



NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pierce County is a municipal corporation governed by a locally elected seven-member council. The executive branch of government is elected at-large and consists of the County Executive, Assessor-Treasurer, and Auditor. The county provides services in the areas of public safety, fire inspection, road construction and maintenance, flood control, parks and recreation, judicial administration, land use planning and development, health and social services, sewer utility services, and certain solid waste programs.

REPORTING ENTITY

As required by generally accepted accounting principles, these financial statements present all funds, account groups, and departments of *Pierce County* (primary government) and its *Discretely Presented Component Units*. Certain agency funds referred to as *Agency Funds - Other Governments/Special Districts* are also included. Pursuant to the laws of the State of Washington, the County Treasurer, as custodian of the agency fund assets, is the ex-officio treasurer of all special districts within the county. Funds received from or for such special districts are deposited in a central bank account and invested or disbursed according to instructions from the respective special districts. Component units are included in the reporting entity because of the significance of operating or financial relationships with the county.

Discretely Presented Component Units. The county includes the following component units in a separate column in the accompanying financial statements: *Rainier Communications Commission*, *Community Development Corporation (CDC)*, and *Economic Development Corporation (EDC)*. (See Note 11 - Discretely Presented Component Units)

Related Organizations. County officials are responsible for appointing the members of the board of the *Pierce County Housing Authority*. Accountability for this organization does not extend beyond making the appointments. Accordingly, this organization is not included in the accompanying financial statements. There were no financial transactions between the county and this related organization during 2001.

Joint Ventures. The county participates in the following joint ventures with the City of Tacoma: *Cheney Stadium*, *Tacoma - Pierce County Health Department*, and *Law Enforcement Support Agency*. (See Note 12 - Joint Ventures)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of *Pierce County* are organized and operated on the basis of funds and account groups. Each fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses. Fund accounting segregates county resources and spending activities based upon the purposes for which resources are allocated. Fund accounting also provides management with information to control spending activities and demonstrates compliance with finance-related legal and contractual provisions. Account groups are used to account for certain assets and liabilities of governmental funds not recorded directly in funds. The various funds are combined in the financial statements into three broad fund categories and nine major fund types.

Governmental Funds. General government activities are accounted for in governmental funds using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Generally, under the flow of current financial resources measurement focus only current assets and current liabilities are included in governmental fund balance sheets. Reported fund equity (net current assets) is considered a measure of "expendable available financial resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, governmental fund operating statements present a summary of sources and uses of "expendable available financial resources" during a period.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when "measurable and available"). "Measurable" means the amount of a transaction can be determined. "Available" means the amount is collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when related liabilities are incurred and will be liquidated with expendable available resources. Interest on general long-term debt is recorded when due.

Revenues susceptible to accrual, such as certain taxes, interest earnings on investments, rents, interfund payments for services and payments from other governmental units, are recorded when earned. Other taxes and receipts become measurable and available when received and are recognized as revenue at that time. Entitlements are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *General Fund* is the primary county operating fund. This fund accounts for all county financial resources except those required to be accounted for in other funds.

Special Revenue Funds account for revenue sources that are legally restricted for specific purposes by Pierce County, the State of Washington, or the Federal Government.

Debt Service Funds account for resources accumulated to pay general long-term debt and related interest that is not financed by proprietary funds or nonexpendable trust funds.

Capital Project Funds account for all resources received and used for acquisition or construction of major capital facilities and improvements not financed by proprietary funds or trust funds.

Proprietary Funds. Certain county business-type activities and centralized intragovernmental activities are accounted for in proprietary funds using the cost of services or flow of economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus includes all current and noncurrent assets and liabilities associated with proprietary fund activity in the balance sheets. Reported fund equity (net assets) is segregated into contributed capital and retained earnings. Operating statements present increases (revenues) and decreases (expenses) in net assets necessary to measure periodic results of operations (net income).

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred. For proprietary fund accounting, *Pierce County* has elected to apply only the Financial Accounting Standards issued on or before November 30, 1989.

Proprietary funds include the following fund types:

Enterprise Funds account for activities financed and operated in a manner similar to private business enterprises. The cost of providing goods or services on a continuing basis to the general public will be fully financed or recovered through user charges.

Internal Service Funds account for operations that provide services on a cost-reimbursement basis to other county departments or other governmental units.

Fiduciary Funds. The county uses fiduciary funds to account for assets held in a trustee capacity or as an agent on behalf of other governments, special districts, other county funds, private organizations or individuals.

Fiduciary funds include the following fund types:

Expendable Trust Funds are accounted for in essentially the same manner as governmental fund types, using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Expendable trust funds account for assets held under terms of formal trust agreements that allow disbursement of trust principal and interest.

Nonexpendable Trust Funds are accounted for in essentially the same manner as proprietary funds, using the flow of economic resources measurement focus and the accrual basis of accounting. Capital maintenance is critical in nonexpendable trust funds where terms of formal trust agreements stipulate that principal amounts held in trust may not be disbursed.

Agency Funds are custodial in nature and, accordingly, do not measure results of operations or apply a measurement focus. Agency funds use the modified accrual basis of accounting to account for assets held in an agency capacity for certain county funds, and other governments or special districts.

Account Groups. The following account groups are used to establish accounting control and accountability for fixed assets and long-term debt associated with governmental fund activities:

The *General Fixed Assets Account Group* accounts for capital assets used in operations of governmental funds (i.e. not accounted for in proprietary or trust funds).

The *General Long-Term Debt Account Group* accounts for general long-term liabilities and other liabilities expected to be financed from governmental funds (i.e. not accounted for in proprietary or trust funds).

CASH

Cash and cash equivalents include cash on hand, demand deposits and certain short-term investments held in the county treasury pool or held in certain trustee accounts. Cash and cash equivalents have original maturities of three months or less from the date of acquisition. Any short-term cash surplus is invested. Earnings from such investments are allocated to the *General Fund* for financing general county operations.

INVESTMENTS

Investments held by the county are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. County government funds are invested based on a predetermined percentage of each fund's cash balance. Certain fiduciary funds direct the nature of investments made by the county as trustee or agent for such funds.

RECEIVABLES AND PAYABLES

Taxes Receivable. Property tax revenue is recognized when cash is collected. All property taxes are recorded on the balance sheet as "Taxes Receivable" and "Deferred Revenues" based on the levy date. As taxes are collected during the current year, taxes receivable and deferred revenue accounts are reduced by the amount of collections. The amount of taxes receivable that could be used to pay current liabilities is immaterial and is not accrued at year-end. Uncollected property taxes are reported on the balance sheet as "Taxes Receivable-Delinquent", and "Deferred Revenues" at year-end.

Taxes assessed upon real property and mobile homes that meet the definition of real property attach as a lien on January 1 of each year. Taxes assessed upon personal property attach as a lien when listed with and valued by the County Assessor. Property taxes are levied for subsequent year collection by the County Council no later than the first Monday in December of the year preceding the lien and collection year. Property tax payments can be made on or after February 15 and are due in equal semi-annual installments by April 30 and October 31 of each year. Delinquent taxes are subject to 12% interest per annum computed on a monthly basis. Additionally, property taxes becoming delinquent on June 1 of the year due are subject to a 3% penalty

and property taxes still delinquent on December 1 of the year due are subject to an additional 8% penalty. In accordance with state law, the county may begin foreclosure proceedings of a tax lien on real property when three years have passed since the first delinquency.

Property tax revenues are distributed monthly on a levy basis to junior taxing districts including cities and towns; fire protection, sewer, school, water, and drainage districts; the port; the rural library; and parks and recreation districts.

State law permits the levy of taxes, to a maximum of \$1.80 per \$1,000 of assessed valuation, for general governmental services. However, state law also dictates that unless a higher rate is approved by a majority of voters through an election, the annual increase in property taxes payable in the following year shall be limited. The annual tax increase is limited to the Implicit Price Deflator (IPD), or to 6% of the amount of regular property taxes lawfully levied in the highest of the three most recent years in which such taxes were levied, plus:

New construction within the taxing district.	A	multiplied
Improvements within the taxing district.		by the
Increase in state assessed property within the taxing district.		preceding year tax rate

For 2001, Pierce County was permitted to levy \$1.7484 per \$1,000 on 2000 assessed valuation of \$41,464,254,654 for general operating purposes.

Statute also authorizes levy of \$2.25 per \$1,000 of assessed valuation for county road construction, road maintenance, and other services within the unincorporated county. For 2001, \$1.8002 per \$1,000 for county roads and \$.4377 per \$1,000 for voter approved law enforcement was levied on the 2000 assessed valuation of \$17,699,926,766 within the unincorporated county.

Assessments Receivable. Assessments levied against properties located within sewer utility local improvement districts are recorded as “Assessments Receivable” and capital contributions are recognized when assessment rolls are issued. The proceeds are restricted for revenue bond service. Road improvement district special assessments are recorded as “Assessments Receivable” and “Deferred Revenues” when assessment rolls are issued. Special assessments are recognized as revenue when they become available to pay current liabilities. The proceeds are restricted for special assessment debt service.

Due To/From Other Governments. Amounts due to or from other governments for activity such as grants, shared revenues and charges for services are accrued at year-end. Advances of special revenue grant funding from the State of Washington are reported on the individual fund and combining balance sheets as “Working Capital Advances From State”, and are included in “Due To Other Governments” on the combined balance sheet.

Interfund Receivables and Payables. Receivables and payables resulting from lending or borrowing activity between funds are classified as “Interfund Loans Receivable/Payable” when repayment is expected during the next fiscal year, or as “Advances To/From Other Funds” when long-term repayment is expected. In governmental fund types, such long-term advances are offset by a fund balance reserve to indicate amounts that are not expendable available financial resources. All other interfund balances are classified as “Due From Other Funds” or “Due To Other Funds”.

Charges for goods provided or services rendered between departments and funds are recorded as operating revenues. Operating subsidies are recorded as operating transfers. Contributions of capital are recorded as residual equity transfers.

Accounts and Contracts Receivable. All trade and contracts receivable are presented net of any allowance for uncollectible accounts. Contracts receivable for CDC, a component unit, are presented net of amortization on certain forgivable loans. The long-term portion of component unit contracts receivable include interest accrued as earned but due at maturity for certain deferred loans.

