175</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Acquisition and Construction of Capital Assets	(12,125,749)	(13,592,075)
Capital Grants and Contributions	7,902,915	3,921,034
Principal Paid on Debt	-	(1,335,000)
Interest Paid on Debt	-	(45,252)
Proceeds From Sale of Equipment	368,928	93,541
Net Cash Used By Capital and Related Financing Activity	<u>(3,853,906)</u>	<u>(10,957,752)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of Investment Securities	(75,276,586)	(85,247,834)
Proceeds from Maturities of Investment Securities	79,937,890	87,364,693
Interest on Investments	353,941	1,198,312
Net Cash Used By Investing Activities	<u>5,015,245</u>	<u>3,315,171</u>

Net Increase (Decrease) in Cash and Cash Equivalents	2,991,885	(7,811,017)
Cash and Cash Equivalents at Beginning of Year	4,197,776	12,008,793
Cash and Cash Equivalents at End of Year	<u>\$ 7,189,661</u>	<u>\$ 4,197,776</u>

See accompanying notes to the financial statements.

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

Operating Loss	\$ (91,271,316)	\$ (86,920,207)
----------------	-----------------	-----------------

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

Depreciation and Amortization	12,828,624	14,005,135
Miscellaneous Non-Operating Income	3,209,822	1,149,909

CHANGE IN ASSETS AND LIABILITIES FROM OPERATIONS:

(Increase) Decrease in Receivables	(73,510)	(58,906)
(Increase) Decrease in Inventories	(233,829)	(52,429)
(Increase) Decrease in Prepaid Expenses	(190,882)	140,182
(Increase) Decrease in Due from Other Governments	5,778,935	1,664,477
Increase (Decrease) in Warrants Payable	(70,908)	(1,110,798)
Increase (Decrease) in Accounts Payable	735,578	99,083
Increase (Decrease) in Unearned Revenue	(2,551)	124,991
Increase (Decrease) in Wages and Benefits Payable	484,116	(2,908,621)
Increase (Decrease) in Due to Other Governments	(2,284,684)	3,198,386
Increase (Decrease) in Retainage Payable	(6,875)	(72,221)
Increase (Decrease) in Provision for Uninsured Claims	(144,785)	260,408
TOTAL ADJUSTMENTS	<u>20,029,051</u>	<u>16,439,596</u>
Net Cash Used By Operating Activities	<u>\$ (71,242,265)</u>	<u>\$ (70,480,611)</u>

See accompanying notes to the financial statements.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pierce County Public Transportation Benefit Area Corporation, hereinafter 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 principles applicable to governmental units. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

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

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

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

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

In accordance with Government Accounting Standards Board (GASB) Statement 20, the Agency applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless the pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) statements and interpretations,

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Accounting Principals Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures.

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

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

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

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

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

Following the receipt of the preliminary budget request, the Executive Team reviews the programs, objectives, and expenditure requests to balance the total budget with the projected revenues 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 study session on the budget proposals. When the budget review and final adjustments are complete, the budget is adopted by resolution.

During the fiscal year, periodic budget reviews of actual expenditures and revenues are made. Should any significant budget variances in either expenses or revenues occur, budget amendments, if required, are made by resolution by the Board of Commissioners. Individual department budgets are monitored for authorized expenditures on a department total rather than a line-item basis. With the exception of personnel costs, travel and training, and capital acquisitions, department and division managers may exercise their judgment in exceeding line item appropriations so long as they

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

do not exceed their total appropriations. Any overruns for the Agency as a whole must be authorized by resolution by the Board of Commissioners.

On December 13, 2010, the Board of Commissioners adopted a Continuing Budget for 2011. The 2011 Continuing Budget provided for expenditures at the level of the 2010 Amended Budget. The need for a Continuing Budget was based on the fact that, as a result of the economic recession, Pierce Transit faces a deficit by the end of 2012. A proposition was put forth to the voters of Pierce County on February 8, 2011 giving Pierce Transit authority to impose its remaining sales tax authority of 3/10% of 1 percent, or 3 cents on per \$10 of taxable sales. Voters rejected this proposition. As a result, the Board of Commissioners directed staff to implement a thirty-five percent service reduction, with a 20 percent reduction in June 2011 and a fifteen percent reduction in October 2011. These service reductions will decrease the Agency's expenditures to sustainable levels.

A schedule of budgeted versus actual revenues and expenses for the periods ended December 31, 2010 and 2009, is as follows:

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2010

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	\$ 15,232,074	\$ 14,504,805	\$ (727,269)
Advertising	1,050,000	1,120,406	70,406
Regional Transit Service	23,429,250	24,128,368	699,118
Interest Income	693,515	346,746	(346,769)
Sales Tax	61,651,911	65,338,852	3,686,941
Operating Grants	9,163,156	9,925,000	761,844
Capital Grants	18,906,924	9,142,465	(9,764,459)
Miscellaneous Revenues	4,050,697	3,209,822	(840,875)
Gain on Disposal of Assets	-	368,928	368,928
TOTAL*	\$ 134,177,527	\$ 128,085,392	\$ (6,092,135)

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2010

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Personnel	\$ 87,886,906	\$ 82,910,872	\$ 4,976,034
Fuel and Lubricants	7,485,609	7,409,316	76,293
Supplies and Materials	6,387,408	5,534,848	852,560
Contracts and Services	23,298,516	22,341,235	957,281
Depreciation and Amortization	-	12,828,624	(12,828,624)
Expense of Items Previously Deferred	-	381,012	(381,012)
Capital Acquisitions	45,383,686	13,841,193	31,542,493
Grant Exchange Funds	860,301	1,113,622	(253,321)
TOTAL*	\$ 171,302,426	\$ 146,360,722	\$ 24,941,704

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

SCHEDULE OF REVENUES AND NON-REVENUES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2009

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Passenger Fares	\$ 15,865,500	\$ 15,460,517	\$ (404,983)
Advertising	962,500	905,896	(56,604)
Regional Transit Service	19,965,400	19,303,747	(661,653)
Interest Income	2,145,722	1,014,361	(1,131,361)
Sales Tax	72,565,800	63,335,030	(9,230,770)
Operating Grants	9,637,000	13,318,595	3,681,595
Capital Grants	27,530,203	2,817,313	(24,712,890)
Bonds	14,000,000	-	(14,000,000)
Miscellaneous Revenues	1,832,600	1,149,909	(682,691)
Gain on Disposal of Assets	-	91,084	91,084
TOTAL*	\$ 164,504,765	\$ 117,396,452	\$ (47,108,273)

SCHEDULE OF EXPENSES AND EXPENDITURES BUDGETED VERSUS ACTUAL
Year Ended December 31, 2009

	AMENDED BUDGET	ACTUAL	FAVORABLE (UNFAVORABLE) VARIANCE
Personnel	\$ 86,631,572	\$ 79,346,300	\$ 7,285,272
Fuel and Lubricants	6,574,500	5,718,378	856,122
Supplies and Materials	5,987,900	5,246,793	741,107
Contracts and Services	20,942,300	18,273,761	2,668,539
Depreciation and Amortization	-	14,005,135	(14,005,135)
Expense of Items Previously Deferred	-	2,460,260	(2,460,260)
Capital Acquisitions	75,491,925	13,182,990	62,308,935
Interest Expense	90,060	45,252	44,808
Grant Exchange Funds	860,300	952,540	(92,240)
Bond Principal	1,309,940	1,335,000	(25,060)
TOTAL*	\$ 197,888,497	\$ 140,566,409	\$ 57,322,088

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

Pierce Transit
Notes to Financial Statements
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Following is a reconciliation of the revenues and expenditures shown on the Budget vs. Actual Schedule and the Comparative Statement of Revenues, Expenses and Changes in Net Assets:

