



NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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

The accompanying financial statements present all funds, departments, and entities of *Pierce County* for which the county is considered financially accountable. 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. There are no other relationships with organizations of such a nature and significance that exclusion would render the county financial statements incomplete or misleading.

Related Organizations. County officials are responsible for appointing the members of the boards of certain related organizations. These organizations are not reported as component units because the nature and significance of their relationship to the county do not warrant inclusion in the reporting entity. There were no material financial transactions during 2004 between the county and the following related organizations: the *Pierce County Housing Authority*, the *Community Development Corporation*, the *Economic Development Corporation*, and the *Pierce Conservation District*.

Joint Ventures. The county participates in the following joint ventures with the City of Tacoma: *Cheney Stadium*, the *Tacoma - Pierce County Health Department*, and the *Law Enforcement Support Agency*. (See Note 10 - Joint Ventures)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the county. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

Government-Wide Financial Statements. The economic resources measurement focus and the accrual basis of accounting are used to prepare government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For its government-wide and proprietary fund financial statements, *Pierce County* has elected to apply only the Financial Accounting Standards issued on or before November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the county's sewer utility and various other functions of the county, and certain indirect costs that have been included as part of the program expenses reported for the various functional activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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. The county considers revenues to be available if they are collected within 14 days of the end of the current fiscal period. Expenditures are recorded when related liabilities are incurred and will be liquidated with expendable available resources. However, debt service expenditures, as well as claims and judgments are recorded only when payment is 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.

The county reports the following major governmental funds:

General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Human Services Fund administers county programs for mental health, developmental disabilities, and chemical dependency, and coordinates the services mandated under the Older Americans Act.

Roads Fund provides maintenance and operation of public roads in the county.

A variety of county programs are accounted for in nonmajor governmental funds. Nonmajor *Special Revenue Funds* are used to account for arts; community development; enhanced 911 emergency telephone system; mental health services; open space acquisition; surface water management; and other services. Nonmajor *Debt Service Funds* are used by the county to account for the accumulation of resources for, and the payment of, principal and interest on the county's general obligation bonds. Acquisition, construction, and remodeling of public buildings including arts projects; county facilities renovation projects; road construction; and other projects are accounted for in nonmajor *Capital Project 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. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred. These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operations. Principal operating revenues are charges to customers for sales and services. The *Sewer Utility Fund* also recognizes operating revenues for the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses result directly from transactions that provide services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The county reports the following major proprietary fund:

Sewer Utility Fund accounts for all activities necessary to provide sewer services to the residents of the county. Such activities include but are not limited to administration, operations, maintenance, construction, and related debt service.

Other business-type operations including solid waste management and related reserves funding postclosure costs; airport operations; ferry services; and golf course operation are accounted for in nonmajor *Enterprise Funds*.

Internal Service Funds are used to account for centralized intragovernmental activities such as heavy equipment purchase and maintenance; information services; facilities management; self insurance programs; and other services provided by one department or agency to other departments or agencies of the county on a cost reimbursement basis.

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, private organizations or individuals.

Fiduciary funds include the following fund types:

Private Purpose 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.

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

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. The county's treasury pool invests all short-term cash surpluses not otherwise invested by individual funds. Earnings from these investments are allocated to the *General Fund* for financing general county operations. Since participating funds use the pool as if it were a demand deposit account, the proprietary fund equity in treasury pool is considered cash for cash flow reporting purposes.

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 taxes are recorded on the governmental fund balance sheets as "Taxes Receivable" and "Deferred Revenues" based on the levy date. 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. The county does not record an allowance for uncollectible property tax because taxes are generally secured by liens on the related property and are realizable.

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 lesser of the Implicit Price Deflator (IPD), or 1% 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:

<p>New construction within the taxing district. Improvements within the taxing district. Increase in state assessed property within the taxing district.</p>	}	<p>multiplied by the preceding year tax rate</p>
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For 2004, *Pierce County* was permitted to levy \$1.6137 per \$1,000 on 2003 assessed valuation of \$49,371,343,053 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 2004, \$1.7404 per \$1,000 for county roads and \$.4231 per \$1,000 for voter approved law enforcement was levied on the 2003 assessed valuation of \$21,101,448,654 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" 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 for payment of 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.