INVENTORIES AND PREPAID ITEMS

Inventory is valued at cost using the first-in, first-out costing method for all funds. Governmental fund types recognize the cost of inventory items as expenditure when purchased. Proprietary fund types recognize the cost of inventory items as expense when consumed. In governmental funds, significant amounts of materials and supplies remaining at year-end are recorded as inventory. Certain other purchases representing costs applicable to future accounting periods are recorded as prepaid items. Inventory and prepaid items in governmental funds are offset by fund balance reserves to indicate amounts that are not considered to be expendable available financial resources.

RESTRICTED ASSETS

Resources for construction, debt service and other future obligations within *Enterprise Funds* are segregated and classified as restricted assets. Related liabilities are included on the balance sheet as liabilities payable from restricted assets or as certain long-term liabilities.

CAPITAL ASSETS AND DEPRECIATION

General Fixed Asset Account Group. Capital assets used in governmental fund operations are included in general fixed assets. Capital assets are valued at historical cost (or estimated historical cost if actual historical cost is not available). Donated assets are valued at fair market value on the date of donation. Repairs and maintenance, and assets with an acquisition cost of under \$5,000 are charged to expenditure or expense in the appropriate funds. General fixed assets are not depreciated.

Infrastructure (public domain general fixed assets) such as easements, streets and sidewalks, bridges, curbs and gutters, drainage systems located on public road right-of-ways, and lighting systems are not capitalized in the *General Fixed Assets Account Group*.

Proprietary Fund Fixed Assets. Capital assets acquired by proprietary funds are reported at historical cost. Contributed assets are recorded at donor cost or estimated fair market value based on appraisal at date of acquisition. Asset cost includes any related interest expense incurred during construction. Depletion is provided for extraction of certain mineral deposits included in proprietary fund land rights. Proprietary fund plant and equipment are depreciated on the straight-line method over estimated useful lives as follow:

Structures and buildings	-	25 - 50 yrs.	Transportation equipment	-	3 - 10 yrs.
Airport hangars	-	10 yrs.	Tools and shop equipment	-	3 - 5 yrs.
Furniture and office equipment	-	4 - 12 yrs.	Other equipment	-	5 yrs.
Sewer pumping plant, collection and transmission lines	-	50 yrs.			

Depreciation of all exhaustible capital assets is charged to proprietary fund operating expense. Depreciation recognized on assets acquired through federal and state capital grants in the *Sewer Utility Fund* and *Airport Fund* is reported as operating expense and closed to retained earnings. Depletion for the extraction and sale of mineral deposits in the *Sewer Utility Fund* is recognized and reported net of mineral deposit income as miscellaneous nonoperating revenue. Repairs and maintenance are charged to expense as incurred. Major renewals, replacements and betterments are capitalized.

LONG-TERM OBLIGATIONS AND DEFERRED CHARGES

Governmental Funds. The county reports long-term debt of governmental funds at face value in the *General Long-Term Debt Account Group*. Certain other governmental long-term obligations not likely to be financed with current available financial resources are also reported as general long-term debt.

Governmental funds recognize bond premium and discounts, and issuance costs in the current period. Bond proceeds are reported as other financing sources net of any applicable premium or discount. Issuance costs are reported as debt service expenditures.

Proprietary Funds. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the respective proprietary funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of premiums or discounts.

Deferred charges in *Enterprise Funds* include unamortized debt issuance costs, preliminary survey charges, and landfill closure and post-closure costs. Preliminary planning costs incurred for proposed projects are deferred pending construction of the project. Costs relating to projects ultimately constructed are transferred to construction in progress. Costs relating to abandoned projects are charged to expense when the projects are abandoned. During 2001, *Sewer Utility Enterprise Fund* expensed \$52,507 of costs related to such abandoned projects. *Solid Waste Management Fund* landfill post-closure costs are amortized over an estimated post-closure care period of 25 years.

Industrial development revenue bonds issued by *EDC*, a component unit, are not obligations of *EDC* or *Pierce County*. The participating industrial development facility is financed with backing by an investment grade financial institution and has sole responsibility for repayment of principal and interest on such bonds.

COMPENSATED ABSENCES

The liability for compensated absences consists of unpaid vacation, sick leave, compensatory time, and county portions of related payroll taxes. The liability for compensated absences in governmental funds is not expected to be liquidated from expendable available financial resources and, accordingly, is recorded in the *General Long-Term Debt Account Group*. The liability for compensated absences is accrued in proprietary funds when the benefit is earned and vested.

Vacation is earned based on a legally prescribed formula that allows an employee to accumulate at year-end the greater of forty-five days or one year's vested accrual of vacation hours.

Sick leave is earned at the rate of one day per month with no maximum accumulation specified. Employees hired prior to 1991 are entitled to receive 25% to 75% of accumulated sick leave (up to 200 days) upon termination due to retirement, disability or death, or 10% of accumulated sick leave (up to 200 days) upon other termination in good standing. For reporting purposes, 10% of accumulated sick leave attributed to such employees is accrued. Employees hired subsequent to 1990 are not eligible to receive accumulated sick leave upon separation from county employment. Accordingly, sick leave for such employees is not accrued. The vesting method is used to calculate sick leave.

FUND EQUITY

Reserves are used to segregate the portion of fund balance or retained earnings that is not available for appropriations or is legally restricted for a specific future use. Designations reflect management intent to use resources as approved by the County Council with passage of the 2001 budget ordinance. Proprietary fund contributed capital represents equity acquired through grants and capital contributions from developers, customers or other funds.

The county has no equity or financial interest in *Agency Funds*. The county role is limited to that of an agent to account for assets held for other county funds and/or governments.

MEMORANDUM ONLY -- TOTAL COLUMNS

Total columns on certain combined statements are captioned "Memorandum Only" to indicate that the columns do not present consolidated financial information and are presented only to facilitate financial analysis. Data in the total columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY DATA

Budget Policies and Controls. In accordance with the Pierce County Charter, the council is required to adopt annual budgets for all funds for the next fiscal year no later than 30 days prior to the end of the current fiscal year. Each quarter during the fiscal year, the executive must submit a written report to the council explaining the relationship between actual and budgeted year-to-date revenues and expenses, and the estimated income and expenses. If income is estimated to be less than anticipated, the council may reduce appropriations as necessary to keep expenditures within income. Budgets may be administratively revised within all funds except the *General Fund* and within departments in the *General Fund* as long as the total appropriation is not changed. All appropriations lapse at the end of the year with the exception of project-length budgets for certain capital projects.

The County Council may also modify the budget on an emergency basis by appropriating contingency funds, revenues received in excess of budgeted revenues, or funds from any other legally available source.

Budget Procedures. Under the Pierce County Charter, the county must comply with the following procedures when establishing budgets:

- η At least 135 days prior to the end of the fiscal year, all agencies of county government must submit to the County Executive information necessary to prepare the annual budget.
- η Within 75 days prior to the end of the fiscal year, the executive must present the council with a complete budget including all proposed appropriation, tax and revenue ordinances necessary to raise sufficient revenues and to balance the budget.
- η The budget must include all fund balances, revenues, reserves and expenditures divided into categories, projects and objects of expense. The expenditures included in the budget for the next fiscal year shall not exceed estimated revenues including estimated fund balances. Comparisons of actual total expenditures of the preceding fiscal year, estimated total expenditures of the current fiscal year, and requested appropriations for the next fiscal year must be presented.
- η Public hearings to consider the budget are required prior to adoption of the budget by the council.

Budget Basis of Accounting. The annual budget is prepared using the modified accrual basis of budgeting for these governmental fund types; *General Fund*, *Special Revenue Funds*, *Capital Project Funds* and *Debt Service Funds*. Budgetary accounts are integrated in the accounting system and presented herein with comparison to actual results of operations for all budgeted governmental funds.

The Pierce County Charter requires proprietary fund budgets. *Nonexpendable* and *Expendable Trust Funds* are budgeted for administrative control. Budgets for these funds are prepared on a revenue and expense basis similar to the budgets for governmental fund types. Budgetary comparisons are not required for proprietary and trust funds and, therefore, are not presented.

Encumbrances. An encumbrance system is maintained to account for commitments resulting from approved purchase orders and contracts. All appropriations lapse at the end of the year with the exception of *Capital Project Funds*. Accordingly, encumbrances outstanding at the end of the year must be absorbed within budget appropriations for the next year. Outstanding encumbrances in *Capital Project Funds* do not constitute expenditures or liabilities and are reported as reservations of fund balance. Outstanding encumbrances for governmental funds other than *Capital Project Funds* are not material at the end of the year.

RECONCILIATION OF BUDGETED AND NONBUDGETED FUNDS

The county budgets all governmental funds in accordance with generally accepted accounting principles except the *Treasurer's Operation And Maintenance Special Revenue Fund* (pursuant to Revised Code of Washington.) A reconciliation of actual results for budgeted and nonbudgeted funds follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Residual Equity Transfers</u>	<u>Fund Balance 12-31-01</u>
<i>Special Revenue Funds:</i>					
Annually Budgeted Funds	\$ 191,227,415	\$ 185,619,190	\$ (12,163,002)	\$ (391,174)	\$ 48,799,655
Nonbudgeted Fund:					
Treasurer's Operation And Maintenance	<u>196,309</u>	<u>264,647</u>	<u>20,000</u>	<u>-</u>	<u>(99,948)</u>
Total Special Revenue Funds	<u>\$ 191,423,724</u>	<u>\$ 185,883,837</u>	<u>\$ (12,143,002)</u>	<u>\$ (391,174)</u>	<u>\$ 48,699,707</u>

SUPPLEMENTAL BUDGET APPROPRIATIONS

Subsequent to adoption of the 2001 budget appropriation of \$664,686,680, ten ordinances were enacted to provide supplemental budget appropriations of \$45,178,497, or 6.8% of the initial 2001 appropriation.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The legal level of budgetary control, the level at which expenditures may not legally exceed appropriations, is the fund level for all funds except for the *General Fund*, which is budgeted at the department level. There were no instances where expenditures exceeded appropriations in 2001.

DEFICIT FUND EQUITY

Special Revenue Funds. A deficit fund balance of \$995,631 in the *Human Services Fund* resulted from unexpected changes in the level of mental health funding provided by the State and operational support needed for the newly acquired Puget Sound Behavioral Health facility. Changes in operations are being implemented to eliminate the deficit within two years. A deficit fund balance of \$244,288 in the *Paths and Trails Fund* is the result of land purchases and construction project costs exceeding immediately available resources. The deficit should be eliminated over the next year by increasing budget allocations and selling excess property. The *Treasurer's Operation And Maintenance Fund* reported a deficit fund balance of \$99,948 at year-end. The deficit was funded by loans from the *General Fund* and will be repaid in 2003 by the sale of foreclosed property.