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

	<u>2010</u>	<u>2009</u>
Passenger Fares	\$ 14,504,805	\$ 15,460,517
Advertising	1,120,406	905,896
Regional Transit Service	24,128,368	19,303,747
Investment Income	346,746	1,014,361
Misc. Non-Operating Revenue	3,209,822	1,149,909
Operating Subsidies	75,263,852	76,653,625
Gain on Disposal of Assets	368,928	91,084
TOTAL	<u>118,942,927</u>	<u>114,579,139</u>

Revenues From the Budget vs. Actual Schedule:

Capital Grants	9,142,465	2,817,313
TOTAL	<u>128,085,392</u>	<u>117,396,452</u>
GRAND TOTAL	<u>\$ 128,085,392</u>	<u>\$ 117,396,452</u>

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

	<u>2010</u>	<u>2009</u>
Operations	\$ 69,186,925	\$ 64,856,874
Maintenance	22,021,255	19,152,993
Non-Vehicle Maintenance	6,243,353	4,486,786
General & Administration	20,744,738	20,088,579
Depreciation and Amortization	12,828,624	14,005,135
Expense of Items Previously Deferred	381,012	2,460,260
Interest Expense	-	45,252
Grant Exchange Funds	1,113,622	952,540
TOTAL	<u>132,519,529</u>	<u>126,048,419</u>

Expenses From the Budget vs. Actual Schedule

Capital Acquisitions	13,841,193	13,182,990
Bond Principal Payment	-	1,335,000
TOTAL	<u>13,841,193</u>	<u>14,517,990</u>
GRAND TOTAL	<u>\$ 146,360,722</u>	<u>\$ 140,566,409</u>

D. ENCUMBRANCES - Pierce Transit encumbers all expenses for management information. Encumbrances do not, however, constitute a legal reduction of appropriations. Accounts

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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, 2010 total \$5,523,496 compared to \$14,860,881 on December 31, 2009. The majority of the encumbrances for 2009 result from large capital projects in progress including base facility expansion, a mobile communications project, and passenger facilities improvements. Encumbrances are not shown on the financial statements.

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

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

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

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

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

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

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

The Summary of Changes in Capital Assets for the years ended December 31, 2010 and 2009, respectively, follows:

Summary of Changes in Capital Assets
Year Ended December 31, 2010

Description	Balance January 1, 2010	Additions	Retirements	Adjustment	Balance December 31, 2010
Capital assets not being depreciated:					
Land	\$ 19,066,078	\$ -	\$ -	-	\$ 19,066,078
Work in Progress	38,739,686	13,841,193	-	(36,724,741)	15,856,138
Total capital assets not being depreciated	<u>57,805,764</u>	<u>13,841,193</u>	<u>-</u>	<u>(36,724,741)</u>	<u>34,922,216</u>
Depreciable capital assets:					
Structures	68,983,826	610,807	-	-	69,594,633
Site Improvements	47,053,251	306,448	-	-	47,359,699
Machinery & Equipment	104,014,623	35,426,475	(3,765,001)	-	135,676,097
Total depreciable capital assets at cost	<u>220,051,700</u>	<u>36,343,730</u>	<u>(3,765,001)</u>	<u>-</u>	<u>252,630,429</u>
Total Capital Assets (gross)	<u>277,857,464</u>	<u>50,184,923</u>	<u>(3,765,001)</u>	<u>(36,724,741)</u>	<u>287,552,645</u>
Less accumulated depreciation for:					
Structures	(42,073,707)	(2,639,107)	-	-	(44,712,814)
Site Improvements	(41,017,284)	(1,180,489)	-	-	(42,197,773)
Machinery & Equipment	(68,045,383)	(9,009,028)	3,765,001	-	(73,289,411)
Total accumulated depreciation	<u>(151,136,374)</u>	<u>(12,828,624)</u>	<u>3,765,001</u>	<u>-</u>	<u>(160,199,998)</u>
Total Capital Assets (net)	<u>\$126,721,090</u>	<u>\$37,356,298</u>	<u>\$ -</u>	<u>\$ (36,724,741)</u>	<u>\$127,352,647</u>

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Summary of Changes in Capital Assets
Year Ended December 31, 2009

Description	Balance January 1, 2009	Additions	Retirements	Adjustment	Balance December 31, 2009
Capital assets not being depreciated:					
Land	\$ 17,339,804	\$ -	\$ -	\$1,726,274	\$ 19,066,078
Work in Progress	31,287,174	13,182,990	-	(5,730,478)	38,739,686
Total capital assets not being depreciated	<u>48,626,978</u>	<u>13,182,990</u>	<u>-</u>	<u>(4,004,204)</u>	<u>57,805,764</u>
Depreciable capital assets:					
Structures	69,081,623	-	-	(97,797)	68,983,826
Site Improvements	47,053,251	-	-	-	47,053,251
Machinery & Equipment	103,542,341	-	(1,169,459)	1,641,741	104,014,623
Total depreciable capital assets at cost	<u>219,677,215</u>	<u>-</u>	<u>(1,169,459)</u>	<u>1,543,944</u>	<u>220,051,700</u>
Total Capital Assets (gross)	<u>268,304,193</u>	<u>13,182,990</u>	<u>(1,169,459)</u>	<u>(2,460,260)</u>	<u>277,857,464</u>
Less accumulated depreciation for:					
Structures	(39,349,344)	(2,724,393)	30	-	(42,073,707)
Site Improvements	(39,919,454)	(1,097,798)	(32)	-	(41,017,284)
Machinery & Equipment	(58,927,418)	(10,284,969)	1,167,004	-	(68,045,383)
Total accumulated depreciation	<u>(138,196,216)</u>	<u>(14,107,160)</u>	<u>1,167,004</u>	<u>-</u>	<u>(151,136,374)</u>
Total Capital Assets (net)	<u>\$130,107,977</u>	<u>\$ (924,170)</u>	<u>\$ -</u>	<u>(2,457)</u>	<u>\$ (2,460,260)</u>
				<u>\$ (2,460,260)</u>	<u>\$126,721,090</u>

Work in progress as of 12/31/10 consists of the following projects:

Buildings & Site Improvements	\$ 1,182,573
Equipment	14,118,859
Park and Ride Lots/Transit Centers	554,706
Total Work in Progress	<u>\$ 15,856,138</u>

A number of projects were in process at the end of 2010. Commitments on capital projects as of December 31, 2010 totaled \$3,554,734 and are itemized as follows: buildings and site improvements \$344,482 and equipment \$3,210,252. Projects underway as of December 31, 2010 included base facility improvements, a signal priority project, and a Compressed Natural Gas (CNG) generator project.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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

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

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

Costs incurred in planning and designs 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.

K. UNEARNED REVENUE - Revenues are recorded when earned. Unearned revenue as of December 31, 2010 and 2009 was \$193,929 and \$196,480, respectively.

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 2010 totaled \$65,338,852 resulting in a three percent increase over 2009 sales tax revenue of \$63,335,030.

Federal Operating Assistance - Federal operating grants.