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”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

Accounts and Contracts Receivable. All trade and contracts receivable are presented net of any allowance for uncollectible accounts. The following schedule shows receivables at gross with the related estimated uncollectible accounts:

<u>Governmental Activities</u>	<u>General Fund</u>	<u>Human Services</u>	<u>Roads</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Activities</u>
Accounts Receivable	\$ 6,300,811	\$ 1,308,768	\$ 26,317	\$ 7,189,893	\$ 14,825,789
Estimated uncollectible accounts receivable	(4,447,982)	-	-	(1,036,073)	(5,484,055)
Accounts Receivable, Net	<u>\$ 1,852,829</u>	<u>\$ 1,308,768</u>	<u>\$ 26,317</u>	<u>\$ 6,153,820</u>	<u>\$ 9,341,734</u>

<u>Business-Type Activities</u>	<u>Sewer Utility</u>	<u>Other Enterprise Funds</u>	<u>Total Business-Type Activities</u>
Accounts Receivable	\$ 3,466,085	\$ 555,883	\$ 4,021,968
Estimated uncollectible accounts receivable	(32,280)	-	(32,280)
Accounts Receivable, Net	<u>\$ 3,433,805</u>	<u>\$ 555,883</u>	<u>\$ 3,989,688</u>

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 in both government-wide and fund financial statements. Inventory and prepaid items in governmental fund statements 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

Capital Assets. Capital assets, including land, buildings, property, plant, equipment and public domain infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Buildings and infrastructure assets are considered capital assets when initial, individual cost exceeds \$50,000. Other assets are defined as capital assets with initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are reported at historical cost (or estimated historical cost determined using the current replacement cost method, if actual historical cost is not available). Donated assets are recorded at donor cost or estimated fair market value at date of donation. Certain proprietary fund asset costs include related interest expense incurred during construction.

Depreciation. Exhaustible capital assets are depreciated on the straight-line method over estimated useful lives as follow:

Structures and buildings	-	25 - 75 yrs.	Transportation equipment	-	3 - 10 yrs.
Airport hangars	-	10 yrs.	Tools and shop equipment	-	3 - 5 yrs.
Furniture and office equipment	-	4 - 15 yrs.	Other equipment	-	5 yrs.
Sewer pumping plant, collection and transmission lines	-	10 - 50 yrs.	Infrastructure	-	25 - 99 yrs

In proprietary funds, depreciation of exhaustible capital assets is charged to operating expense. Repairs and maintenance are charged to expense as incurred. Major renewals, replacements and betterments are capitalized.

LONG-TERM OBLIGATIONS AND DEFERRED CHARGES

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.

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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. Costs related to such abandoned projects were immaterial during 2004. *Solid Waste Management Fund* landfill postclosure costs are amortized over an estimated postclosure care period of 25 years.

Arbitrage occurs when the county invests funds borrowed at tax-exempt rates of interest in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government. The county recognizes this liability by reducing investment interest revenue.

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 is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

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

In the fund financial statements, governmental funds report reservations of fund balance to segregate the portion of fund balance that is not available for appropriations or is legally restricted for a specific future use. Designations reflect tentative management plans that are subject to change.

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 governments.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY DATA

Budget Policies and Controls. In accordance with the Pierce County Charter, the County Council is required to adopt annual budgets for all budgeted funds for the next fiscal year no later than thirty 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.

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.

Two special revenue funds and one debt service fund were not budgeted. No budget is required for *The Treasurer's Operations and Maintenance Special Revenue Fund* pursuant to RCW 84.56.020. The *Anti-Profiteering and Revolving Special Revenue Fund* and the *Consolidated Road Improvement District Bond Debt Service Fund* were not budgeted because no expenditures were anticipated.

Basis of Budgeting. The annual budget is prepared using the modified accrual basis of budgeting consistent with generally accepted accounting for 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 the *General Fund* and the major special revenue funds.