Capital Project Funds. The *Road Improvement Districts Fund* reported a deficit fund balance of \$894,212 which will be eliminated by issuing special assessment bonds to cover construction costs.

Enterprise Funds. The *Airport Fund* reported a deficit in retained earnings of \$226,129 that will be eliminated in the next few years. The *Water Utility Fund* reported a retained earnings deficit of \$329,526 resulting from start-up costs for the new water utility operation. Such deficits are expected for several years as water resources are developed and marketed.

Internal Service Funds. The *Workers Compensation Fund* reported a deficit fund balance of \$269,715 resulting from unexpected claims activity. Increased charges to contributing funds will eliminate the deficit in the near future.

NOTE 3 - CASH AND INVESTMENTS

Cash and cash equivalents, and investments at December 31, 2001 stated at fair value follow:

Cash And Time Deposits - County	\$ 578,215,612
Cash And Time Deposits - Trustees	8,689,700
Component Unit Cash	2,378,928
Component Unit Investments	264,301
Pooled Fund Investments	222,715,363
Unrestricted Fund Investments	180,840,832
Restricted Fund Investments	<u>34,855,341</u>
Total	<u>\$ 1,027,960,077</u>

The county maintains an internal cash and investment pool for all idle cash that has not been invested for the benefit of specific funds. All interest earnings from this pool are credited to the *General Fund*. Cash balances of the individual funds constitute a portion of the county investment pool and are reported on the balance sheet as "Cash In Treasury Pool". In addition, certain investments are held separately by several county funds and reported accordingly.

DEPOSITS

All cash and time deposits are insured by either federal depository insurance or by the Washington Public Deposit Protection Commission (WPDPC). At December 31, 2001 deposits insured by federal depository and WPDPC insurance amounted to \$1,980,619 and \$585,397,027, respectively. Washington State statutes require that public monies be deposited only in "qualified public depositories" as designated by the WPDPC. The WPDPC administers the state multiple financial institution collateral pool and monitors public money on deposit in qualified public depositories.

INVESTMENTS

Washington State statutes and county investment policy authorize the county to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers acceptances, primary certificates of deposit issued by qualified public depositories, the state's local government investment pool, and repurchase agreements collateralized by any previously authorized investments.

U.S. Treasury bills, notes or bonds, U.S. Government agency securities, bankers acceptances, and commercial paper are recorded at fair value where the remaining maturity at the time of purchase that was greater than one year. Similar investments with a remaining maturity at the time of purchase of one year or less are recorded at amortized cost. Repurchase agreements and certificates of deposit are also recorded at amortized cost. Fair values are based on quoted market prices at the end of 2001. Net change in fair value of investments recorded in 2001 was an increase of \$290,992.

The county investment pool participates in the State of Washington Local Government Investment Pool (LGIP). The LGIP operates in accordance with appropriate state laws and regulations. County investments in LGIP are reported at fair value of LGIP pool shares.

Certain investments are categorized to indicate the level of risk assumed by the county. At year-end all such county investments are Category 1 investments. Category 1 includes investments that are insured or registered, or investments in securities that are held by the county or held by the county agent in the county name. Securities for certain Category 1 investments are held by a custodian under terms of a flexible repurchase agreement and are marked to market daily by the custodian. U.S. Treasury securities must be marked to market at 102% of the repurchase agreement and U.S. Government agency securities must be marked to market at 103% of the repurchase agreement.

The fair value of investments based on quoted market prices at December 31, 2001 is as follows:

	<u>Carrying Value/ Fair Value</u>
Repurchase Agreements	\$ 40,857,498
U.S. Treasuries Securities	34,957,568
U.S. Government Securities	155,581,331
Municipal Bonds	<u>35,015,139</u>
Total Investments Subject to Credit Risk Classification	266,411,536
Investments Not Subject to Credit Risk Classification	
State Investment Pool	172,000,000
Construction Retainage Escrows	<u>3,065,961</u>
Total Investments	<u>\$ 441,477,497</u>

NOTE 4 - RESTRICTED ACCOUNTS

Certain assets are restricted for specific purposes under provisions of various bond indentures and county ordinances. Assets are restricted for debt service and future construction in *Sewer Utility Funds*; for debt service in the *Solid Waste Management Fund*; for landfill self-insurance, closure and post-closure costs in the *Landfill Reserve Fund*; and for capital purposes in the *Airport Fund*.

SEWER UTILITY FUNDS

Restricted assets for sewer utilities at December 31, 2001 are as follows:

	Revenue Bond Accounts	Construction Accounts	Capital Improvement Accounts	Total Sewer Utility Accounts
Cash And Cash Equivalents	\$ 29,471	\$ -	\$ 2,055,256	\$ 2,084,727
Cash And Investments With Trustee	-	229,295	-	229,295
Investments	8,434,600	-	24,107,747	32,542,347
Accrued Interest And Penalties	1,389,670	-	179,932	1,569,602
Assessments Receivable	22,621,910	-	-	22,621,910
Contracts Receivable	-	-	4,063,083	4,063,083
Advances Receivable	-	-	322,072	322,072
Due From Other Governments	-	-	377	377
Total Restricted Assets	<u>\$ 32,475,651</u>	<u>\$ 229,295</u>	<u>\$ 30,728,467</u>	<u>\$ 63,433,413</u>

At December 31, 2001 \$4,083,992 of sewer utilities retained earnings relate to assets restricted for debt service

SOLID WASTE MANAGEMENT AND LANDFILL RESERVE FUNDS

Restricted assets for solid waste management and landfill reserves at December 31, 2001 are as follows:

	Self-Insurance Reserve	Closure and Post-Closure Care Accounts	Revenue Bond Accounts	Total Solid Waste Accounts
Cash And Cash Equivalents	\$ 54,080	\$ 150,164	\$ 1,490	\$ 205,734
Investments	1,400,000	7,807,995	-	9,207,995
Accrued Interest And Penalties	-	3,189	-	3,189
Total Restricted Assets	<u>\$ 1,454,080</u>	<u>\$ 7,961,348</u>	<u>\$ 1,490</u>	<u>\$ 9,416,918</u>

Pierce County contracts with *Pierce County Recycling, Composting, and Disposal, LLC. (PCRCD)* to provide drop box and/or transfer station operations at various county-owned locations, operation of a yard waste composting facility, and hauling of county waste to solid waste disposal facilities located within and outside of the county. At December 31, 2001 the county and PCRCD are in compliance with all provisions of the contract and with related state and federal regulations.

Land Recovery Inc., the corporate predecessor to PCRCD, established a trust fund with the county to provide funding for future costs associated with closed landfill sites. At year-end cash and cash equivalents and investments of \$7.96 million of post-closure care accounts have been placed in trust as restricted assets to fund estimated liabilities of \$9.23 million. Related unfunded liabilities are recorded as deferred charges. In addition, the *Landfill Reserve Self-Insurance Trust Account* was established to fund future investigation and remediation, if any, of custodial landfill sites. At year-end \$1.45 million is held as restricted assets for such purposes. Retained earnings related to assets restricted for landfill self-insurance and post-closure costs total \$3.08 million at year-end. Retained earnings related to assets restricted for debt service total \$2.22 million at year-end.

AIRPORT FUND

\$429,941 of *Airport Fund* retained earnings relates to assets restricted for capital purposes at year-end.

NOTE 5 - FIXED ASSETS

GENERAL FIXED ASSETS

Changes in *General Fixed Assets* for the year ended December 31, 2001 are summarized as follows:

	Balance 01-01-01	Additions	Deletions	Balance 12-31-01
Land	\$ 35,716,597	\$ 3,358,464	\$ 4,101,838	\$ 34,973,223
Buildings	103,008,255	2,531,090	-	105,539,345
Machinery And Equipment	9,344,418	3,012,498	2,447,933	9,908,983
Construction In Progress	23,256,737	30,864,399	2,782,930	51,338,206
Equity Interest In Joint Venture	712,000	-	6,500	705,500
Total General Fixed Assets	<u>\$ 172,038,007</u>	<u>\$ 39,766,451</u>	<u>\$ 9,339,201</u>	<u>\$ 202,465,257</u>

During 2001, certain completed projects were transferred within *General Fixed Assets* from construction in progress to the departments responsible for maintaining the assets. Transfers consisted of approximately \$1,770,000 for the Lower Carbon River Salmon Recovery Project, \$328,000 for County-City Building improvements, \$252,000 for improvements to the Remann Hall juvenile facility, and \$433,000 for other improvements and repairs to various county facilities.

Construction in progress represents expenditures through December 31, 2001 on projects with total authorizations of \$86,884,400.

PROPRIETARY FUND FIXED ASSETS

The following is a summary of proprietary fund fixed assets at December 31, 2001:

	Plant In Service	Land And Land Rights	Buildings	Improvements Other Than Buildings	Furniture And Equipment	Total
Enterprise Funds:						
Sewer Utility	\$ 363,714,337	\$ 44,968,420	\$ 77,797	\$ 954,944	\$ 5,419,770	\$ 415,135,268
Solid Waste Management	-	140,000	2,338,153	366,242	525,715	3,370,110
Airport	-	1,924,563	867,631	1,788,182	271,064	4,851,440
Ferry Services	-	-	-	18,218,450	-	18,218,450
Golf Course	-	1,400,000	461,750	672,220	621,822	3,155,792
Total Enterprise Funds	<u>363,714,337</u>	<u>48,432,983</u>	<u>3,745,331</u>	<u>22,000,038</u>	<u>6,838,371</u>	<u>444,731,060</u>
Internal Service Funds:						
Equipment Services Division	-	-	-	-	23,780,718	23,780,718
Information Services	-	-	-	-	6,652,252	6,652,252
Facilities Management	-	-	-	-	253,274	253,274
Radio Communications	-	-	-	-	396,389	396,389
Fleet Rental And Revolving	-	211,440	390,107	-	11,732,982	12,334,529
General Services	-	-	-	-	45,226	45,226
Workers Compensation	-	-	-	-	15,661	15,661
Total Internal Service Funds	<u>-</u>	<u>211,440</u>	<u>390,107</u>	<u>-</u>	<u>42,876,502</u>	<u>43,478,049</u>
Total Proprietary Funds	<u>\$ 363,714,337</u>	<u>\$ 48,644,423</u>	<u>\$ 4,135,438</u>	<u>\$ 22,000,038</u>	<u>\$ 49,714,873</u>	<u>\$ 488,209,109</u>

Land and land rights of the *Sewer Utility Fund* include certain mineral rights that are purchased as extracted by a third party. For the year ended December 31, 2001, mineral deposit income of \$340,689 was reported net of related depletion expense of \$273,164 as a component of miscellaneous nonoperating revenue. The estimated value of mineral rights remaining at December 31, 2001 is \$2,900,468.