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

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

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

	<u>2010</u>	<u>2009</u>
Vacation-Current	\$ 3,111,094	\$ 3,001,908
Vacation-Non-Current	345,677	333,545
Total Vacation Leave Liability	<u>\$ 3,456,771</u>	<u>\$ 3,335,453</u>

Pierce Transit
Notes to Financial Statements
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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, 2010 and 2009 were \$7,851,671 and \$7,805,320 respectively. Sick leave is recorded as an expense at the time of payment, which occurs upon usage or termination. Fifty percent of the value is paid upon retirement or death of the employee, 20% is paid upon termination for any other reason. The estimated liability for these sick leaves payouts is as follows:

	<u>2010</u>	<u>2009</u>
Current Liability based on usage or terminations	\$ 1,948,928	\$ 1,884,747
Non-current Liability based on expected future payoffs	1,425,907	1,505,379
Total Sick Leave Liability	<u>\$ 3,374,835</u>	<u>\$ 3,390,126</u>

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

	<u>2010</u>	<u>2009</u>
Balance beginning of year	\$ 4,886,675	\$ 4,720,474
Employee leave earned	4,748,212	3,831,363
Employee leave paid	(4,574,864)	(3,665,162)
Current Employee Leave Payable	<u>\$ 5,060,023</u>	<u>\$ 4,886,675</u>

	<u>2010</u>	<u>2009</u>
Balance beginning of year	\$ 1,838,924	\$ 1,768,507
Employee leave earned	1,534,383	1,667,989
Employee leave paid	(1,601,723)	(1,597,572)
Long-term Employee Leave Payable	<u>\$ 1,771,584</u>	<u>\$ 1,838,924</u>

2. CASH AND INVESTMENTS

Cash and investments are classified in the accompanying financial statements as of December 31, 2010 and 2009, respectively as follows:

Composition of Cash and Cash Equivalents:

	<u>2010</u>	<u>2009</u>
Demand Deposits	\$ 7,189,661	\$ 4,197,776
Investments having original maturities of less than 3 months	-	-
Total Cash and Cash Equivalents	<u>\$ 7,189,661</u>	<u>\$ 4,197,776</u>

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

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

- Obligations of the United States Treasury.
- Obligations of agencies of the Federal Government.

Pierce Transit
Notes to Financial Statements
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- 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 2010 and 2009, 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 2010 or 2009.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity of its fair value to changes in market interest rates. Pierce Transit's investment policy is designed to manage the exposure to interest rate risk through diversification and by purchasing a combination of shorter and longer term investments that mature evenly over time. Pierce Transit's policy does not allow any investments over two years in maturity. Pierce Transit's weighted average maturity for December 31, 2010 and 2009 was 8 days and 8 days, respectively.

Information of the sensitivity of fair values of investments to interest rate fluctuations is provided by the following table showing maturities of all investments held by Pierce Transit as of December 31, 2010 and 2009.

Investment Type	Fair Value	2010 Investment Maturities (in months)				Total
		0-3	4-6	6-12	12-24	
Local Government						
Investment Pool	\$ 81,026,949	\$ 81,026,949	\$ -	\$ -	\$ -	\$ 81,026,949
Bankers Acceptances	-	-	-	-	-	-
U. S. Agencies	8,801,089	2,000,050	3,635,300	3,165,739	-	8,801,089
	<u>\$89,828,038</u>	<u>\$ 83,026,999</u>	<u>\$ 3,635,300</u>	<u>\$ 3,165,739</u>	<u>\$ -</u>	<u>\$ 89,828,038</u>

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Investment Type	Fair Value	2009 Investment Maturities (in months)				Total
		0-3	4-6	6-12	12-24	
Local Government						
Investment Pool	\$ 90,901,452	\$ 90,901,452	\$ -	\$ -	\$ -	\$ 90,901,452
Bankers Acceptances	-	-	-	-	-	-
U. S. Agencies	3,587,890	-	2,036,740	1,551,150	-	3,587,890
	<u>\$94,489,342</u>	<u>\$ 90,901,452</u>	<u>\$ 2,036,740</u>	<u>\$ 1,551,150</u>	<u>\$ -</u>	<u>\$94,489,342</u>

Disclosures Relating to Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Washington State Local Government Investment Pool is an unrated 2a-7 like pool, as defined by GASB 31. As of December 31, 2010, ten percent of Pierce Transit's investments are in the following U.S. Agencies: Federal Home Loan Banks (FHLB) and Federal National Mortgage Association (FNMA). All the U.S. Agencies held by Pierce Transit have an AAA rating from Standard & Poor's and Aaa from Moody's.

Concentration of Credit Risk

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

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

Custodial Credit Risk

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

3. RECEIVABLES

Amounts due to Pierce Transit for year ended December 31, 2010 and 2009 (net of uncollectible) are detailed as follows:

Pierce Transit
Notes to Financial Statements
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UNRESTRICTED RECEIVABLES

	<u>2010</u>	<u>2009</u>
Accounts Receivable	\$ 188,354	\$ 114,844
Interest Receivable	7,216	591
Sales Tax Receivable	<u>11,631,545</u>	<u>11,256,829</u>
Total Receivables	<u>11,827,115</u>	<u>11,372,264</u>
Due from Other Governments:		
Other Operating Partnerships	1,382,254	5,884,887
Fuel Tax Refund & CNG Credit	1,342,942	398,633
Regional Transit Service Revenues	<u>4,044,486</u>	<u>5,518,629</u>
Total Due from Other Governments	<u>6,769,682</u>	<u>11,802,149</u>
Total Unrestricted Receivables	<u>18,596,797</u>	<u>23,174,413</u>

RESTRICTED RECEIVABLES

Accounts Receivable	-	259,517
Interest Receivable	<u>9,310</u>	<u>23,130</u>
Total Receivables	<u>9,310</u>	<u>282,647</u>
Due from Other Governments:		
Capital Grants	147,849	24,496
Other Capital Partnerships	1,297,504	181,307
Regional Transit Service Revenues	<u>319,272</u>	<u>363,037</u>
Total Restricted Due from Other Governments	<u>1,764,625</u>	<u>568,840</u>
Total Restricted Receivables	<u>1,773,935</u>	<u>851,487</u>
Total Receivables	<u>\$20,370,732</u>	<u>\$24,025,900</u>

4. BONDS PAYABLE

In 1999, Pierce Transit issued \$3,795,000 of limited sales tax general obligation bonds. This debt has been rated Aa3 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 for construction of capital facilities with maturity dates between 2003 and 2011 (see Note 9). Bond payments are made from sales tax revenues. On August 18, 2009 an irrevocable call of the 1999 bonds maturing on or after December 1, 2010 was exercised. The remaining serial maturity was redeemed on December 1, 2009. Pierce Transit has no debt as of December 31, 2010.

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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.

A. DESIGNATED FOR CAPITAL - Net assets designated for capital were \$25,689,792 for 2010 and \$25,366,574 for 2009.

B. DESIGNATED FOR INSURANCE - Pierce Transit's Board of Commissioners established a self-insurance fund in 1982 (See Note 8). Net assets designated for unemployment, liability self-insurance, and workers compensation for the periods ended December 31, 2010 and 2009 were \$3,027,900 and \$2,441,344, respectively.

C. RESTRICTED FOR DEBT SERVICE - Cash, investments, and receivables restricted for debt service total \$0 for 2010 and \$119,412 for 2009. Current liabilities payable from these assets as of December 31, 2010 and 2009 were \$0. Pierce Transit has no debt as of December 31, 2010.

6. EMPLOYEE BENEFITS

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

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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, 2009 and December 31, 2008 respectively.

The payroll for Pierce Transit employees covered by these retirement systems was \$58,551,663 for the year ended December 31, 2010 with a total payroll for 2010 of \$61,520,750. Payroll for Pierce Transit employees covered by retirement systems as of December 31, 2009 was \$58,499,975, with a total payroll of \$61,173,889. Employees covered by the Tacoma Employees Retirement Systems (TERS) are required by State statute and City ordinance to contribute 10.26% 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 and 3.90% for Plan 2 participants. Pierce Transit is required by the same authority to contribute the remaining amounts necessary to pay benefits when due. The employer's contribution for PERS employees was 5.29% through June 30, 2010, increasing to 5.31% through December 31, 2010. PERS Plan 3 employees can contribute 5% to 15% of their gross wages. Pierce Transit does not provide any post employment benefits for early retirement, post-retirement, or either voluntary or involuntary terminations.

