

Figure 1. Comparison of Governmental and Business Activity Revenues

Both the Statement of Net Assets and the Statement of Activities differentiate the functions of general government from the functions of business-type activities. Governmental activities reflect the City’s basic functions such as general government, public safety, public works, economic environment/development, and culture and recreation and are primarily supported by taxes and intergovernmental revenues. Business-type activities, primarily utilities, are intended to recover most if not all of their costs through user fees and charges for services. The government-wide financial statements can be found on pages 3-2 to 3-5 of this report.

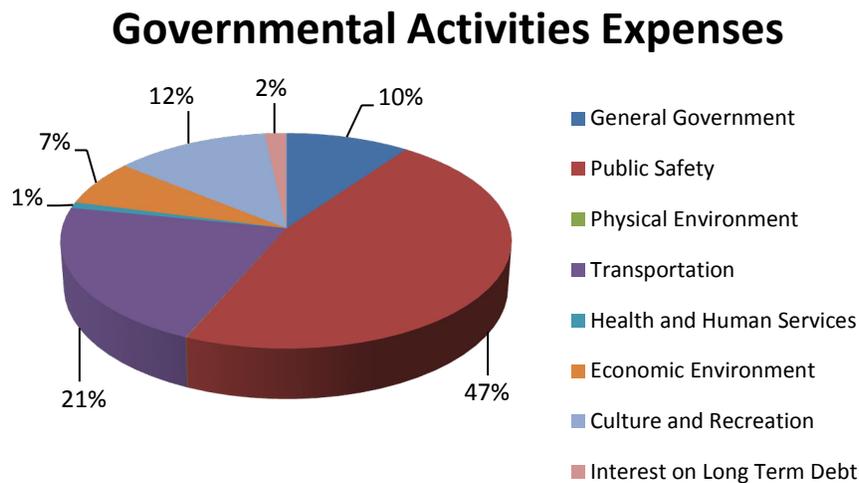


Figure 2. Governmental Activities Expenses

## Business Activities Expenses

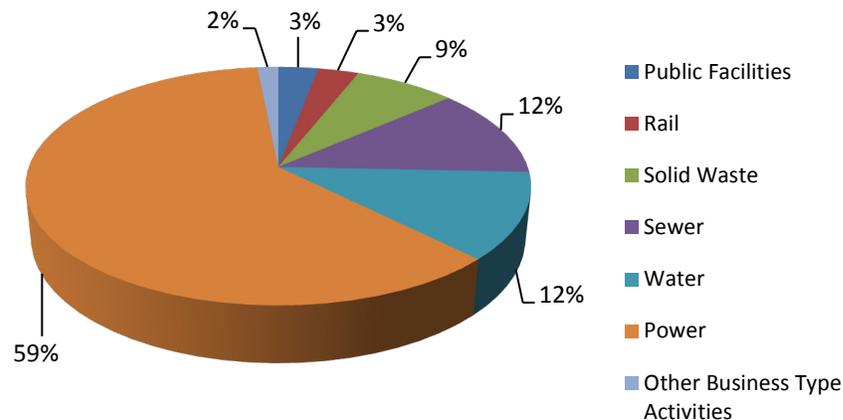


Figure 3. Business Activities Expenses

### Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Tacoma, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City of Tacoma can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### Governmental Funds

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

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

The focus of the governmental fund statements is on major funds. A fund is considered major if it represents at least 10% of the assets, liabilities, revenues or expenditures of its fund category and at least 5% of the corresponding totals for the governmental and business-type activities combined. All other governmental funds are combined and presented as a single column in the respective governmental fund statements. Individual fund data for each of these combined non-major funds is provided in the form of combining statements elsewhere in this report.

The City of Tacoma adopts a biennial budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 3-6 to 3-9 of this report.

**Proprietary Funds**

There are two types of proprietary funds – internal service and enterprise - both of which the City of Tacoma uses. Internal service funds are used to accumulate and allocate costs internally among the City of Tacoma's various functions. Because these services primarily benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Enterprise funds account for various utilities which provide services such as power, water, sewer, and solid waste collection. The service area for these utilities is generally broader than the corporate limits of the City. The activities in these funds are primarily supported by user fees and are presented as business-type activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 3-10 to 3-21 of this report.

**Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Tacoma's programs. The accounting used by the fiduciary funds is similar to that used for proprietary funds. The basic fiduciary fund statements can be found on pages 3-22 to 3-23 of this report.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 3-24 to 3-80 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information (RSI) concerning the City of Tacoma's budget. Required supplementary information can be found on pages 4-1 to 4-6 of this report.

**Combining Statements – Non-Major funds**

The combining statements referred to earlier in connection with Non-Major governmental funds, internal service funds, and fiduciary funds can be found on pages 5-1 to 5-107 of this report.

**Statistical Section**

This section provides financial trends, revenue and debt capacity, and demographic and economic information about the City's operations. The Statistical Section can be found on pages 6-1 to 6-36 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve as a useful indicator of a government's financial position. The City's total assets exceeded liabilities by \$2.5 billion at December 31, 2011. 84% of the total net assets reflect the City's investment in capital, less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; thus, they do not represent resources available for future spending. 8% of the City's net assets are unrestricted, meaning they are available for meeting the City's ongoing obligations. The remaining 8% of the net assets are restricted for other purposes such as debt redemption and new capital construction. General government net assets represent 29.1% of the total and business-type net assets represent 70.9% of the total.

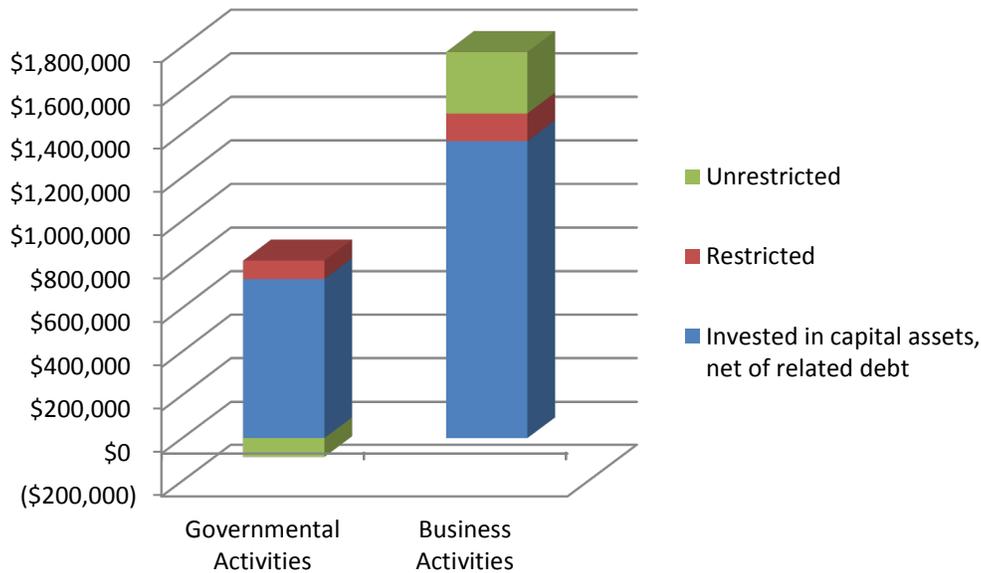


Figure 4. Comparison of Net Assets, By Activity Type (Amounts expressed in thousands)

**Statement of Net Assets**  
December 31, 2010 and 2011

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 231,100	\$ 275,416	\$ 1,049,161	\$ 1,121,332	\$ 1,280,261	\$ 1,396,748
Capital assets	835,356	835,884	2,405,670	2,299,468	3,241,026	3,135,352
Total assets	1,066,456	1,111,300	3,454,831	3,420,800	4,521,287	4,532,100
Current and other liabilities	102,866	81,963	267,178	266,702	370,044	348,665
Long-term liabilities outstanding	234,232	218,111	1,413,289	1,459,519	1,647,521	1,677,630
Total liabilities	337,098	300,074	1,680,467	1,726,221	2,017,565	2,026,295
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	732,174	729,601	1,365,324	1,355,118	2,097,498	2,084,719
Restricted	84,842	36,943	126,952	93,429	211,794	130,372
Unrestricted	(87,658)	44,682	282,088	246,032	194,430	290,714
Total net assets	\$ 729,358	\$ 811,226	\$ 1,774,364	\$ 1,694,579	\$ 2,503,722	\$ 2,505,805

Table 1. Summary Statement of Net Assets

The City's net assets decreased \$2.1 million. This decrease is due to a decrease in the current assets and an increase in liabilities for Governmental Activities.