Construction in progress in proprietary funds at December 31, 2001 is summarized as follows:

Enterprise Funds:	
Sewer Utility	\$ 25,969,503
Airport	175,508
Ferry Services	856,665
Golf Course	<u>89,396</u>
Total Enterprise Funds	<u>27,091,072</u>
Internal Service Funds:	
Equipment Services Division	24,713
Facilities Management	133,900
Radio Communications	<u>839,259</u>
Total Internal Service Funds	<u>997,872</u>
Total Proprietary Fund Construction In Progress	<u>\$ 28,088,944</u>

Proprietary fund construction in progress includes capitalized interest of \$293,791. Commitments on construction contracts by proprietary funds approximate \$11,305,400 at December 31, 2001.

NOTE 6 - LONG-TERM DEBT

General obligation and revenue bonds finance the purchase of major capital items, including acquisition or construction of major capital facilities. Other bonded indebtedness is issued for advance refunding of certain general obligation and revenue bonds. General obligation bonds are issued for general government and proprietary activities. Revenue bonds and certain general obligation bonds are repaid from proprietary fund revenues and are accounted for in proprietary fund financial statements.

Special assessment bonds are issued to finance certain road improvements and are repaid from proceeds of road improvement district assessments. The county guarantees payment of special assessment bonds from resources of the *Road Improvement Districts Guaranty Fund* in the event the road improvement districts cannot make payments.

GENERAL LONG-TERM DEBT

Changes in general long-term debt for the year ended December 31, 2001 are summarized as follows:

	<u>Balance</u> <u>01-01-01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-01</u>
1992 General Obligation Limited Tax Refunding	\$ 3,255,000	\$ -	\$ 465,000	\$ 2,790,000
1992 General Obligation Limited Tax	1,615,000	-	190,000	1,425,000
1994 General Obligation Limited Tax	9,935,000	-	535,000	9,400,000
1997 General Obligation Limited Tax Refunding	2,700,000	-	840,000	1,860,000
1997B General Obligation Limited Tax	1,560,000	-	95,000	1,465,000
1999 General Obligation Limited Tax	5,070,000	-	165,000	4,905,000
2000 General Obligation Limited Tax	37,000,000	-	-	37,000,000
Special Assessment (With Governmental Commitment)	55,000	-	50,000	5,000
Compensated Absences Payable	11,056,100	9,708,706	8,398,044	12,366,762
Installment Contracts	369,840	-	83,298	286,542
	<u>\$ 72,615,940</u>	<u>\$ 9,708,706</u>	<u>\$ 10,821,342</u>	<u>\$ 71,503,304</u>

The installment contract represents the \$286,542 balance remaining on an installment contract for the purchase of land. The installment contract is secured by the real estate and provides annual installments of \$109,187 including 7% interest payable through July 2004. Tax revenues of the *Conservation Futures Special Revenue Fund* will fund annual payments.

SCHEDULE OF BOND ISSUANCE, REDEMPTION AND BALANCES OUTSTANDING (In Thousands)

December 31, 2001

GENERAL LONG-TERM BONDS

	<u>Date Of Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Redemptions To Date</u>	<u>Bonds Outstanding 12-31-01</u>	<u>Current Amount</u>
Partial Refunding of 1986 G.O. Issue	07-01-92	12-01-06	3.00% to 6.20%	\$ 4,405	\$ 1,615	\$ 2,790	\$ 495
Computerized Voting System	05-15-92	06-01-07	5.50% to 8.50%	2,800	1,375	1,425	200
Remann Hall Improvements and Imaging System	06-01-94	12-01-14	5.125% to 6.0%	12,500	3,100	9,400	570
Refund the 1987 Refunding bonds	04-01-97	12-01-03	3.80% to 4.90%	5,455	3,595	1,860	900
District Court No.1 Office and Courtroom Purchase	12-01-97	12-01-12	4.00% to 5.15%	1,840	375	1,465	105
Parking Garage	08-01-99	08-01-19	4.50% to 5.25%	5,230	325	4,905	175
Jail Facility	11-01-00	08-01-25	5.00% to 6.00%	37,000	-	37,000	400
				<u>\$ 69,230</u>	<u>\$ 10,385</u>	<u>\$ 58,845</u>	<u>\$ 2,845</u>

PROPRIETARY TYPE LIMITED G.O. BONDS

	<u>Date Of Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Redemptions To Date</u>	<u>Bonds Outstanding 12-31-01</u>	<u>Current Amount</u>
Partial Refunding of 1987 G.O. Issue - Sewer	04-01-97	12-01-03	3.80% to 4.90%	<u>\$ 6,875</u>	<u>\$ 4,385</u>	<u>\$ 2,490</u>	<u>\$ 1,215</u>

SPECIAL ASSESSMENT BONDS (With Governmental Commitment)

	<u>Date Of Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Redemptions To Date</u>	<u>Bonds Outstanding 12-31-01</u>	<u>Current Amount</u>
Road Improvement District 2-88	06-01-93	06-01-05	3.75% to 6.10%	<u>\$ 335</u>	<u>\$ 330</u>	<u>\$ 5</u>	<u>\$ -</u>

PROPRIETARY TYPE REVENUE BONDS

	<u>Date Of Issue</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Original Amount</u>	<u>Redemptions To Date</u>	<u>Bonds Outstanding 12-31-01</u>	<u>Current Amount</u>
Sewer Revenue and Refunding Bonds	07-15-93	02-01-13	2.65% to 5.625%	\$ 36,900	\$ 23,600	\$ 13,300	\$ -
Sewer Revenue - ULID 90-4	03-15-01	08-01-21	4.50% to 5.00%	18,495	-	18,495	915
Sewer Revenue	01-01-97	02-02-14	5.00% to 5.55%	1,510	310	1,200	75
				<u>\$ 56,905</u>	<u>\$ 23,910</u>	<u>\$ 32,995</u>	<u>\$ 990</u>

DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2001

GENERAL OBLIGATION DEBT

Year	General Obligation Bonds				Other General Obligation Proprietary Debt		Total General Obligation Debt	
	General Long-Term		Proprietary Type		Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest				
2002	\$ 2,845,000	\$ 3,176,944	\$ 1,215,000	\$ 121,706	\$ 274,363	\$ 40,434	\$ 4,334,363	\$ 3,339,084
2003	3,010,000	3,028,770	1,275,000	62,476	280,602	32,342	4,565,602	3,123,588
2004	2,615,000	2,870,248	-	-	287,278	23,814	2,902,278	2,894,062
2005	2,665,000	2,729,021	-	-	185,234	14,819	2,850,234	2,743,840
2006	2,815,000	2,583,291	-	-	185,234	12,966	3,000,234	2,596,257
2007	2,305,000	2,428,097	-	-	185,234	11,114	2,490,234	2,439,211
2008	2,135,000	2,314,639	-	-	185,234	9,262	2,320,234	2,323,901
2009	2,260,000	2,203,265	-	-	185,234	7,409	2,445,234	2,210,674
2010	2,380,000	2,084,901	-	-	185,234	5,557	2,565,234	2,090,458
2011	2,510,000	1,948,046	-	-	185,234	3,705	2,695,234	1,951,751
2012	2,650,000	1,815,372	-	-	185,234	1,852	2,835,234	1,817,224
2013	2,625,000	1,667,693	-	-	-	-	2,625,000	1,667,693
2014	2,775,000	1,516,650	-	-	-	-	2,775,000	1,516,650
2015	1,900,000	1,371,264	-	-	-	-	1,900,000	1,371,264
2016	2,005,000	1,264,488	-	-	-	-	2,005,000	1,264,488
2017	2,120,000	1,151,442	-	-	-	-	2,120,000	1,151,442
2018	2,240,000	1,038,124	-	-	-	-	2,240,000	1,038,124
2019	2,375,000	918,388	-	-	-	-	2,375,000	918,388
2020	2,090,000	790,938	-	-	-	-	2,090,000	790,938
2021	2,215,000	675,988	-	-	-	-	2,215,000	675,988
2022	2,350,000	554,162	-	-	-	-	2,350,000	554,162
2023	2,495,000	427,850	-	-	-	-	2,495,000	427,850
2024	2,650,000	293,744	-	-	-	-	2,650,000	293,744
2025	2,815,000	151,306	-	-	-	-	2,815,000	151,306
	<u>\$ 58,845,000</u>	<u>\$ 39,004,631</u>	<u>\$ 2,490,000</u>	<u>\$ 184,182</u>	<u>\$ 2,324,115</u>	<u>\$ 163,274</u>	<u>\$ 63,659,115</u>	<u>\$ 39,352,087</u>

DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2001

LONG-TERM DEBT SUMMARY

Year	General Obligation Debt		Special Assessment Bonds (With Governmental Commitment)		Revenue Bonds		Total Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 4,334,363	\$ 3,339,084	\$ -	\$ 305	\$ 990,000	\$ 1,963,099	\$ 5,324,363	\$ 5,302,488
2003	4,565,602	3,123,588	-	305	990,000	1,594,863	5,555,602	4,718,756
2004	2,902,278	2,894,062	-	305	2,925,000	1,500,595	5,827,278	4,394,962
2005	2,850,234	2,743,840	5,000	305	3,025,000	1,353,418	5,880,234	4,097,563
2006	3,000,234	2,596,257	-	-	1,945,000	1,230,275	4,945,234	3,826,532
2007	2,490,234	2,439,211	-	-	1,995,000	1,134,014	4,485,234	3,573,225
2008	2,320,234	2,323,901	-	-	2,055,000	1,035,108	4,375,234	3,359,009
2009	2,445,234	2,210,674	-	-	2,120,000	931,163	4,565,234	3,141,837
2010	2,565,234	2,090,458	-	-	2,185,000	822,941	4,750,234	2,913,399
2011	2,695,234	1,951,751	-	-	2,245,000	710,566	4,940,234	2,662,317
2012	2,835,234	1,817,224	-	-	2,320,000	593,534	5,155,234	2,410,758
2013	2,625,000	1,667,693	-	-	2,395,000	471,331	5,020,000	2,139,024
2014	2,775,000	1,516,650	-	-	990,000	385,581	3,765,000	1,902,231
2015	1,900,000	1,371,264	-	-	990,000	338,357	2,890,000	1,709,621
2016	2,005,000	1,264,488	-	-	990,000	290,163	2,995,000	1,554,651
2017	2,120,000	1,151,442	-	-	990,000	241,053	3,110,000	1,392,495
2018	2,240,000	1,038,124	-	-	915,000	193,164	3,155,000	1,231,288
2019	2,375,000	918,388	-	-	915,000	147,416	3,290,000	1,065,804
2020	2,090,000	790,938	-	-	915,000	101,664	3,005,000	892,602
2021	2,215,000	675,988	-	-	1,100,000	55,000	3,315,000	730,988
2022	2,350,000	554,162	-	-	-	-	2,350,000	554,162
2023	2,495,000	427,850	-	-	-	-	2,495,000	427,850
2024	2,650,000	293,744	-	-	-	-	2,650,000	293,744
2025	2,815,000	151,306	-	-	-	-	2,815,000	151,306
	<u>\$ 63,659,115</u>	<u>\$ 39,352,087</u>	<u>\$ 5,000</u>	<u>\$ 1,220</u>	<u>\$ 32,995,000</u>	<u>\$ 15,093,305</u>	<u>\$ 96,659,115</u>	<u>\$ 54,446,612</u>

PROPRIETARY FUND LONG-TERM DEBT

Enterprise Funds. Long-term debt at December 31, 2001 consists of bonds and contracts payable as follows:

	<u>Date Of Issue</u>	<u>Description</u>	<u>Interest Rates</u>	<u>Outstanding Balance 12-31-01</u>
<i>Sewer Utility Funds:</i>	07-15-93	Sewer Revenue and Refunding Bonds; varying annual payments due February 1 through 2013; secured by net revenues of the utility, the reserve account and ULID assessments.	2.650% to 5.625%	\$ 13,300,000
	04-01-97	Limited Tax General Obligation Sewer Refunding Bonds; varying annual payments due December 1 through 2003; secured by net revenues of the utility and the taxing authority of the county.	4.10% to 4.90%	2,490,000
	01-01-97	Sewer Improvement and Refunding Bonds; varying annual payments due February 1 through 2017; secured by net revenues of the utility, the reserve account and ULID assessments.	5.00% to 5.70%	1,200,000
	03-15-01	Sewer Revenue Bonds; varying annual payments due August 1 through 2021; secured by net revenues of the utility, the reserve account and ULID assessments.	4.50% to 5.00%	<u>18,495,000</u>
	Total Sewer Utility Bonds			35,485,000
<i>Ferry Services Fund</i>	07/01/93	Installment Contract payable to the State of Washington Public Works Trust Fund; annual payments due July 1 through 2012; secured by ferry services revenues and the taxing authority of the county.	1.00%	<u>2,037,573</u>
	Total Enterprise Fund Debt			37,522,573
	Less: Current Maturities			(2,390,234)
	Unamortized Revenue			<u>77,337</u>
	Total Enterprise Fund Long-Term Debt			<u>\$ 35,209,676</u>

Scheduled principal payments on enterprise debt are as follows:

2002	\$ 2,390,234
2003	2,450,234
2004	3,110,234
2005	3,210,234
2006	2,130,234
Thereafter	<u>24,231,403</u>
Total	<u>\$ 37,522,573</u>

Bond agreements contain restrictive covenants relating primarily to rate setting, utilization of revenues and maintenance of the property, plant and equipment. During 2001, the *Enterprise Funds* were in compliance with all significant financial bond covenants.

REFUNDED BONDS

Prior to 2001, the county defeased certain outstanding general obligation and sewer revenue bonds by placing the funds in an irrevocable trust sufficient to provide future debt service payments on the defeased bonds. Accordingly, all defeased bonds and related trust accounts are excluded from balance sheets of the *General Long-Term Debt Account Group* and the *Sewer Utility Fund*. As of December 31, 2001 \$10,555,000 of defeased debt was outstanding but removed from respective balance sheets.

NOTE 7 - COMMITMENTS

OPERATING LEASES

Pierce County has various operating lease agreements for office facilities and equipment. The agreements provide various annual minimum rental payments due in monthly installments. Total costs for such leases were \$2,441,608 for 2001. The future minimum lease payments as of December 31, 2001 are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
2002	\$ 1,182,655	\$ 779,779	\$ 202,036	\$ 230,838	\$ 2,395,308
2003	899,401	778,301	25,177	12,605	1,715,484
2004	611,572	318,122	-	-	929,694
2005	229,719	100,556	-	-	330,275
2006	117,665	100,556	-	-	218,221
Thereafter	<u>57,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,284</u>
Total	<u>\$ 3,098,296</u>	<u>\$ 2,077,314</u>	<u>\$ 227,213</u>	<u>\$ 243,443</u>	<u>\$ 5,646,266</u>

The Pierce County Airport leases certain buildings and grounds at Thun Field to various lessors under noncancellable operating lease agreements. Minimum future lease receipts based on contract amounts and terms as of December 31, 2001 are as follows:

2002	\$ 191,880
2003	182,641
2004	182,641
2005	176,023
2006	155,740
Thereafter	<u>965,470</u>
Total	<u>\$ 1,854,395</u>

CAPITAL PROJECTS

Commitments for capital projects include project costs authorized and appropriated in the next fiscal year budget. Capital projects will be funded from existing undesignated fund balance and future revenues. Commitments for capital projects at December 31, 2001 are as follows:

<u>Capital Project</u>	<u>Description</u>	<u>Amount</u>
Airport	Taxiway realignment and resurfacing, perimeter fencing.	\$ 662,700
Adult detention facility	New 1,000 bed jail project continued	10,660,000
Administration building	Various improvements to county owned buildings	3,761,000
Juvenile detention facility	Water heater replacement and HVAC upgrades	150,000
Parks and recreation	Regional parks, paths and trails, and open space	26,867,200
River improvement	Land acquisition and basin plan implementation	1,536,000
Water programs	Projects related to the 100 year, 24 hour design	5,543,500
County roads	Transportation improvement plan projects	61,798,110
Sewer utilities	System capital improvements	32,255,000
Solid waste management	Purdy compost facility improvements	<u>185,000</u>
Total		<u>\$ 143,418,510</u>

During 2000, the county entered into a \$2,800,000 purchase agreement to acquire certain real property for a wildlife habitat. The purchase is contingent on a favorable outcome to litigation between the seller and a third party to determine ownership. The county has agreed to set aside annual installments including 6% interest to fund an initial payment of \$272,600 and annual payments thereafter of \$513,979. The purchase will be fully funded in 2006. The installments with interest will accumulate until ownership is resolved and the property is transferred to the county. \$786,579 of fund balance has been reserved for this purpose at December 31, 2001.

During 2001, the county entered into an agreement to purchase certain real property for open space conservation for \$1,992,900. The purchase is contingent on the seller first exercising an option to acquire the subject property. The county has agreed to set aside annual installments including 6.52% interest to fund an initial payment of \$1,000,000 and two annual payments of \$545,514. The installments with interest will accumulate until the sale can be closed or until April 30, 2003, the termination date of this agreement. Fund balance of \$1,000,000 has been reserved for this purpose at December 31, 2001.

SEWER UTILITY

During 1992, the sewer utility acquired land adjacent to the Chambers Creek Wastewater Treatment Plant from Oregon City Leasing Company (Oregon City) for \$33,314,000. Oregon City retained the mineral rights with an estimated value of \$8,686,000 at acquisition date, as well as the right to continue mining. During 1999, the sewer utility acquired the remaining mineral rights from Oregon City for \$3,521,992. Oregon City currently retains the right to extract the mineral deposits and continues to purchase the minerals as extracted.

SOLID WASTE MANAGEMENT FUNDS

The county has contracted with Land Recovery, Inc. (LRI) to operate all county landfill sites. LRI collects landfill user fees sufficient to fund current closure and post-closure care costs. The county and LRI are required to provide financial assurance that future closure and post-closure care costs will be funded. Interest earnings on contributions made by LRI to a trust will fund any future cost increases due to inflation. However, should interest earnings not be sufficient or post-closure care costs increase because of changes in technology or regulations, such additional costs may be funded by charges to future landfill users or from future county tax revenue.

NOTE 8 - RESERVED FUND BALANCES AND CHANGES IN FUND EQUITY

RESERVED FUND BALANCES

Pierce County reserves the portion of fund balance that is either legally segregated for a specific future use or that is otherwise not available for appropriation. Fund balances reserved at December 31, 2001 are as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Reserved For:					
Advances To Other Funds	\$ 466,274	\$ -	\$ -	\$ -	\$ 466,274
Inventory	244,750	92,008	-	-	336,758
Prepaid Insurance	249,942	-	-	-	249,942
Debt Service	-	-	1,059,545	-	1,059,545
Continuing Appropriations	-	-	-	55,207,981	55,207,981
Property Purchases	-	1,786,579	-	-	1,786,579
Potential Refund	-	330,887	-	-	330,887
Other Purposes	490,069	-	-	-	490,069
Total Reserved Fund Balance	<u>\$ 1,451,035</u>	<u>\$ 2,209,474</u>	<u>\$ 1,059,545</u>	<u>\$ 55,207,981</u>	<u>\$ 59,928,035</u>

Reserved For Advances To Other Funds. Fund balance equal to the amount of advances to other funds is reserved to segregate current financial resources that are not available for appropriation.

Reserved For Inventory. Fund balance equal to the amount of supplies inventory carried as an asset is reserved to segregate the amount of fund balance that is not available or spendable resources for current fund operations.

Reserved For Prepaid Insurance. Fund balance equal to reserves held by medical insurance companies to indicate current financial resources that are not available for appropriation.

Reserved For Debt Service. Fund balance is reserved in an amount equal to revenues collected and earmarked for future debt service payments.

Reserved For Continuing Appropriations. Fund balance is reserved for the unexpended portion of budgets for capital projects scheduled to be completed over several years. The unexpended budget amount "carries over" each year until the respective projects are completed.

Reserved For Property Purchases. Fund balance is reserved to comply with certain contract commitments.