The Pierce County Charter requires proprietary fund budgets. Budgets for proprietary funds are prepared on a revenue and expense basis similar to the budgets for governmental fund types

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.

DEFICIT FUND EQUITY

The *Parks Bonded Construction Projects Fund* reported a deficit fund balance of \$2,403,845. The deficit will be eliminated when general obligation bonds are issued to cover construction costs.

The *Water Utility Fund* reported a net asset deficit of \$493,593 from start-up costs for the new water utility operation. Such deficits are expected for several years as water resources are developed and marketed.

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As mentioned earlier, government-wide financial statements are prepared using the economic resources measurement focus and full accrual method of accounting; and fund financial statements are prepared using the flow of resources measurement focus and modified accrual method of accounting. The different measurement focuses and methods of accounting result in certain differences between government-wide and fund financial statements. Such differences are summarized in reconciliations included as part of the

governmental fund financial statements.

Governmental fund balance sheet. The governmental fund balance sheet includes a reconciliation of differences between total governmental fund balances and net assets of governmental activities reported in the government-wide statement of net assets. The schedule presents detailed explanations for the major elements of the reconciliation including certain entity-wide assets, liabilities, and net assets not included in governmental fund balance sheets.

Governmental fund statement of revenues, expenditures, and changes in fund balances. The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation that summarizes differences between net changes in fund balances per governmental – total governmental funds per the governmental fund statements and changes in net assets of governmental activities as reported in the government-wide statement of activities. Detailed explanations of certain differences are presented below.

The first element of the reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense...” Details of the \$37,140,904 difference are as follows:

Increases in government-wide net assets on the statement of activities for capital outlay expenditures from capital project funds that are capitalized in government-wide statements, not expensed.	\$ 46,551,517
Increases in government-wide net assets on the statement of activities for other capital expenditures from the general fund and special revenue funds that are capitalized in the government-wide statements, not expensed.	140,066
Decrease in government-wide net assets on the statement of activities for capital outlay expenditures from capital project funds for a project that was donated to an enterprise fund and reported as a transfer out in the government-wide statements, not expensed.	(1,152,611)
Depreciation expense for capital assets used by governmental activities is reported in the government-wide statement of activities, but is not included in governmental fund statements.	<u>(8,398,068)</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to determine Changes in Net Assets of Governmental Activities	<u>\$ 37,140,904</u>

Another element of that reconciliation states “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.” The details of this \$2,813,602 difference are as follows:

Governmental fund statements include only gross proceeds received from asset sales in the change in fund balances. The net book value of assets sold must be included to reduce proceeds from asset sales to compute the net gain on sale of capital assets in the government-wide statement of activities.	\$ (555,896)
Governmental funds do not report losses from the trade-in of existing capital assets to acquire new capital assets. The net book value of asset trade-ins must be included as a reduction of net assets in the government-wide statement of activities.	(3,402)
Donations of capital assets are not reported in government funds. The value of donated capital assets increase net assets in the government-wide statement of activities.	<u>3,372,900</u>
Net adjustment to increase Net Changes In Fund Balances - Total Governmental Funds to determine Changes In Net Assets of Governmental Activities	<u>\$ 2,813,602</u>

Another element of the reconciliation states “Changes in certain accrued assets and liabilities are included in the statement of activities. Such changes do not require the use of current financial resources and, therefore, are not included in the change in governmental fund balances.” The details of the (\$1,103,947) difference are as follows:

The increase in the liability for compensated absences is accrued as expense and reduces government-wide net assets in the statement of activities. Changes in the liability are not included in governmental fund statements.	\$ (1,162,786)
The increase in accrued interest is included as expense and reduces government-wide net assets in the statement of activities. Changes in accrued interest expense are not included in governmental fund statements.	25,949
The decrease in supplies inventories is reported as expense and reduces government-wide net assets in the statement of activities. Changes in supplies inventories are not included as expenditures in governmental fund statements.	<u>32,890</u>
Net adjustment to decrease Net Changes In Fund Balances - Total Governmental Funds to determine Changes In Net Assets of Governmental Activities	<u>\$ (1,103,947)</u>