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

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

	<u>PERS</u>		
	<u>PLAN 1</u>	<u>PLAN 2</u>	<u>PLAN 3</u>
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	2% of highest consecutive 60 month average final compensation (AFC) multiplied by years of	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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

service, up to 60% of AFC service. Benefits on retirements prior to age 65 are actuarially reduced

Benefits Death and Disability Death and Disability Death and Disability

During 2008, 2009, and 2010, Pierce Transit and its employees made the required contributions. Contribution amounts and rates expressed as a percentage of the covered payroll for the three years ended December 31 are as follows:

	PERS Plan 1		PERS Plan 2		PERS Plan 3		TERS	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Employee	6.00%	\$ 86,653	5.45%	\$ 2,289,703	5-15%	\$ 200,415	6.44%	\$ 51,127
Employer	8.31%	102,034	8.31%	3,441,860	8.31%	246,835	7.56%	60,108
Total 2008		<u>\$ 188,687</u>		<u>\$ 5,731,563</u>		<u>\$ 447,250</u>		<u>\$ 111,235</u>
Employee	6.00%	\$ 83,154	3.89%	\$ 2,499,675	5-15%	\$ 246,786	7.36%	\$ 49,026
Employer	5.29%	95,076	5.29%	3,642,216	5.29%	281,912	8.64%	57,552
Total 2009		<u>\$ 178,230</u>		<u>\$ 6,141,891</u>		<u>\$ 528,698</u>		<u>\$ 106,578</u>
Employee	6.00%	\$ 71,760	3.90%	\$ 2,045,258	5-15%	\$ 260,146	10.26%	\$ 42,985
Employer	5.31%	63,507	5.31%	2,784,747	5.31%	232,640	8.74%	50,718
Total 2010		<u>\$ 135,267</u>		<u>\$ 4,830,005</u>		<u>\$ 492,786</u>		<u>\$ 93,703</u>

B. DEFERRED COMPENSATION PLAN - Pierce Transit offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Plans are offered and administered through Great West Life & Annuity Insurance Company and ICMA Retirement Corporation. Pierce Transit contributes from 1% to 5.5% of the annual salary of all participating employees. In 2010, Pierce Transit contributed \$1,874,972. Pierce Transit contributed \$1,757,734 to this plan in 2009. On November 1, 2010, Pierce Transit temporarily discontinued the employer match for non-represented employees. The plan is available to all employees on a voluntary basis and permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Beginning in fiscal year 1998, existing assets in the plan are held in a qualified custodial account. The custodian holds the Plan's assets for the exclusive benefit of participants and beneficiaries. The Plan's assets are not the legal property of Pierce Transit and are not subject to claims of the Agency's creditors. Therefore, deferred compensation funds are not shown on the balance sheet.

7. COMMITMENTS AND CONTINGENCIES

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

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

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

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

Pierce Transit's financial statements reflect its portion of ORCA fare revenues and expenses. ORCA fare revenue as of December 31, 2010 was \$4,256,776 with operating expenses of \$463,332. In 2009, ORCA revenue totaled \$264,689 and operating expense of \$127,358. Pierce Transit's share of funds held by the fiscal agent as of December 31, 2010, and 2009 reported within Pierce Transit's financial statements, amounted to \$560,256 and \$239,252 respectively. Other than the funds held by the fiscal agent Pierce Transit has no equity interest.

8. INSURANCE

For auto/general liability and public officials' claims prior to January 1, 2010, Pierce Transit was self-insured. For claims prior to 2010, Pierce Transit's self-insurance retention was \$1,000,000 with an excess insurance policy of \$16,000,000. As of January 1, 2010, Pierce Transit became a full member of the Washington State Transit Insurance Pool (WSTIP) and is no longer self-insured for auto/general liability and public officers' claims. As a member of this pool, the Agency is able to take advantage of competitive insurance rates and an exchange of best practices that help to reduce liability exposure. Current policies under WSTIP include first dollar (no deductible) general liability coverage of up to \$12 million dollar per occurrence, property coverage of up to \$350 million (\$10,000 deductible) per occurrence, crime coverage of up to \$1 million (\$10,000 deductible) per loss, and public officials liability coverage of up to \$12 million (\$5,000 deductible) per occurrence.

Pierce Transit continues to be self-insured for unemployment compensation and workers' compensation. Pierce Transit is also self-insured for auto/general liability and public officers' claims prior to January 1, 2010. Self-insurance assets have been set aside for these self-insurance claims.

On December 31, 2010, the self-insurance assets totaled \$5,897,162, of which a liability of \$2,643,122 is recorded as liability for all general liability tail claims (claims prior to 2010), workers' compensation and unemployment compensation claims for which it may be ultimately liable,

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

including a provision for claims incurred but not yet reported. As of December 31, 2009, Pierce Transit's self-insurance assets totaled \$5,347,207 of which a liability of \$2,787,907 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>2010</u>	<u>2009</u>
Balance beginning of year	\$ 2,787,907	\$ 2,527,499
Provision for incurred claims	3,781,522	4,377,909
Payments made for claims	(3,926,307)	(4,117,501)
Claims liabilities year ended	<u>\$ 2,643,122</u>	<u>\$ 2,787,907</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 1992 bonds were issued to fund construction of capital facilities. 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.

On July 13, 2009 the Board of Commissioners approved an irrevocable call of 1999 bonds maturing on and after December 1, 2010. On August 18, 2009 the bonds were redeemed at a price of par plus accrued interest. On December 1, 2009 the remaining serial maturity was redeemed. The following summarizes the maturity of the 1999 bonds in 2009:

<u>Maturity/Call Date</u>	<u>Principal</u>
August 18, 2009	\$905,000
December 1, 2009	\$430,000

The exercised call provisions resulted in a net present value savings of approximately \$50,000. Pierce Transit did not have any debt as of December 31, 2010.

10. SUBSEQUENT EVENTS

A. PROPOSITION 1 - On February 8, 2011 Pierce Transit asked Pierce County voters to approve Proposition 1, giving Pierce Transit the authority to impose its remaining sales tax authority of \$0.003 or 3 cents per \$10 of taxable sales. Voters rejected the proposition. As a result of the economic recession and the failure of Proposition 1, the Pierce Transit Board of Commissioners directed staff to implement a thirty-five percent reduction in service by October 2011 to address the Agency's budget shortfall. The planned service changes will reduce service in June 2011 by twenty percent and an additional fifteen percent in October 2011.

B. CNG FUELING STATION FIRE - Nearly one hundred percent of Pierce Transit's fixed route buses are fueled by Compressed Natural Gas (CNG). On February 28, 2011, a fire in

Pierce Transit
Notes to Financial Statements
Years Ended December 31, 2010 and 2009

Pierce Transit's CNG fueling station limited the number of buses that can be put into service each day and significantly reduced the ability to operate the regular service schedule. As a result, the system is operating on a modified schedule and regular service has been reduced approximately twenty percent.

The loss due to the fire is covered by an insurance policy, with a \$10,000 deductible. Due to the anticipated schedule for fueling station repairs, Pierce Transit cannot return to regular service levels prior to beginning planned service reductions that are to be completed by October 2011. This emergency requires accelerated implementation of permanent service reductions. The plan calls for a 20 percent reduction of service starting June 12th, 2011 and a 15 percent reduction of service on October 2, 2011. Emergency reduced service will continue to operate through June 12, 2011.

End of Notes to the Financial Statements

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Do it for **less**

- 1 **JEAN ARCHER** | SENIOR PLANNER
- 2 **RANDY HENDRICKSON** | SPECIALIZED TRANSPORTATION MANAGER
- 3 **JERRI KELLY** | SYSTEMS ANALYST
- 4 **TIM RENFRO** | ADA MANAGER



Boosting productivity

Tim Renfro, Randy Hendrickson, Jean Archer and Jerri Kelly are honored for their work on the Adult Day Health project. As members of the Pierce County Local Coordinated Transportation Coalition, they were tasked with developing a system that would meet the transportation needs of Adult Day Health participants in a cost effective manner. The service was launched in February and will save \$400,000 per year in transportation costs. This team did it best, did it together and did it for less.