Reserved For Potential Refund. Fund balance has been reserved in an amount equal to revenue received from a 3% special hotel/motel tax. The tax is subject to litigation requesting refund of amounts collected. Until the litigation is resolved, such revenues are not available for appropriation.

Reserved For Other Purposes. This account is used to segregate the portion of fund balance representing resources that are legally restricted to use in public sports stadium facilities (pending interpretation of Washington State law).

CHANGES IN FUND EQUITY

Proprietary fund equity increases and/or decreases as a result of operations and changes in contributed capital. Increases in contributed capital presented in the respective operating statements primarily consist of residual equity transfers provided by county departments and local governments.

Changes in proprietary fund contributed capital for the year ending December 31, 2001 are as follows:

	<u>Balance 01-01-01</u>	<u>Additions</u>	<u>Transfers And Deletions</u>	<u>Balance 12-31-01</u>
<i>Internal Service Funds:</i>				
Equipment Services Division:				
County Funds	\$ 9,739,277	\$ 608,664	\$ -	\$ 10,347,941
Facilities Management:				
County Funds	54,820	82,000	-	136,820
Radio Communications:				
County Funds	499,097	12,958	-	512,055
Local Governments	360,000	-	-	360,000
Total Radio Communications	859,097	12,958	-	872,055
Fleet Services:				
County Funds	4,733,148	661,377	-	5,394,525
Total Internal Service Funds	<u>\$ 5,093,148</u>	<u>\$ 661,377</u>	<u>\$ -</u>	<u>\$ 5,754,525</u>

Accounting changes. Effective in 2001, GASB Statement No.33, "Accounting and Financial Reporting for Nonexchange Transactions", stipulates external capital contributions should be disclosed in proprietary fund operating statements as increases in net income. \$30,121,096 of such external capital contributions are disclosed accordingly in the proprietary fund operating statements. Capital contributions from prior years are reported as contributed capital on the balance sheet.

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Transfers for the year ended December 31, 2001 are summarized as follows:

Fund	Equity Transfers In	Equity Transfers Out	Operating Transfers In	Operating Transfers Out
General Fund	\$ -	\$ 609,864	\$ 593,690	\$ 12,952,674
Special Revenue Funds:				
Geographical Information System	134,000	-	1,899,600	-
Auditor's Maintenance And Operation	-	-	100,000	86,150
Criminal Justice	-	-	-	42,287
Vehicle License Fee	-	-	-	4,920,214
Arts Commission	-	-	238,000	-
County Fair	-	-	20,000	-
Puget Sound Behavioral Health	-	-	940,460	206,440
Human Services	-	-	107,000	964,460
Real Estate Excise Tax River Improvement	-	-	-	19,360
911 System	-	-	-	47,360
Antiprofitereing Revolving	-	-	879	-
Housing Repair Programs	-	-	898,487	-
Community Development	-	-	-	898,487
Endangered Species Act	-	-	317,500	-
Parks Sales Tax	-	-	-	600
Roads	20,553	459,068	290,000	9,610,841
Surface Water Management	-	125,724	13,210	488,805
Treasurer's Operation and Maintenance	-	-	20,000	-
Community Action Agency	-	-	60,687	-
Debt Service Funds:				
1992 General Obligation Limited Tax	-	-	285,910	-
1992 General Obligation Limited Tax Refunding	-	-	661,580	-
1994 General Obligation Limited Tax	-	-	1,107,510	-
1997 General Obligation Limited Tax	-	-	679,870	-
1997B General Obligation Limited Tax	-	-	178,790	-
1999 General Obligation Limited Tax	131,701	-	414,320	-
2000 General Obligation Limited Tax	-	-	292,343	-
Capital Project Funds:				
Real Estate Excise Tax County Improvement	-	-	750,000	1,001,360
% For Arts Construction	-	-	350,550	-
Permanent Jail Construction	-	-	7,071,220	650,893
Parks Construction	-	-	204,057	-
Parking Facility	-	131,701	-	-
950 Building Acquisition	-	-	458,913	-
Public Works Construction	-	-	12,986,356	-
Enterprise Funds:				
Sewer Utility	-	103,436	-	47,350
Solid Waste Management	-	54,000	-	11,360
Ferry Services	-	-	599,535	-
Internal Service Funds:				
Equipment Services Division	608,664	-	-	-
Information Services	-	-	43,000	-
Facilities Management	82,000	-	-	-
Radio Communications	6,636	140,585	329,550	-
Fleet Rental	661,377	20,553	4,740	79,180
Workers Compensation	-	-	275,000	-
Trust Funds				
Parks and Recreation Donations	-	-	-	204,057
Medical Stabilazation Reserve	-	-	40,000	-
Agency Funds				
Remann Hall Childrens Fund	-	-	-	879
Total	\$ 1,644,931	\$ 1,644,931	\$ 32,232,757	\$ 32,232,757

Interfund receivables and payables are summarized as follows at December 31, 2001:

Fund	Due From Other Funds	Due To Other Funds	Interfund Loans Receivable	Interfund Loans Payable	Advances To Other Funds	Advances From Other Funds
General Fund	\$ 322,232	\$ 1,819,127	\$ 918,311	\$ -	\$ 466,274	\$ -
Special Revenue Funds:						
Veterans Relief	-	725	-	-	-	-
Law Enforcement	-	-	-	-	-	-
Geographical Information System	249,293	4,084	-	-	-	-
Auditor's Maintenance And Operation	100,068	35,924	-	-	-	-
Criminal Justice	8,274	335	-	-	-	-
Vehicle License Fees	-	823,173	-	-	-	-
Conservation Futures	-	383	-	-	-	-
Arts Commission	-	618	-	-	-	-
Dispute Resolution	-	25	-	-	-	-
Puget Sound Behavioral Health	17,199	3,579,214	-	-	-	-
Human Services	3,589,394	380,202	-	-	-	-
Marine Services	-	130	-	-	-	-
Drug Investigation	-	288	-	-	-	-
Real Estate Excise Tax River Improvement	-	1,098	-	-	-	-
911 System	-	723	-	-	-	-
Housing Repair Programs	141,668	13,069	-	96,000	-	-
Community Development	2,361	125,509	-	-	-	-
Emergency Management Grants	12,712	165	-	-	-	-
Endangered Species Act	-	1,954	-	511,000	-	-
Parks Sales Tax	-	4,101	-	-	-	-
Roads	270,978	2,037,584	-	-	-	-
Paths And Trails	4,101	165,676	-	-	-	300,000
Surface Water Management	-	239,446	-	-	-	-
Treasurer's Operation And Maintenance	-	297	-	-	-	97,000
Community Action Agency	22,243	16,261	-	303,000	-	-
Stadium And Convention Facilities	-	20	-	-	-	-
Debt Service Funds:						
1992 General Obligation Limited Tax	52	-	-	-	-	-
1992 General Obligation Refunding	15,365	-	-	-	-	-
1994 General Obligation Limited Tax	472,417	-	-	-	-	-
1997 General Obligation Refunding	719	-	-	-	-	-
1997B General Obligation Limited Tax	104,921	-	-	-	-	-
1999 General Obligation Limited Tax	133,843	-	-	-	-	-
Capital Project Funds:						
Real Estate Excise Tax County Improvement	-	417,793	-	-	-	-
% For Arts Construction	352,350	101,806	-	-	-	-
Administrative Building And Facilities	-	5,030	-	-	-	-
Permanent Jail Construction	154,502	359,766	-	-	-	-
Parks Construction	-	8,206	-	-	-	-
Parking Facility	-	131,701	-	-	-	-
Public Works Construction	2,264,437	74,190	-	-	-	-
Consolidated Road Improvement District Bonds	-	269,829	-	-	-	626,700
Enterprise Funds:						
Sewer Utility	32,080	272,989	-	-	304,000	-
Golf Course	-	1,940	-	-	-	-
Airport	-	3,911	-	8,311	-	69,274
Solid Waste Management	1,728	31,208	-	-	-	-
Landfill Reserve	-	184	-	-	-	-
Ferry Services	-	7,717	-	-	-	-
Water Utility	-	18,299	-	-	-	304,000
Internal Service Funds:						
Equipment Services	1,072,316	11,617	-	-	626,700	-
Information Services	242,669	27,576	-	-	-	-
Facilities Management	151,097	10,221	-	-	-	-
Radio Communications	115,983	85,652	-	-	-	-
Fleet Rental	348,495	605	-	-	-	-
General Services	118,423	2,831	-	-	-	-
Self-Insurance	1,210	7,314	-	-	-	-
Workers Compensation	159,481	2,609	-	-	-	-
Expendable Trust Fund:						
Detention Center Commissary	1,687	27	-	-	-	-
Park Impact Fees	-	117	-	-	-	-
Medical Stabilization Reserve	40,000	-	-	-	-	-
Developers Participation And Impact Fees	-	9	-	-	-	-
Agency Funds:						
Tax Title	-	34	-	-	-	-
Payroll Benefit Trust Suspense	579,011	-	-	-	-	-
Total	\$ 11,103,310	\$ 11,103,311	\$ 918,311	\$ 918,311	\$ 1,396,974	\$ 1,396,974

NOTE 10 - SEGMENT INFORMATION

Enterprise Funds include operations of the *Sewer Utility*, *Solid Waste Management*, *Landfill Reserve*, *Airport*, *Ferry Services*, *Golf Course* and *Water Utility*. Segment information for 2001 is summarized as follows:

	<u>Sewer Utility</u>	<u>Solid Waste Management</u>	<u>Landfill Reserve</u>	<u>Airport</u>	<u>Ferry Services</u>	<u>Golf Course</u>	<u>Water Utility</u>	<u>Total Enterprise Funds</u>
Operating Revenue	21,121,442	\$ 2,312,813	\$ 247,850	\$ 324,649	\$ 1,152,621	\$ 882,513	\$ -	\$ 26,041,888
Depreciation And Amortization	9,654,254	136,397	-	87,867	404,099	79,797	-	10,362,414
Operating Income (Loss)	(3,112,504)	39,881	195,143	(95,452)	(701,972)	(42,325)	(86,096)	(3,803,325)
Operating Transfers In	-	-	-	-	599,535	-	-	599,535
Operating Transfers Out	(47,350)	(11,360)	-	-	-	-	-	(58,710)
Operating Grants	65,384	282,840	-	3,500	692,105	-	-	1,043,829
Tax Revenue	-	-	-	137,818	-	-	-	137,818
Net Income (Loss)	28,652,054	597,345	359,963	224,707	568,960	(43,035)	(100,721)	30,259,273
Residual Equity Transfers Out	(103,436)	(54,000)	-	-	-	-	-	(157,436)
Current Capital Contributions	29,989,907	48,393	-	82,796	-	-	-	30,121,096
Plant, Property And Equipment (Includes Construction In Progress)	329,888,563	2,092,730	-	3,794,249	15,771,798	2,329,670	-	353,877,010
Net Working Capital	16,816,830	7,948,143	-	40,971	140,124	420,106	(25,526)	25,340,648
Total Assets	413,598,984	10,205,647	12,335,528	4,110,055	16,595,036	2,841,541	3,087	459,689,878
Bonds And Noncurrent Liabilities:								
Payable From Operating Revenue	2,490,000	-	9,234,980	69,274	1,852,340	-	304,000	13,950,594
Payable From Assessments, Net	32,917,663	-	-	-	-	-	-	32,917,663
Total Equity	373,274,765	10,042,363	3,080,687	3,970,740	14,059,582	2,749,776	(329,526)	406,848,387