Another element of the reconciliation states "*Internal Service Funds* are used by management to charge the costs of certain activities to individual funds. The net revenue of such activity is not included in the change in governmental fund balances." The details of the \$4,599,820 difference are as follows:

To eliminate profit (loss) from services provided between <i>Internal Service Funds</i> and services provided to governmental funds (e.g. within governmental activities).	\$ 3,214,327
To eliminate transfers between <i>Internal Service Funds</i> and transfers to or from governmental funds (e.g. within governmental activities).	1,107,442
To record income from external sources for <i>Internal Service Funds</i> .	<u>278,051</u>
Net adjustment to increase Net Changes In Fund Balances - Total Governmental Funds to determine Changes In Net Assets - Governmental Activities	<u>\$ 4,599,820</u>

NOTE 3 - CASH AND INVESTMENTS

Cash and cash equivalents, and investments at December 31, 2004 stated at fair value follow:

Cash And Time Deposits - County	\$ 434,015,094
Cash And Time Deposits - Trustees	9,867,261
Pooled Fund Investments	233,185,522
Unrestricted Fund Investments	325,952,285
Restricted Fund Investments	<u>18,474,585</u>
Total	<u>\$ 1,021,494,747</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, 2004 deposits insured by federal depository and WPDPC insurance amounted to \$1,544,141 and \$447,731,384, 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, municipal bonds issued by Washington State or its local governments, and repurchase agreements collateralized by any previously authorized investments.

U.S. Treasury notes and bonds, and U.S. Government agency securities are recorded at fair value where the remaining maturity at the time of purchase is greater than one year. 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 2004. Net change in fair value of investments recorded in 2004 was a decrease of \$1,269,499.

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. At year end, the flexible repurchase agreement had matured and was not renewed.

The fair value of investments based on quoted market prices at December 31, 2004 is as follows:

	<u>Carrying Value/ Fair Value</u>
U.S. Treasuries Securities	\$ 19,975,600
U.S. Government Securities	482,315,307
Municipal Bonds	<u>10,275,000</u>
Total Investments Subject to Credit Risk Classification	512,565,907
Investments Not Subject to Credit Risk Classification	
State Investment Pool	63,000,000
Construction Retainage Escrows	3,022,916
Total Investments	<u>\$ 578,588,823</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 and postclosure costs in the *Landfill Reserve Fund*; and for capital purposes in the *Airport Fund* and in the *Ferry Services Fund*.

SEWER UTILITY FUNDS

Restricted assets for sewer utilities at December 31, 2004 are as follows:

	<u>Revenue Bond Accounts</u>	<u>Capital Improvement Accounts</u>	<u>Total</u>
Cash And Cash Equivalents	\$ 96,263	\$ 2,479,941	\$ 2,576,204
Investments	6,558,037	9,833,947	16,391,984
Accrued Interest And Penalties	1,068,258	26,362	1,094,620
Assessments Receivable	14,594,422	-	14,594,422
Accounts Receivable	-	35,063	35,063
Advances Receivable	-	963,000	963,000
Due From Other Funds	-	73,068	73,068
Unamortized Debt Expense	<u>16,839</u>	<u>-</u>	<u>16,839</u>
Total Restricted Assets	<u>\$ 22,333,819</u>	<u>\$ 13,411,381</u>	<u>\$ 35,745,200</u>

At year-end \$21,660,837 of sewer utilities net assets are restricted for debt service and \$13,051,326 are restricted for capital projects.

SOLID WASTE MANAGEMENT AND LANDFILL RESERVE FUNDS

Restricted assets for solid waste management and landfill reserves at December 31, 2004 are as follows:

	<u>Self-Insurance Reserve</u>	<u>Postclosure Care Accounts</u>	<u>Total</u>
Cash And Cash Equivalents	\$ 7,629	\$ 38,224	\$ 45,853
Investments	1,400,000	7,367,601	8,767,601
Accrued Interest And Penalties	175	10,792	10,967
Landfill Postclosure Receivable	—	935,026	935,026
Total Restricted Assets	<u>\$ 1,407,804</u>	<u>\$ 8,351,643</u>	<u>\$ 9,759,447</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, 2004 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 \$8.81 million of postclosure care accounts have been placed in trust as restricted assets to fund estimated liabilities of \$6.05 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 \$1.41 million is held as restricted assets for such purposes. Net assets restricted for landfill self-insurance and post-closure costs total \$3.7 million at year-end.