Do it **best**

HAK YOU | TRANSIT OPERATOR

Commendations are in order for Transit Operator Hak You. After an erratically-driven car almost hit his coach, the vehicle stopped at 108th & Bridgeport. Hak secured his coach and checked on the vehicle's driver. The driver seemed to be intoxicated or experiencing a medical issue. Hak determined she was not okay to drive, and was able to get her keys away from her. Later, the female was checked by medical personnel and had a blood sugar level of 35. This level would almost kill most people, but since the driver was a diabetic, it was especially serious. Hak's quick reaction to the situation probably saved her life, and potentially the lives of others. The medics stated he did a great job. Hak brings the true meaning of a caring person to light.

Providing assistance

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

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

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to assess how Pierce Transit’s financial performance and well-being have changed over time.	48-49
Revenue Capacity These schedules contain information on Pierce Transit’s revenue sources and their fluctuations over time.	50-51
Debt Capacity These schedules present information to assist the reader in assessing the affordability of Pierce Transit’s current level of outstanding debt and the ability to issue additional debt in the future.	52-53
Demographic and Economic Information These schedules offer demographic and economic indicators regarding the environment within which Pierce Transit’s financial activities take place.	53-54
Operating Information These schedules contain information about services Pierce Transit provides and the activities it performs.	55-59
Grant Information This schedule provides a summary of capital grant activity for Federal, State and Local sources.	60

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

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Financial Trends
Net Assets by Component
2001 - 2010**

	Invested in Capital Assets	Unrestricted	Total
2001	106,704,681	45,275,117	151,979,798
2002 *	105,264,761	45,517,812	150,782,573
2003	97,750,689	63,775,883	161,526,572
2004	106,752,212	75,701,262	182,453,474
2005	115,927,548	89,543,932	205,471,480
2006	116,669,627	107,790,306	224,459,933
2007	120,825,987	119,269,028	240,095,015
2008	128,772,977	113,886,963	242,659,940
2009	126,721,089	107,286,883	234,007,973
2010	127,352,648	102,221,188	229,573,836

* Pierce Transit adopted GASB statement No.34 in 2002 which required reclassification of certain balances, including the presentation of net assets formerly labeled retained earnings and contributed capital.

**Financial Trends
Expense Comparisons by Type
2001 – 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personnel	\$41,180,072	\$44,656,262	\$49,732,380	\$53,276,898	\$57,785,602	\$60,736,927	\$67,667,670	\$77,278,554	\$79,346,300	\$82,910,872
Fuel & Lubricants	2,132,899	2,243,299	3,166,655	3,731,581	5,386,453	5,917,776	4,763,794	7,123,019	5,718,378	7,409,316
Supplies & Materials	3,572,809	3,625,479	4,050,431	4,944,439	4,851,849	4,636,806	5,962,609	5,921,096	5,246,793	5,534,848
Contracts & Services	9,859,752	12,326,267	11,606,002	13,770,279	13,925,196	15,974,894	17,065,225	18,258,165	18,273,761	22,341,235
Depreciation & Amortization	12,474,363	13,347,738	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786	14,117,400	14,005,135	12,828,624
Capital Acquisition	5,480,620	12,351,346	5,897,918	21,187,250	21,717,527	14,426,046	20,005,358	23,593,957	13,182,990	13,841,193
Losses on Disposal of Assets	425	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	305,000	325,000	340,000	355,000	365,000	380,000	395,000	415,000	1,335,000	-
Lease Principal	-	-	-	-	-	-	-	-	-	-
Interest Expense	269,729	251,279	142,788	130,548	117,413	103,543	94,799	77,616	45,252	-
Previously Deferred Items	16,174	464,330	15,209	1,277	61,865	50,590	132,357	234,942	2,460,260	381,012
Grant Exchange Funds					1,714,333	711,191	1,758,451	860,301	952,540	1,113,622
Total	\$75,291,842	\$89,591,000	\$88,437,217	\$109,672,134	\$118,492,362	\$116,618,920	\$133,591,049	\$147,880,050	\$140,566,409	\$146,360,722

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Financial Trends
Changes in Net Assets
2001 - 2010**

Operating Revenue	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passenger Fares	\$7,837,840	\$8,505,024	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165	\$13,882,370	\$15,460,517	\$14,504,805
Advertising	838,843	466,549	673,295	442,378	851,602	1,094,081	816,563	968,104	905,896	1,120,406
Regional Transit Service	10,475,947	11,246,071	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606	17,443,379	19,303,747	24,128,368
Total Operating Revenue	19,152,630	20,217,644	22,589,069	23,351,312	24,787,446	27,700,692	30,083,334	32,293,853	35,670,160	39,753,579
Non-Operating Revenue										
Sales Tax	26,677,899	41,138,256	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577	71,752,351	63,335,030	65,338,852
MVET	-	-	-	-	-	-	-	-	-	-
Operating Grants	9,190,891	5,540,152	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290	9,505,308	13,318,595	9,925,000
Investment Income	1,754,036	760,368	685,934	1,218,453	2,393,870	4,161,786	5,590,687	3,220,825	1,014,361	346,746
Miscellaneous Income Gain(Loss)on Disposal of Assets	711,483 (425)	704,771 65,597	779,793 89,504	947,521 91,584	1,005,346 350,686	969,860 284,261	1,401,198 108,715	805,296 122,190	1,149,909 91,084	3,209,822 368,928
Total Non-Operating Revenue	38,333,884	48,209,144	67,768,808	68,735,159	80,331,996	87,038,110	91,176,467	85,405,970	78,908,979	79,189,348
Total Revenue	57,486,514	68,426,788	90,357,877	92,086,471	105,119,442	114,738,802	121,259,801	117,699,823	114,579,139	118,942,927
Operating Expense										
Fixed Route	44,305,283	49,498,514	54,828,986	60,018,905	66,764,882	70,476,920	76,043,175	86,654,338	86,680,889	96,282,650
Demand Response	10,646,108	11,184,461	11,164,370	12,772,330	12,359,269	13,856,252	15,807,504	17,637,236	17,806,552	17,597,639
Vanpool	1,794,139	2,168,332	2,562,112	2,931,961	2,824,949	2,933,231	3,608,619	4,289,260	4,097,791	4,315,982
Depreciation & Amortization	12,474,363	13,347,738	13,485,834	12,274,862	12,567,124	13,681,147	15,745,786	14,117,400	14,005,135	12,828,624
Total Operating Expense	69,219,893	76,199,045	82,041,302	87,998,058	94,516,224	100,947,550	111,205,084	122,698,234	122,590,367	131,024,895
Non-Operating Expense										
Expense of Deferred Items	16,174	464,330	15,209	1,277	61,865	50,590	132,357	234,942	2,460,260	381,012
Interest Expense	269,729	251,279	142,788	130,548	117,413	103,543	94,799	77,616	45,252	-
Grant Exchange Funds	-	-	-	-	1,714,333	711,191	1,758,451	860,301	952,540	1,113,622
Total Non-Operating Expense	285,903	715,609	157,997	131,825	1,893,611	865,324	1,985,607	1,172,859	3,458,052	1,496,634
Total Expense	69,505,796	76,914,654	82,199,299	88,129,883	96,409,835	101,812,874	113,190,691	123,871,093	126,048,419	132,519,529
Net Expense	(12,019,282)	(8,487,866)	8,158,578	3,956,588	8,709,607	12,925,928	8,069,110	(6,171,270)	(11,469,280)	(13,578,602)
Capital Grants	4,711,290	7,290,641	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374	8,736,195	2,817,313	9,142,465
Change in Net Assets	\$(7,307,992)	\$(1,197,225)	\$10,743,999	\$20,926,902	\$23,018,006	\$18,456,051	\$16,167,484	\$2,564,925	\$(8,651,967)	\$(4,434,137)