NOTE 11 - DISCRETELY PRESENTED COMPONENT UNITS

Component units are reported in a separate column in the combined financial statements of *Pierce County* to emphasize that component units are separate legal entities with significant operating or financial relationships with the county. Component units are included in the combined financial statements as follows:

Rainier Communications Commission (RCC) was formed under an interlocal agreement between the county, the City of Tacoma, and those Washington cities, towns and counties who become parties to the agreement to administer cable television franchises within the county and contiguous cities and towns. The *RCC* board of directors consists of two directors appointed by the Mayor of Tacoma, two directors appointed by the County Executive, and one director each appointed by the governing body of each city, town or county which has executed the agreement. The *RCC* budget is subject to approval by the County Council. During the year ended December 31, 2001, *RCC* received franchise fees of \$469,375 from the county and paid the county \$46,665 for administrative cost reimbursements. *RCC* does not issue separate financial statements.

Community Development Corporation (CDC) is a public development corporation established to implement and manage housing repair and business loan programs for low-income residents of unincorporated *Pierce County* and the sixteen towns and cities that participate in the Urban Consortium. *CDC* operations are managed and controlled by a board of directors. *CDC* administers funds of the United States Department of Housing and Urban Development pursuant to a series of annual subgrantee agreements between *CDC* and the county. For the year ended December 31, 2001, *CDC* received \$793,653 from the county in accordance with such subgrantee agreements. Complete financial statements can be obtained from *Community Development Corporation*, 8815 South Tacoma Way, Suite 202, Lakewood, Washington 98499.

Economic Development Corporation (EDC) is a public corporation organized to facilitate economic development and employment opportunities in the county. *EDC* provides financing of project costs of industrial development facilities with tax-exempt revenue bonds. The industrial development facilities financed are not part of the *EDC* financial reporting entity. The debt issued is conduit debt where *EDC* issues the debt but is not responsible for payment. Total conduit debt issued prior to 1996 for which outstanding amounts are not determinable equals \$194,725,000. The outstanding balance of conduit debt issued during and after 1996 is \$54,624,619. All such bonds issued by *EDC* are subject to approval by the County Council. The County Council also appoints the *EDC* board of directors. No related party transactions occurred with the county during 2001. Complete financial statements may be obtained from *Economic Development Corporation*, P.O. Box 1555, Tacoma, Washington 98401.

Condensed financial statements for *Discretely Presented Component Units* follow:

Discretely Presented Component Units
Condensed Balance Sheet
December 31, 2001

	Governmental		Proprietary		Total Component Units
	Fund Type		Fund Type		
	Rainier Cable Commission	General Fixed Assets	Community Development Corporation	Economic Development Corporation	
ASSETS					
Current Assets	\$ 606,254	\$ -	\$ 3,066,039	\$ 290,672	\$ 3,962,965
Due From Primary Government	4,750	-	-	-	4,750
Contracts And Loans Receivable, Net	-	-	13,068,325	-	13,068,325
Property, Plant And Equipment	-	607,003	-	-	607,003
TOTAL ASSETS	<u>\$ 611,004</u>	<u>\$ 607,003</u>	<u>\$ 16,134,364</u>	<u>\$ 290,672</u>	<u>\$ 17,643,043</u>
LIABILITIES AND FUND EQUITY					
TOTAL LIABILITIES	<u>\$ 188,709</u>	<u>\$ -</u>	<u>\$ 41,515</u>	<u>\$ 5,650</u>	<u>\$ 235,874</u>
FUND EQUITY					
Retained Earnings, Unreserved	-	-	16,092,849	285,022	16,377,871
Fund Balance, Unreserved	422,295	-	-	-	422,295
Investment In General Fixed Assets	-	607,003	-	-	607,003
TOTAL FUND EQUITY	<u>422,295</u>	<u>607,003</u>	<u>16,092,849</u>	<u>285,022</u>	<u>17,407,169</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 611,004</u>	<u>\$ 607,003</u>	<u>\$ 16,134,364</u>	<u>\$ 290,672</u>	<u>\$ 17,643,043</u>

Expenditures, And Changes In Fund Balance
Governmental Fund Type
For The Year Ended December 31, 2001

	Rainier Cable Commission
Revenue	\$ 896,855
Expenditures	<u>875,896</u>
EXCESS OF REVENUE	
OVER EXPENDITURES	20,959
FUND BALANCE:	
Beginning Of Year	<u>401,336</u>
End Of Year	<u>\$ 422,295</u>

Expenses, And Changes In Fund Equity
Proprietary Fund Type
For The Year Ended December 31, 2001

	Community Development Corporation	Economic Development Corporation	Total Proprietary Fund Type
Operating Revenue	\$ 407,756	\$ 750	\$ 408,506
Depreciation And Amortization	73,249	-	73,249
Other Operating Expenses	573,412	33,491	606,903
OPERATING LOSS	(238,905)	(32,741)	(271,646)
NONOPERATING INCOME:			
Operating Grants	799,153	-	799,153
Other Nonoperating Income	-	13,563	13,563
NET INCOME (LOSS)	560,248	(19,178)	541,070
FUND EQUITY:			
Beginning Of Year	15,532,601	304,200	15,836,801
End Of Year	<u>\$ 16,092,849</u>	<u>\$ 285,022</u>	<u>\$ 16,377,871</u>

NOTE 12 - JOINT VENTURES

Pierce County participates with other local governments in the following three joint ventures: *Cheney Stadium*, *Tacoma-Pierce County Health Department*, and *Law Enforcement Support Agency*. Summary financial information is presented below as evidence that the joint ventures are not experiencing fiscal stress that may place an additional financial burden on the county in the future. As of the publication of the 2001 county financial statements, however, 2001 audited financial information is not available for these joint ventures. Unaudited information is presented as prepared for the county by the respective entities.

CHENEY STADIUM

Pierce County and the City of Tacoma are jointly responsible for financing and operation of *Cheney Stadium*. By agreement with the County Council, the Tacoma City Council approves the annual budget and is responsible for day-to-day operation of the stadium. The county and city each have a 50% equity interest in the stadium and are jointly responsible for financing deficits. Financial statements of *Cheney Stadium* are included in the City of Tacoma's Comprehensive Annual Financial Report. The county equity interest in fixed assets of the stadium is capitalized in the *General Fixed Assets Account Group*. The county contributes hotel/motel tax revenues from the *Stadium/Convention Facilities Special Revenue Fund* for operation of the stadium.

2001 unaudited financial data for the stadium operation is summarized as follows:

Total Assets		\$	1,819,041
Total Liabilities			171,094
Fund Equity:			
Contributed Capital	\$	1,214,364	
Retained Earnings		<u>81,218</u>	1,295,582
Total Operating Revenues			128,433
Total Operating Expenses			203,345
Nonoperating Revenues, Net			335,949
County Contribution			35,000

TACOMA - PIERCE COUNTY HEALTH DEPARTMENT

Tacoma - Pierce County Health Department provides health services to constituents of the City of Tacoma, *Pierce County* and other cities and towns within the county. The governing board consists of two members of the *Pierce County Council*, the County Executive, the Mayor, one member of the Council of the City of Tacoma, and one member nominated from elected representatives of the other cities and towns. The seventh member at-large is selected by unanimous vote of the six appointed members. Funding is provided by all municipalities in the county (based on population and services provided), federal and state grants, city and county licenses and permits, and charges for services. The governing board and legislative bodies of the city and the county are responsible for approving the annual budget. The county is the fiscal agent for the joint operation and the fiduciary operations are accounted for in the *County-City Health Pooling Agency Fund*. During 2001, *Pierce County* contributed \$3,434,590 for operation of the health department from the *General Fund*. Complete financial statements for the health department's fiscal year ending December 31 may be obtained by contacting *Tacoma - Pierce County Health Department*, 3629 South D Street, Tacoma, WA 98408.

2001 unaudited financial data for the health department is summarized as follows:

Fund Assets	\$ 10,192,224
Fund Liabilities	3,146,725
Fund Equity	7,045,499
General Long Term Debt	1,044,689
General Fixed Assets	747,667
Total Revenues	31,823,658
Total Expenditures	29,518,129

LAW ENFORCEMENT SUPPORT AGENCY (LESA)

LESA provides the communications and record functions for the Pierce County Sheriff and the Tacoma Police Department. City and county councils each appoint two members to the governing board, and these members in turn select one member at large. The governing board and the city are responsible for approving the annual budget. The city is the fiscal agent for the joint operation. The agency receives major annual operating revenue from the City of Tacoma, Pierce County, city and county licenses and permits, and charges for services. The city and county contribute equal amounts annually for the operation. During 2001, *Pierce County* contributed \$5,548,890. Financial statements of *LESA* are included in the Comprehensive Annual Financial Report for the City of Tacoma.

2001 unaudited financial data for *LESA* is summarized as follows:

Total Current Assets	\$ 1,532,802
Total Liabilities	578,595
Fund Equity	954,207
Total Revenues	12,922,424
Total Expenditures	12,136,882
General Fixed Assets	7,240,958
General Long-Term Debt	432,966

NOTE 13 - RISK MANAGEMENT

The county is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. The county is self-insured through two *Internal Service Funds*: the *Self-Insurance Fund* for general risk management losses, and the *Workers Compensation Fund* for injuries to covered employees.