### Net Assets - Governmental Activities

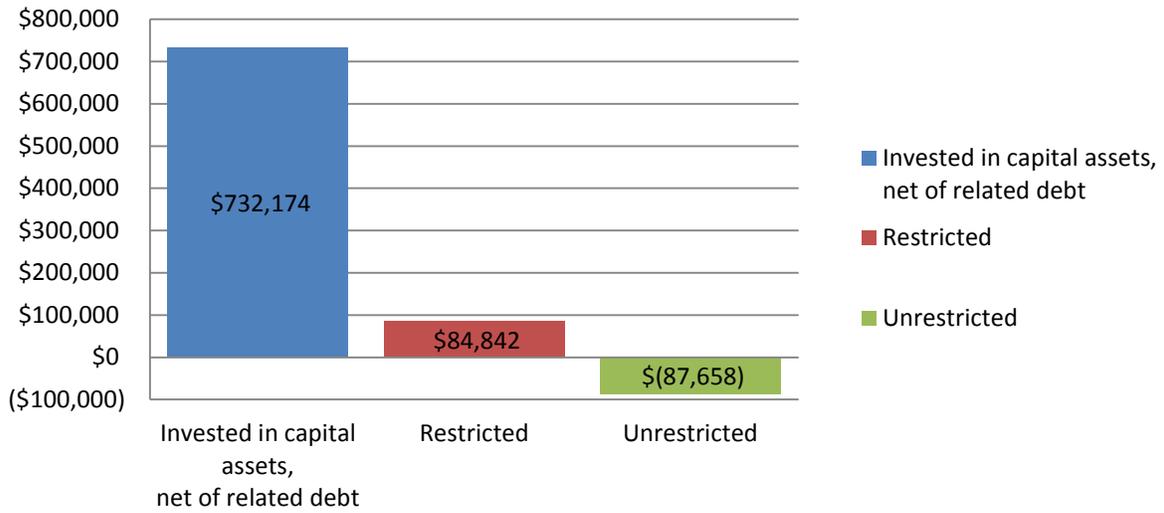


Figure 5. Composition of Net Assets--Governmental Activities (Amounts expressed in thousands)