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Revenue Capacity
Revenue and Subsidies Comparisons
2001 - 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passenger Fares	\$7,837,840	\$8,505,024	\$8,937,797	\$9,368,453	\$9,096,278	\$11,515,007	\$12,372,165	\$13,882,370	\$15,460,517	\$14,504,805
School Service	-	-	-	-	-	-	-	-	-	-
Regional										
Transit Fares	10,475,947	11,246,071	12,977,977	13,540,481	14,839,566	15,091,604	16,894,606	17,443,379	19,303,747	24,128,368
Advertising	838,843	466,549	673,295	442,379	851,602	1,094,081	816,563	968,104	905,896	1,120,406
Interest Income	1,754,036	760,368	685,934	1,218,453	2,393,870	4,161,786	5,590,687	3,220,825	1,014,361	346,746
Sales Tax	26,677,899	41,138,256	58,189,718	61,770,952	69,126,119	74,593,386	77,156,577	71,752,351	63,335,030	65,338,852
MVET	-	-	-	-	-	-	-	-	-	-
Operating										
Subsidies	9,190,891	5,540,152	8,023,859	4,706,649	7,455,975	7,028,817	6,919,290	9,505,308	13,318,595	9,925,000
Capital Grants	4,711,290	7,290,641	2,585,421	16,970,314	14,308,399	5,530,123	8,098,374	8,736,195	2,817,313	9,142,465
Gain on										
Disposal of										
Assets	-	65,597	89,504	91,584	350,686	816,663	108,715	122,190	91,084	368,928
Miscellaneous	711,483	704,771	779,793	947,521	1,005,345	969,860	1,401,198	805,296	1,149,909	3,209,822
Total	\$62,198,229	\$75,717,429	\$92,943,298	\$109,056,786	\$119,427,840	\$120,801,327	\$129,358,175	\$126,436,018	\$117,396,452	\$128,085,392

**Revenue Capacity
Fixed Route Farebox Recovery
2001 - 2010**

Year	Farebox Recovery
2001	0.18
2002	0.19
2003	0.18
2004	0.16
2005	0.14
2006	0.17
2007	0.16
2008	0.16
2009	0.19
2010	0.17

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Revenue Capacity
Fare History
2001 - 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cash Fares										
Adult	\$ 1.00	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 2.00
SHUTTLE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Seattle Express	2.50	2.50	2.50	2.50	2.50	3.00	3.00	3.00	3.00	3.00
Olympia Express	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.50	2.50
Passes										
Adult Pass	36.00	45.00	45.00	45.00	45.00	54.00	54.00	54.00	63.00	72.00
Senior/Disabled Pass	18.00	18.00	18.00	18.00	18.00	27.00	27.00	27.00	27.00	27.00
Olympia Express	72.00	72.00	72.00	72.00	72.00	72.00	72.00	72.00	90.00	90.00
Seattle Express	90.00	90.00	90.00	90.00	90.00	108.00	108.00	108.00	108.00	108.00
Transfers	Free									

**Revenue Capacity
2001 & 2010 Taxable Sales Comparisons
Pierce County**

	2001		2010	
	Taxable Sales	Sales Tax	Taxable Sales	Sales Tax
Retail Trade	\$ 4,960,951,058	\$ 14,879,356	\$ 5,342,227,308	\$ 32,854,865
Services	931,753,712	2,796,090	1,873,101,049	11,519,630
Contracting	1,344,910,295	4,035,927	1,648,315,558	10,137,192
Manufacturing	209,942,765	630,015	198,740,201	1,222,258
Transportation/Utilities	407,080,354	1,221,603	45,221,655	278,116
Wholesaling	807,159,734	2,422,197	663,100,667	4,078,090
Finance/Insurance/Real Estate	142,204,426	426,740	848,646,357	5,219,202
Other Business	88,630,656	265,971	4,796,619	29,499
TOTAL	\$ 8,892,633,000	\$ 26,677,899	\$ 10,624,149,414	\$65,338,852

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Debt Capacity
Legal Debt Margin
2010**

	Non-voted	Maximum Debt Capacity*
Assessed Valuation	\$45,155,304,529	\$44,873,164,917
Debt Limitation (%)*	.375%	1.250%
Debt Limitation (\$)	\$ 169,332,392	\$ 560,914,561
Less: Outstanding Debt	-	-
Debt Margin	\$ 169,332,392	\$ 560,914,561

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

**Debt Capacity
Ratio of General Bonded Debt to Assessed Value and Net Bonded Debt per Capita
2001 – 2010**

				% Ratio of Bonded Debt to Assessed Value	Bonded Debt Per Capita
December 31	Population	Assessed Value (In Thousands)	General Bonded Debt		
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	4.11
2005	705,018	32,815,525	2,525,000	.01	3.58
2006	721,445	35,336,989	2,145,000	.01	2.97
2007	732,435	42,915,280	1,750,000	.01	2.38
2008	749,350	50,503,813	1,335,000	.01	1.78
2009	813,600	48,742,260	3,910,000	.02	6.07
2010	814,600	45,155,305	-	-	-

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Debt Capacity
Computation of Direct and Overlapping Debt
2010**

	Net Bonded Debt Outstanding	Percentage Applicable*	Authority Share
Pierce Transit	\$ -	100.00%	\$ -
City of Tacoma	214,805,000	30.54%	65,601,447
Pierce County	154,970,000	42.27%	65,505,819
			<u>\$131,191,066</u>
 PTBA Population			 814,600
 Direct Debt as a % of Personal Income			 .0000%
 Direct and Overlapping Debt per Capita			 \$ -

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

**Demographic and Economic Information
Pierce Transit Employee by Function
2001 - 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operations	534	608	605	589	701	746	747	708	674	674
Maintenance	127	136	156	149	157	154	169	162	163	161
Administration	103	125	128	127	145	153	174	168	145	144

*Contracted Employees not included in totals prior to 2005

**Demographic and Economic Information
Pierce County Demographic and Economic Information
2001 - 2010**

Fiscal Year Dec 31	Pierce County Population	Median Household Income (1)	Personal Income (2) (In Thousands)	Per Capita Personal Income	School Enrollment (3)	Unemployment Rate (4)
2001	713,400	49,348	20,702,070	29,019	137,334	6.5
2002	725,000	50,127	21,502,845	29,659	139,759	8.1
2003	733,700	51,662	21,131,368	28,801	142,050	8.2
2004	744,000	54,132	23,273,083	31,281	140,626	7.1
2005	755,900	55,785	24,440,169	32,448	139,032	5.9
2006	773,500	56,487	26,769,608	35,054	139,434	5.1
2007	790,500	57,733	28,949,941	37,446	139,945	4.7
2008	805,400	56,740	31,046,350	39,444	141,246	5.7
2009	813,600	55,436	N/A	N/A	141,182	9.3
2010	814,600	55,302	N/A	N/A	138,687	9.5

Sources: (1) Washington State Office of Financial Management
(2) Federal Bureau of Economic Analysis
(3) Superintendent of Public Instruction