SELF-INSURANCE FUND

General risk management is financed primarily through a program of self-insurance supplemented by several purchased insurance policies. All county departments participate in the program and pay premiums to the fund as quasi-external interfund transactions. Individual department claims experience is evaluated annually to determine premium rates sufficient to pay prior and current year claims. Insurance is purchased to cover various liabilities including property damage (\$412 million policy limit), ferry operations (\$20 million limit), airport operations (\$20 million limit), medical professional (\$15 million limit), county aircraft (\$5 million limit), and performance/honesty bonds for employees and public officials (\$850 thousand limit). Additional liability coverage is also purchased to provide \$20 million in stop-loss coverage in excess of the \$2 million self-insurance retention for general liability.

Liabilities for claims are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Total claims liability is determined based on the estimated ultimate cost of settling all claims net of salvage and subrogation. Socioeconomic factors such as inflation, and frequency and amount of settlement payments are also considered when estimating claims liability. Total claims liability includes an estimate of claims that have been incurred but not reported at the balance sheet date.

WORKERS COMPENSATION FUND

Workers compensation benefits are provided to all county departments through a self-insured program certified under the Industrial Insurance Act, Title 51, Revised Code Of Washington and supplemented by an insurance policy. Benefits are financed by premiums paid to the *Workers Compensation Fund* as quasi-external interfund transactions. Premiums are based on various hourly rates for different employee risk classifications. The county also purchases an excess self-insurer liability policy (\$1 million limit) to provide stop-loss coverage in excess of statutory self-insured retention limits ranging from \$275 to \$600 thousand per occurrence.

Changes in the self-insurance and workers compensation liabilities for estimated claim settlements for the past two fiscal years are as follows:

	<u>Self-Insurance</u>		<u>Workers Compensation</u>	
	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>
Balance - Beginning Of Year	\$ 8,335,138	\$ 7,881,014	\$ 1,185,536	\$ 1,023,398
Claims And Changes In Estimates	3,405,144	4,548,359	969,203	1,895,747
Claim Payments	<u>(3,859,268)</u>	<u>(3,553,391)</u>	<u>(1,131,341)</u>	<u>(1,414,841)</u>
Balance - End Of Year	<u>\$ 7,881,014</u>	<u>\$ 8,875,982</u>	<u>\$ 1,023,398</u>	<u>\$ 1,504,304</u>

During 2001, there was no reduction in self-insurance or workers compensation coverage. For the past three years interfund premiums and insurance coverage have been adequate to fund claims settlements.

NOTE 14 - POST-EMPLOYMENT HEALTH CARE BENEFITS

The Washington Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Act (RCW 41.26.150) provides health care benefits for retired full-time law enforcement officers who were members of the LEOFF I retirement system prior to October 1, 1977.

At December 31, 2001 the county had 16 active and 114 retired LEOFF I members. Active members may become eligible for benefits when they reach normal retirement age. The Pierce County Sheriff's Department reimburses retired LEOFF I law enforcement officers for reasonable medical expenses as provided in the LEOFF Act. The cost of post-employment health care benefits is recognized on a pay-as-you-go basis as *General Fund* expenditure. The total cost of such benefits in 2001 was \$360,253.

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS AND PLANS

Pierce County contributes to defined benefit pension plans established and administered by the State of Washington. All full-time employees participate in either the Public Employees Retirement System (PERS) or the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). PERS and LEOFF each contain two plans. Employees who began participating in either system before September 30, 1977 are members of PERS 1 or LEOFF 1. Employees enrolling thereafter are participants in either PERS 2 or LEOFF 2. All plans are cost sharing multiple-employer retirement plans in which benefits are vested after completion of five years of eligible service.

Historical trend and other information regarding each plan is presented in the State Department of Retirement Systems 2001 Annual Financial report. A copy of this report may be obtained by contacting the Department of Retirement Systems, 6825 Capital Boulevard, P.O. Box 48380, Olympia, WA 98504-8389.

During 2001, *Pierce County* and county employees made the required contributions. Contribution amounts and rates expressed as a percentage of covered payrolls for the three years ended December 31 are as follows:

	PERS Plan 1		PERS Plan 2		LEOFF Plan 1		LEOFF Plan 2	
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount
1999								
Employee	6.00%	\$ 1,092,200	1.85%	\$ 3,139,018	6.00%	\$ 102,308	5.87%	\$ 1,170,324
Employer	7.50%	<u>1,112,016</u>	4.60%	<u>5,818,807</u>	6.21%	<u>105,613</u>	3.73%	<u>734,074</u>
Total 1999		<u>\$ 2,204,216</u>		<u>\$ 8,957,825</u>		<u>\$ 207,921</u>		<u>\$ 1,904,398</u>
2000								
Employee	6.00%	\$ 1,094,941	2.43%	\$ 2,064,982	6.00%	\$ 44,308	5.87%	\$ 1,122,444
Employer	4.60%	<u>796,224</u>	4.67%	<u>4,618,377</u>	6.48%	<u>44,427</u>	3.76%	<u>715,963</u>
Total 2000		<u>\$ 1,891,165</u>		<u>\$ 6,683,359</u>		<u>\$ 88,735</u>		<u>\$ 1,838,407</u>
2001								
Employee	6.00%	\$ 1,081,775	0.88%	\$ 2,103,989	0.00%	\$ -	4.50%	\$ 1,101,528
Employer	1.77%	<u>586,307</u>	1.77%	<u>4,073,187</u>	0.23%	<u>2,630</u>	2.93%	<u>705,910</u>
Total 2001		<u>\$ 1,668,082</u>		<u>\$ 6,177,176</u>		<u>\$ 2,630</u>		<u>\$ 1,807,438</u>

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

The state Legislature established PERS in 1947 under Chapter 41.40 RCW. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertificated employees of school districts; and employees of local government.

PERS 1 members are eligible for retirement after 30 years of service, at age 60 with 5 years of service, or at age 55 with 25 years of service. The annual pension benefit is 2% of average final salary per year of service, to a maximum of 60% of average final salary.

PERS 2 members may retire at age 65 with 5 years of service or at age 55 with 20 years of service. The annual pension benefit is 2% of final average salary per year of service. Plan 2 benefits for retirement prior to age 65 are actuarially reduced. There is no maximum for years of service credit and a cost-of-living allowance not to exceed 3% annually is provided.

Retirement benefits in PERS 1 and PERS 2 are financed from employee and employer contributions and investment earnings.

Each biennium the Legislature establishes PERS 1 employer contribution rates and PERS 2 employer and employee contribution rates. Employee contribution rates for PERS 1 are established by legislative statute and do not vary from year to year. Employer rates for PERS 1 are not necessarily adequate to fully fund the system. The employer and employee contribution rates for PERS 2 are developed by the Office of State Actuary to fully fund the system. All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements were established under state statute.

LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF)

LEOFF was established in 1970 by the Legislature under Chapter 41.26 RCW. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. Employee and employer contributions, investment earnings, and legislative appropriations finance retirement benefits.

LEOFF 1 participants are eligible to retire with 5 years of service at age 50. The benefit per year of service is as follows:

<u>Years Of Service</u>	<u>Percentage Of Final Average Compensation</u>
Over 20	2.0%
10 - 20	1.5%
5 - 10	1.0%

The final average compensation is based on salary received during the last two years of service. Substantial disability and death benefits are provided by the plan. Retirement benefits are indexed to the Seattle consumer price index.

LEOFF 2 participants are eligible to retire at the age of 50 with 20 years of service or at 55 with 5 years of service. Retirement benefits prior to age 55 are actuarially reduced. The benefit is 2% of average salary per year of service. The average salary is based on the highest 5-year period. Retirement benefits are indexed to the consumer price index with a cap of 3% annually. Death and disability benefits are also provided. These benefits provisions were established under the authority of legislative statute.

The methods used to determine the employer and employees contribution requirements are established by legislative statute. Employer and employee contribution rates for LEOFF 2 are developed by the Office of the State Actuary and approved by the Legislature. Rates are established to fully fund LEOFF 2 benefits. LEOFF 1 employers and employees are required to contribute at a rate of 6% and the state is responsible for the balance

of the funding.

NOTE 16 - CONTINGENCIES

Revenue Bonds. The *General Fund* is contingently liable for \$2,490,000 of outstanding 1997 Limited Tax General Obligation Sewer Bonds. The bonds are included in long-term liabilities of the *Sewer Utility Fund*. The full faith and credit of *Pierce County* is pledged to redeem the bonds should the revenues from the Sewer Utility be insufficient to fund the obligations.

Interlocal Agreement. During 2001 a road service district was formed for the purpose of acquiring and improving certain private roads to county standards. The district financed the cost of the project by issuing \$2,890,670 local improvement bonds payable from special benefit assessments against specified properties. The county has agreed to make loans to the District if and to the extent necessary to replenish the District's local improvement guaranty fund established to provide security for the bonds. The guaranty fund must represent 10% of outstanding bonds.

Federal and State Grants. The county receives certain federal and state grant funding for specific purposes. Use of such funding is subject to examination by the state auditor. In accordance with terms of the grant agreements, grantors could request reimbursement of disallowed expenditures should any be disclosed during an audit. Based on prior experience, the county believes that such disallowance, if any, would be immaterial.

Litigation. Several lawsuits and claims are pending which involve the county. Any potential losses from such suits and claims are included in estimated claims liabilities of the *Self-Insurance Fund*. Based on recommendations of legal counsel, the county has provided amounts for potential liabilities which management considers sufficient to cover any uninsured losses that may arise from such claims.

Landfill Post-Closure Care Costs. *Pierce County*, the *Tacoma-Pierce County Health Department*, Land Recovery Inc. and the Washington State Department of Ecology are negotiating terms of a Cleanup Action Plan (CAP) that may effect post-closure care costs for a closed landfill site operated by the *Solid Waste Management Fund*. The effect of final terms of the CAP on current estimates of accrued post-closure care costs is not determinable at this time.

NOTE 17 - SUBSEQUENT EVENTS

PROPERTY SALE

In March 2002, Pierce County Sewer Utility sold sewer system assets (System Assets) serving county customers in the Bonney Lake Plateau portion of the Puyallup River Basin service area to the City of Bonney Lake for \$1,030,000. As of December 31, 2001, due to the expected loss on this sale, the county recorded a \$445,078 write-down in 2001 related to the System Assets. This amount reduced the book value to the expected 2002 proceeds, which were \$1,030,000 in sale proceeds and \$130,350 in 2002 connection charges related to the System Assets. The effect of this transaction on future revenue of the Pierce County Sewer Utility is expected to be insignificant.