**Changes in Net Assets**  
**For the years ended December 31, 2010 and 2011**

(Amounts expressed in thousands)	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 29,251	\$ 36,132	\$ 623,110	\$ 612,405	\$ 652,361	\$ 648,537
Operating grants and contributions	13,138	22,276	601	2,007	13,739	24,283
Capital grants and contributions	38,445	13,996	61,585	32,102	100,030	46,098
General revenues						
Property taxes	60,733	61,900	-	-	60,733	61,900
Other taxes	129,672	126,036	-	-	129,672	126,036
Other	5,949	2,259	23,324	13,837	29,273	16,096
Total revenue	<u>277,188</u>	<u>262,599</u>	<u>708,620</u>	<u>660,351</u>	<u>985,808</u>	<u>922,950</u>
<b>Expenditures</b>						
General government	34,732	28,806	-	-	34,732	28,806
Public safety	163,575	157,488	-	-	163,575	157,488
Physical environment	102	-	-	-	102	-
Transportation	75,692	19,609	-	-	75,692	19,609
Health and human services	3,129	2,513	-	-	3,129	2,513
Economic development	24,023	28,602	-	-	24,023	28,602
Culture and recreation	43,460	21,777	-	-	43,460	21,777
Interest on long-term debt	6,121	8,186	-	-	6,121	8,186
Public assembly facilities	-	-	17,966	18,764	17,966	18,764
Rail	-	-	22,089	19,162	22,089	19,162
Solid waste	-	-	54,518	47,746	54,518	47,746
Sewer	-	-	79,390	75,758	79,390	75,758
Water	-	-	76,161	73,866	76,161	73,866
Power	-	-	372,192	383,346	372,192	383,346
Other business-type funds	-	-	12,803	9,769	12,803	9,769
Total expenses	<u>350,834</u>	<u>266,981</u>	<u>635,119</u>	<u>628,411</u>	<u>985,953</u>	<u>895,392</u>
Increase/(Decrease) in net assets before transfers	(73,646)	(4,382)	73,501	31,940	(145)	27,558
Transfers	(6,320)	(6,021)	6,320	6,021	-	-
Increase/(Decrease) in net assets	<u>(79,966)</u>	<u>(10,403)</u>	<u>79,821</u>	<u>37,961</u>	<u>(145)</u>	<u>27,558</u>
Net assets--January 1	811,226	778,698	1,694,579	1,657,694	2,505,805	2,436,392
Prior Period Adjustments	(1,902)	30,082	(36)	(1,076)	(1,938)	29,006
Change in accounting principle	-	12,849	-	-	-	12,849
Net assets--January 1	<u>809,324</u>	<u>821,629</u>	<u>1,694,543</u>	<u>1,656,618</u>	<u>2,503,867</u>	<u>2,465,398</u>
Net assets--December 31	<u>\$ 729,358</u>	<u>\$ 811,226</u>	<u>\$ 1,774,364</u>	<u>\$ 1,694,579</u>	<u>\$ 2,503,722</u>	<u>\$ 2,505,805</u>

Table 2. Changes in Net Assets

The governmental activities net assets decreased by \$81.9 million in 2011 due to a decrease in assets of \$44.9 million and an increase of \$37.0 million in liabilities.

Business activities net assets increased by \$79.8 million in 2011, which is \$42.9 million higher than 2010. This is a result of an increase in assets of \$34.0 million and a decrease in liabilities of \$45.8 million.

Information on significant outstanding claims can be found in Note 9.

**Financial Analysis of the City’s Fund Statements**

The City prepares fund statements for governmental funds and for proprietary funds.

**Governmental Fund Statements**

Fund balance for the City’s General Fund decreased by \$5.9 million in 2011. The fund balance for the Street fund, a new major fund in 2011, decreased by \$2.9 million in 2011. The fund balance for the Non-Major governmental funds, which include debt service funds, capital projects funds, and special revenue funds, decreased by \$30.2 million. The General Fund’s balance decreased due to movement of traffic revenues to a new Traffic Enforcement Special Revenue fund. The Street Fund’s balance decreased due to an increase in liabilities. The Non-Major governmental funds fund balance decreased from a decrease in assets.

**Proprietary Fund Statements**

The total net assets for enterprise funds’ increased by \$78.8 million in 2011. The Power, Water, Solid Waste and Sewer utilities make up the majority of the proprietary funds. Activity in these utilities was the primary driver for the change in the net assets. The Water fund had a significant increase in their net assets due to bonds issued for a new water treatment plant.

The internal service funds’ net assets decreased by \$22.9 million in 2011. This is the result of increased liabilities of \$17.9 million and a decrease of \$5.0 million in assets.

**General Fund Budgetary Highlights**

In 2011, the City made budgetary adjustments as part of the 2011-2012 Mid-Biennium Budget Amendment. Budget revisions included \$401 thousand for 2009-2010 outstanding contract obligations. The City’s budget is a two year biennium budget which begins every odd year.

**Capital Assets, Infrastructure, Bond Debt Administration**

**Capital Assets**

The City of Tacoma’s investment in capital assets, net of accumulated depreciation, for its governmental and business type activities as of December 31, 2011, is \$3.2 billion. This investment in capital assets includes land, construction in process, property, plant and equipment, infrastructure, works of art, as well as library materials. The vast majority of this amount represents assets held by the City’s various utilities and infrastructure.

The following table summarizes the City’s investment in capital assets.