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

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

Demographic and Economic Information

**Principal Employers
Comparisons of Employees and Percent of Total Employment
2010 and 2001**

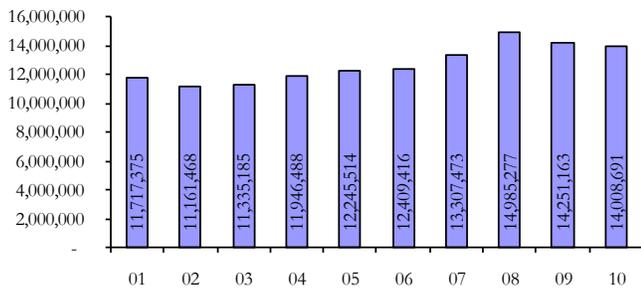
Employer	2010			2001		
	Employees	Rank	Percent of Total County Employment	Employees	Rank	Percent of Total County Employment
Federal Government	58,189	1	15.85%	34,999	1	11.39%
Local Government	35,410	2	9.65	25,690	2	8.36
MultiCare Health System	6,410	3	1.75	6,800	3	2.21
Franciscan Health Systems	5,028	4	1.37	2,553	4	.83
Emerald Queen Casino	2,105	5	0.57	1,000	9	0.33
The Boeing Company(Fredrickson)	1,440	6	0.39	1,450	7	0.47
Wal-Mart	1,406	7	0.38	-	-	-
Fred Meyer Stores	1,301	8	0.35	1,919	5	0.62
Costco	1,151	9	0.31	-	-	-
Safeway Stores	1,123	10	0.31	-	-	-
Intel Corporation	-	-	-	1,600	6	0.52
State Farm Insurance	-	-	-	1,021	8	0.33
Russell Investments	-	-	-	922	10	0.30
Total Taxpayer Employment	113,563		30.93%	77,954		25.36%
Total Employment Pierce County	<u>367,170</u>			<u>307,400</u>		

Source: Tacoma-Pierce County Economic Development Board

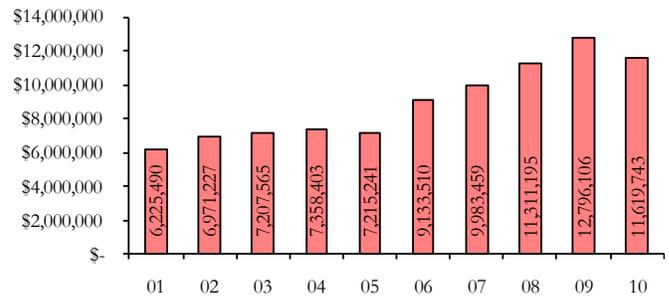
Pierce Transit
Statistical Section
Year ended December 31, 2010

**Operating Information
Fixed Route Statistics
2001 – 2010**

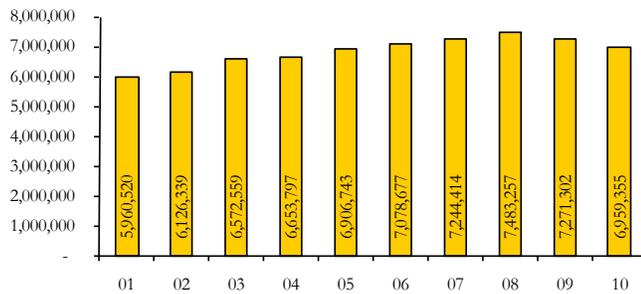
Annual Boardings



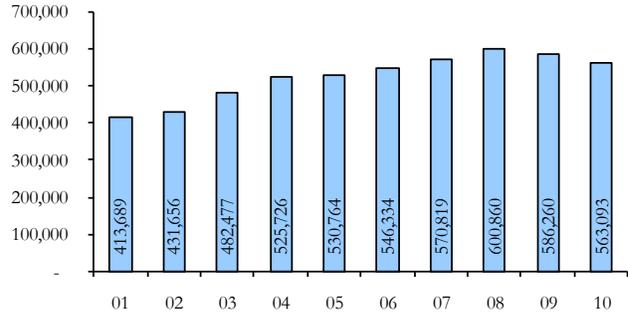
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours

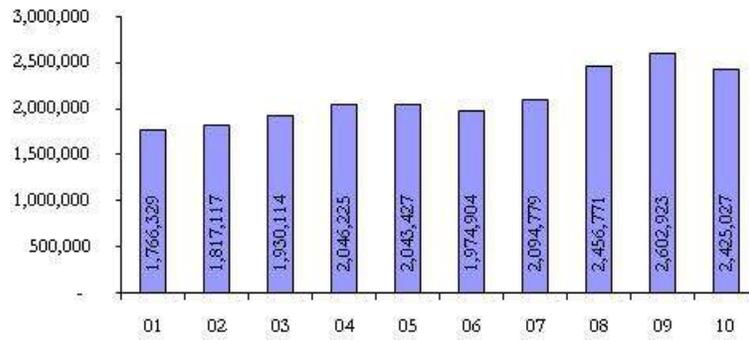


Source: National Transit Database (NTD)

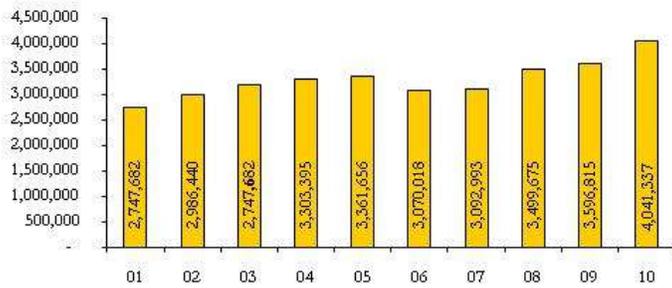
Pierce Transit
 Statistical Section
 Year ended December 31, 2010

Operating Information
 Sound Transit
 Fixed Route Statistics
 2001 – 2010

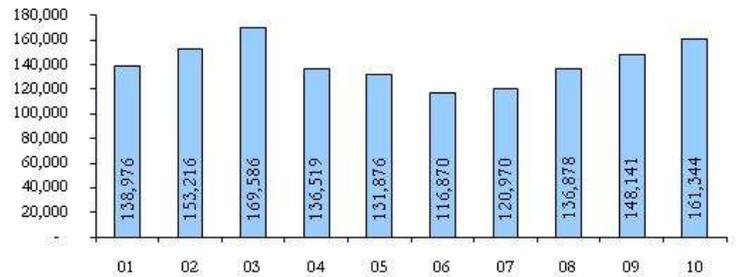
Annual Boardings



Revenue Miles



Actual Revenue Hours

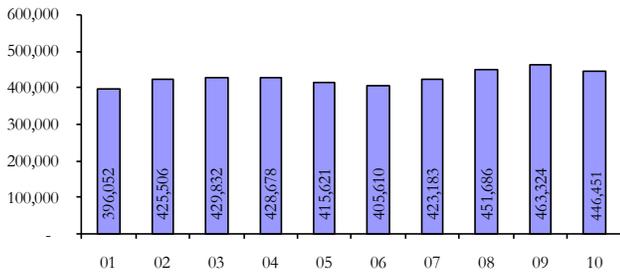


Source: National Transit Database (NTD)
 Sound Transit Seattle Express service began in September 1999.

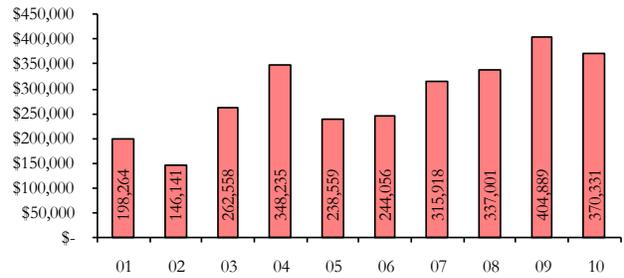
**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Operating Information
Specialized Transportation (SHUTTLE)
2001 - 2010**

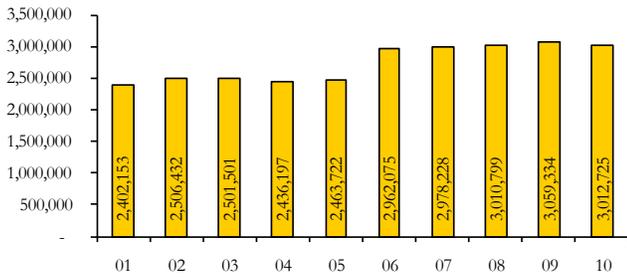
Annual Boardings



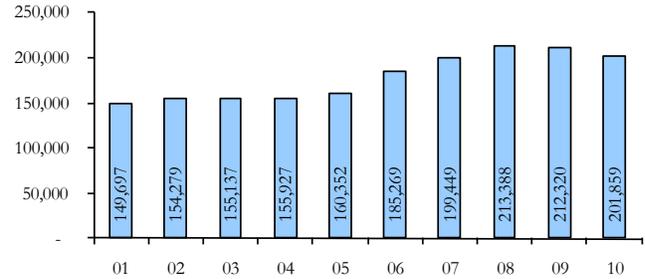
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours

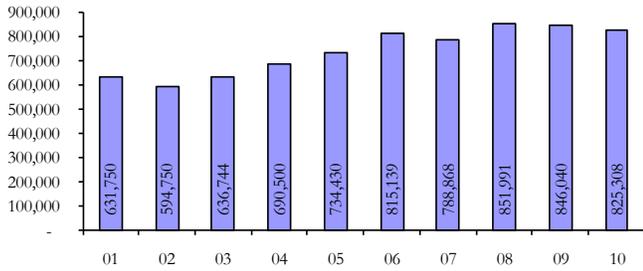


Includes directly operated and purchased transportation services.