AIRPORT AND FERRY SERVICES FUNDS

At year-end, \$358,902 of *Airport Fund* assets and \$1,174,424 of *Ferry Services Fund* assets are restricted for capital purposes.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 is summarized as follows:

	Balance 01-01-04	Additions	Deletions	Balance 12-31-04
Governmental Activities:				
Capital assets, not being depreciated:				
Land and land rights	\$ 83,857,259	\$ 1,862,213	\$ (400,000)	\$ 85,319,472
Construction in progress	177,836,717	46,763,833	(16,298,363)	208,302,187
Total capital assets, not being depreciated	<u>261,693,976</u>	<u>48,626,046</u>	<u>(16,698,363)</u>	<u>293,621,659</u>
Capital assets, being depreciated:				
Buildings	108,166,407	4,171,189	-	112,337,596
Improvements other than buildings	2,094,306	1,301,959	-	3,396,265
Machinery and equipment	59,352,190	6,919,300	(6,065,320)	60,206,170
Infrastructure	305,529,244	8,369,088	-	313,898,332
Total capital assets, being depreciated	<u>475,142,147</u>	<u>20,761,536</u>	<u>(6,065,320)</u>	<u>489,838,363</u>
Less accumulated depreciation for:				
Buildings	(27,814,785)	(2,466,882)	-	(30,281,667)
Improvements other than buildings	(562,476)	(136,495)	-	(698,971)
Machinery and equipment	(30,893,611)	(5,453,700)	4,888,504	(31,458,807)
Infrastructure	(46,109,931)	(4,785,116)	-	(50,895,047)
Total accumulated depreciation	<u>(105,380,803)</u>	<u>(12,842,193)</u>	<u>4,888,504</u>	<u>(113,334,492)</u>
Total capital assets, being depreciated, net	<u>369,761,344</u>	<u>7,919,343</u>	<u>(1,176,816)</u>	<u>376,503,871</u>
Governmental activities capital assets, net	<u>\$ 631,455,320</u>	<u>\$ 56,545,389</u>	<u>\$ (17,875,179)</u>	<u>\$ 670,125,530</u>
	Balance 01-01-04	Additions	Deletions	Balance 12-31-04
Business-Type Activities:				
Capital assets, not being depreciated:				
Land and land rights	\$ 47,298,712	\$ 148,464	-	\$ 47,447,176
Construction in progress	28,920,483	8,901,038	(32,187,421)	5,634,100
Avigation rights	562,300	-	-	562,300
Total capital assets, not being depreciated	<u>76,781,495</u>	<u>9,049,502</u>	<u>(32,187,421)</u>	<u>53,643,576</u>
Capital assets, being depreciated:				
Buildings and system	85,688,501	3,153,381	(18,003)	88,823,879
Improvements other than buildings	11,461,691	1,236,680	-	12,698,371
Machinery and equipment	41,410,282	647,290	(129,477)	41,928,095
Infrastructure	303,401,330	33,342,136	(263,354)	336,480,112
Total capital assets, being depreciated	<u>441,961,804</u>	<u>38,379,487</u>	<u>(410,834)</u>	<u>479,930,457</u>
Less accumulated depreciation for:				
Buildings and system	(27,025,373)	(2,380,717)	15,625	(29,390,465)
Improvements other than buildings	(1,346,494)	(333,132)	-	(1,679,626)
Machinery and equipment	(9,403,174)	(1,734,423)	108,101	(11,029,496)
Infrastructure	(99,498,517)	(7,103,369)	249,749	(106,352,137)
Total accumulated depreciation	<u>(137,273,558)</u>	<u>(11,551,641)</u>	<u>373,475</u>	<u>(148,451,724)</u>
Total capital assets, being depreciated, net	<u>304,688,246</u>	<u>26,827,846</u>	<u>(37,359)</u>	<u>331,478,733</u>
Business-type activities capital assets, net	<u>\$ 381,469,741</u>	<u>\$ 35,877,348</u>	<u>\$ (32,224,780)</u>	<u>\$ 385,122,309</u>