**City of Tacoma, Washington  
Schedule of Capital Assets**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 28,656	\$ 26,081	\$ 141,475	\$ 140,582	\$ 170,131	\$ 166,663
Parks	85	85	-	-	85	85
Construction in progress	124,562	103,411	83,809	103,996	208,371	207,407
Property, plant and equipment	207,342	202,444	3,458,235	3,252,445	3,665,577	3,454,889
Infrastructure	1,190,680	1,179,444	-	-	1,190,680	1,179,444
Works of art	1,829	1,829	-	-	1,829	1,829
Library materials	19,325	19,215	-	-	19,325	19,215
Less accumulated depreciation	(737,127)	(696,625)	(1,277,849)	(1,197,555)	(2,014,976)	(1,894,180)
Other Non-Current Assets	-	-	-	-	-	-
	<u>\$ 835,352</u>	<u>\$ 835,884</u>	<u>\$ 2,405,670</u>	<u>\$ 2,299,468</u>	<u>\$ 3,241,022</u>	<u>\$ 3,135,352</u>

Table 3. Schedule of Capital Assets

Additional information on the City's capital assets can be found in Notes 1-D5 and 4-C of the Notes to the Financial Statements.

**Outstanding Debt**

The City's debt at December 31, 2011 was \$1.7 billion. Approximately 84% of the bonded debt is related to utilities with repayment pledged by specific revenue sources generated by the utilities. Of the remaining 16% bonded debt, debt is either secured by voter approved special levies or general government resources. Additional information on the City of Tacoma's long-term debt can be found in Note 4-F and Note 12 of the Notes to the Financial Statements.

**City of Tacoma, Washington  
Schedule of Long Term Debt**

(Amounts expressed in thousands)

	Governmental Activities		Business Activities		Total	
	2011	2010	2011	2010	2011	2010
Bonded debt and loans	\$ 186,903	\$ 176,845	\$ 1,373,939	\$ 1,419,737	\$ 1,560,842	\$ 1,596,582
Capital leases	1,251	1,876	36,576	37,287	37,827	39,163
Claims and judgments	51,502	31,241	1,950	1,511	53,452	32,752
Accrued landfill liability	-	-	29,412	31,368	29,412	31,368
Net Pension Obligation	160	(3,816)	-	-	160	(3,816)
Other Post Employment Benefits	27,408	19,885	8,987	6,479	36,395	26,364
Compensated absences	15,514	16,111	17,023	17,275	32,537	33,386
	<u>\$ 282,738</u>	<u>\$ 242,142</u>	<u>\$ 1,467,887</u>	<u>\$ 1,513,657</u>	<u>\$ 1,750,625</u>	<u>\$ 1,755,799</u>

Table 4. Schedule of Long Term Debt

The City's debt rating for 2011 is as follows:

	Moody's	S&P	Fitch
GO	As2	AA	AA+
LTGO	Aa3	AA	AA
Solid Waste	A2	AA	AA-
Sewer	Aa2	AA+	AA+
Water	Aa2	AA	--
RWSS	Aa2	AA	--
Power	Aa3	AA	AA-
Convention Center Revenue	A2	A	A+

### **Economic Factors**

From 2002 until the fourth quarter 2008, the City benefitted from modest positive job growth and home sales. In the fourth quarter of 2008, the recession began affecting the Puget Sound area. During the course of the 2009-10 biennium, the City reduced its revenue estimates by nearly 10%. At the end of the first quarter of 2010, sales tax and other economically sensitive revenues stopped falling and began to grow. Sales tax collections for 2010 exceeded 2009 collections by 3.4% with growth in the last six months exceeding the same time period for 2009 by over 6%. The 2011-12 budget revenue projections assume moderate growth in the local economy. Economic indicators and actual revenue collections will be reviewed each quarter of the biennium along with appropriate actions, if any, which may be needed to maintain a balanced 2011-12 budget.

### **Other Considerations**

In response to the slowing economy, the City has taken steps to reduce the discretionary spending, but revenue growth is limited by several citizen initiatives that limit the growth of property tax collections, and a significant decrease in the sales of homes and new vehicles.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tacoma Finance Department, 747 Market Street Room 132, Tacoma, Washington 98402.