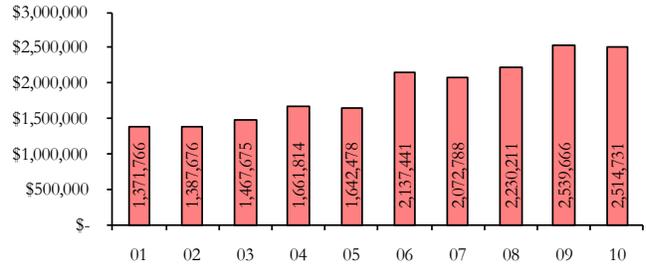
Pierce Transit
Statistical Section
Year ended December 31, 2010

Operating Information
Vanpool Statistics
2001 – 2010

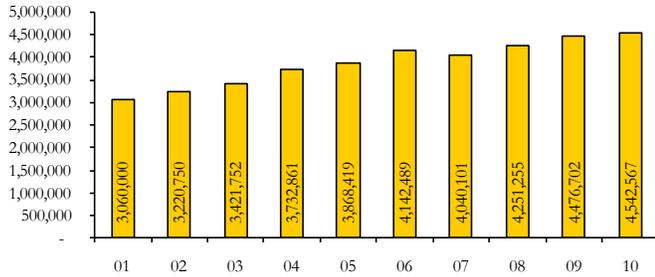
Annual Boardings



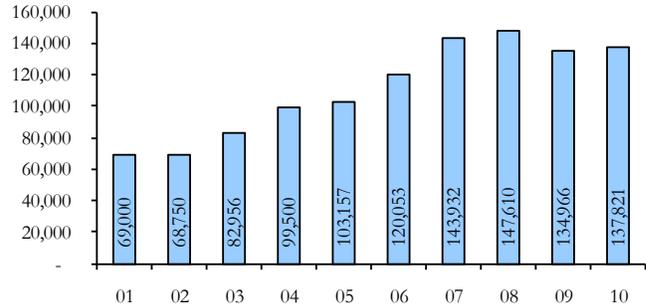
Annual Passenger Fare Revenues



Revenue Miles



Actual Revenue Hours



**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Operating Information
Key Performance Measures
2001 – 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
PIERCE TRANSIT FIXED ROUTE (excluding Sound Transit):										
Annual Boardings	11,717,375	11,161,468	11,335,185	11,946,488	12,245,514	12,409,416	13,307,473	14,985,277	14,251,163	14,008,691
Cost per Service Hour	\$ 73.59	\$ 75.15	\$ 72.36	\$ 81.50	\$ 86.80	\$ 90.36	\$ 96.96	\$ 104.96	\$ 107.47	\$ 114.02
Farebox Recovery	18%	19%	18%	16%	14%	17%	16%	16%	19%	17%
Passengers per Service Hour	24.7	22.5	20.4	21.2	21.1	20.6	21.1	22.7	22.7	22.7
Cost per Passenger	\$ 2.98	\$ 3.34	\$ 3.55	\$ 3.84	\$ 4.11	\$ 4.38	\$ 4.59	\$ 4.63	\$ 4.63	\$ 5.03
SHUTTLE:										
Annual Boardings	396,052	425,506	429,832	428,678	415,621	405,610	423,539	451,686	463,324	446,451
Cost per Service Hour	\$ 62.17	\$ 63.22	\$ 63.97	\$ 72.47	\$ 66.23	\$ 64.17	\$ 66.26	\$ 72.92	\$ 71.67	\$ 73.25
Farebox Recovery	2%	1%	2%	3%	2%	2%	2%	2%	2%	2%
Passengers per Service Hour	2.3	2.4	2.5	2.4	2.2	1.9	1.8	1.9	1.9	2.02
Cost per Passenger	\$ 26.88	\$ 26.29	\$ 25.97	\$ 29.73	\$ 29.67	\$ 34.23	\$ 37.32	\$ 39.05	\$ 38.70	\$ 36.23
VANPOOL:										
Annual Boardings	631,750	594,750	636,744	690,500	734,430	815,139	788,868	851,991	846,040	825,308
Cost per Service Hour	\$ 25.54	\$ 30.98	\$ 30.44	\$ 28.98	\$ 26.93	\$ 24.93	\$ 25.07	\$ 29.06	\$ 31.33	\$ 31.32
Farebox Recovery	76%	64%	57%	57%	59%	71%	57%	52%	57%	58%
Passengers per Service Hour	9.0	8.5	7.6	6.9	7.1	6.7	5.5	5.8	6.27	5.99
Cost per Passenger	\$ 2.84	\$ 3.65	\$ 4.02	\$ 4.23	\$ 3.82	\$ 3.71	\$ 4.57	\$ 5.03	\$ 5.00	\$ 5.23

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

**Operating Information
Vehicles Available for Maximum Service
2001 – 2010**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pierce Transit Buses	164	166	168	208	193	176	176	218	189	203
SHUTTLE Vans	157	144	166	154	100	118	146	145	157	171
Vanpool Vans	249	250	270	284	293	300	320	328	328	326

**Pierce Transit
Statistical Section
Year ended December 31, 2010**

**Grant Information
Capital Grant History
2001 – 2010**

<u>FTA</u>	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Section 3	\$ 1,151,973	\$ 1,132,955	\$ 157,643	\$ 2,131,762	\$ 2,774,048	\$ 343,103	\$ -	\$ -	\$ -	\$ -
Section 4	-	132	454	-	-	-	-	-	-	-
Section 8	(6,647)	36,715	610	-	-	-	-	-	-	-
Section 9	1,814,148	6,056,583	2,278,019	14,921,797	10,261,877	4,687,911	7,528,260	3,172,893	1,474,753	6,741,534
Other	-	-	-	-	-	-	53,793	148,056	96,502	82,380
 <u>WA STATE</u>										
Misc Grants	1,378,994	-	65,161	(99,912)	215,807	344,798	504,380	223,262		478,620
 <u>MUNCIPAL/ LOCAL</u>										
Partnerships	372,822	64,256	83,534	16,667	1,056,667	154,311	11,941	5,191,984	1,246,058	1,839,931
	<u>\$ 4,711,290</u>	<u>\$ 7,290,641</u>	<u>\$ 2,585,421</u>	<u>\$ 16,970,314</u>	<u>\$ 14,308,399</u>	<u>\$ 5,530,123</u>	<u>\$ 8,098,374</u>	<u>\$ 8,736,195</u>	<u>\$ 2,817,313</u>	<u>\$ 9,142,465</u>

Taking action > Increasing efficiencies > Supporting each other > Improving data > Saving time
> Boosting productivity > Promoting success > Making partnerships > Sharing ideas > Building
collaborations > Promoting teamwork > Developing expertise > Streamlining processes > Reaching
out > Boosting productivity > Conserving resources > Communicating purpose > Making progress



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