During 2004, certain completed projects were transferred within capital assets from construction in progress to the departments responsible for maintaining the assets. Transfers included approximately of \$16 million related to governmental activities and \$32.2 million related to completed business-type activities. Transfers of

completed projects for governmental activities include capitalization of \$6 million of infrastructure assets, \$6.1 million for real estate acquisition and improvements, \$800,000 for equipment projects, \$2.3 million for various minor improvements and repairs to county facilities, and a \$1.1 million project completed and transferred to business-type activities capital assets. Transfers of completed projects for business-type activities include capitalization of \$32 million of utilities related improvements, \$172,000 for airport improvements, and \$52,000 for solid waste composting improvements.

Construction in progress for business-type activities includes capitalized interest of \$124,000. Engineering and construction related contractual commitments for business-type activities approximate \$11,825,289 at December 31, 2004.

Depreciation expense was charged to functions and/or programs of *Pierce County* as follows:

Governmental Activities:	
General Government	\$ 1,122,913
Public Safety	1,763,346
Physical Environment	268,215
Transportation	4,787,164
Economic Environment	43,295
Health And Human Services	186,376
Culture & Recreation	226,759
Capital Assets Held By Internal Service Funds (charged to various functions based on usage of related equipment and services)	<u>4,444,125</u>
Total Depreciation Expense For Governmental Activities	<u>\$ 12,842,193</u>
Business-Type Activities:	
Sewer Utility	\$ 10,722,030
Solid Waste Management	151,526
Airport	140,651
Golf Course	93,449
Ferry Services	<u>443,981</u>
Total Depreciation Expense For Business-Type Activities	<u>\$ 11,551,637</u>

NOTE 6 - DEBT

SHORT-TERM DEBT

During the year, the county issued a \$17 million bond anticipation note in the form of a revolving line of credit to finance interim cash requirements for various parks projects. The note provides for semi-annual interest payments on outstanding draws with principal due on maturity, December 31, 2005. Short-term debt activity for the year ended December 31, 2004 follows:

CHANGES IN SHORT-TERM DEBT

(Amounts in Thousands)	Balance 01-01-04	Additions	Deletions	Balance 12-31-04
Governmental Activities:				
Limited Tax GO Bond Anticipation Note	\$ —	\$ 2,215	\$ —	<u>\$ 2,215</u>

LONG-TERM DEBT

General obligation debt and revenue debt 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 business type activities. Revenue bonds and certain general obligation debt are repaid from proprietary fund revenues and are accounted for in proprietary fund financial statements.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The following general obligation bonds are serviced by *General Fund* revenues:

(Amounts in Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Bonds Outstanding 12-31-04
Partial Refunding of 1986 G.O. Issue	07-01-92	12-01-06	3.00% to 6.20%	\$ 4,405	\$ 1,220
Computerized Voting System	05-15-92	06-01-07	5.50% to 8.50%	2,800	535
District Court Office and Courtroom Purchase	12-01-97	12-01-12	4.00% to 5.15%	1,840	1,135
Parking Garage	08-01-99	08-01-19	4.50% to 5.25%	5,230	4,355
Jail Facility	11-01-00	08-01-25	5.00% to 6.00%	37,000	35,290
Partial Refunding of 1994 G.O Issue	03-04-03	12-01-14	3.43%	8,319	8,038
				<u>\$ 59,594</u>	<u>\$ 50,573</u>

Revenue Bonds are issued to finance construction of certain sewer installations and are secured by net revenues of the *Sewer Utility*, the reserve account and utility special assessments. Bond agreements contain restrictive covenants relating primarily to rate setting, utilization of revenues and maintenance of the property, plant and equipment. During 2004, the *Enterprise Funds* were in compliance with all significant financial bond covenants. Revenue bonds outstanding at year-end, serviced by the *Sewer Utility*, are as follows:

(Amounts in Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Bonds Outstanding 12-31-04
Sewer Revenue and Refunding Bonds	07-15-93	02-01-13	2.65% to 5.625%	\$ 36,900	\$ 7,375
Sewer Revenue - ULID 90-4	03-15-01	08-01-21	4.50% to 5.00%	18,495	15,750
Sewer Revenue	01-01-97	02-02-14	5.00% to 5.70%	1,510	975
				<u>\$ 56,905</u>	<u>\$ 24,100</u>

Installment Contracts represent loans from the Washington State Public Works Trust Fund to finance purchase of ferry boats. The contracts are expected to be repaid from revenues of *Ferry Services* (an *Enterprise Fund*) and are general obligation debt as follows:

(Amounts in Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Balance Outstanding 12-31-04
Public Works Trust Fund Loan	07-01-93	07-01-12	1.00%	\$ 3,334	\$ 1,482
Public Works Trust Fund Loan #2	07-07-04	07-01-24	0.50%	1,412	1,412
				<u>\$ 4,746</u>	<u>\$ 2,894</u>

CHANGES IN LONG-TERM LIABILITIES

A summary of long-term debt transactions of *Pierce County* for the year ended December 31, 2004 follows:

(Amounts in Thousands)	Balance 01-01-04	Additions	Deletions	Balance 12-31-04	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 53,532	\$ -	\$ 2,959	\$ 50,573	\$ 2,521
Less Unamortized Deferred Charges	(606)	-	(66)	(540)	-
Compensated Absences Payable	15,758	13,304	12,092	16,971	12,090
Total Long-Term Liabilities For Governmental Activities	<u>\$ 68,684</u>	<u>\$ 13,304</u>	<u>\$ 14,985</u>	<u>\$ 67,004</u>	<u>\$ 14,611</u>
Business-Type Activities:					
Revenue Bonds	\$ 31,015	\$ -	\$ 6,915	\$ 24,100	\$ 3,025
Less Unamortized Discount/Premium:	(20)	-	(18)	(2)	-
Compensated Absences Payable	685	647	544	788	540
Installment Contracts	1,667	1,412	185	2,894	185
Total Long-Term Liabilities For Business-Type Activities	<u>\$ 33,347</u>	<u>\$ 2,059</u>	<u>\$ 7,626</u>	<u>\$ 27,780</u>	<u>\$ 3,750</u>

Internal Service Funds predominantly serve the governmental funds. Accordingly, at year-end, long-term

liabilities for governmental activities include a \$1,416,310 liability for compensated absences from *Internal Service Funds*. The remaining liabilities for compensated absences are generally liquidated by the individual funds included in governmental and business-type activities.

MATURITIES OF LONG-TERM LIABILITIES

Scheduled principal and interest payments on bonds payable follow:

Year	Governmental Activities (Amounts in Thousands)		Business-Type Activities (Amounts in Thousands)			
	General Obligation Debt		General Obligation Debt		Revenue Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 2,521	\$ 2,566	\$ 185	\$ 22	\$ 3,025	\$ 1,129
2006	2,908	2,436	260	20	1,945	1,006
2007	2,388	2,290	260	18	1,995	910
2008	2,207	2,188	260	16	2,055	811
2009	2,319	2,089	260	13	2,120	707
2010 - 2014	12,975	8,724	927	35	6,145	2,414
2015 - 2019	10,640	5,744	371	15	4,800	1,210
2020 - 2024	11,800	2,743	371	6	2,015	157
2025 - 2029	2,815	151	-	-	-	-
	<u>\$ 50,573</u>	<u>\$ 28,931</u>	<u>\$ 2,894</u>	<u>\$ 145</u>	<u>\$ 24,100</u>	<u>\$ 8,344</u>

REFUNDED BONDS

Prior to 2004, 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 the statement of net assets of *Pierce County* and of the *Sewer Utility Fund*. At December 31, 2004, \$12,110,000 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 \$3,029,260 from governmental funds and \$493,041 from proprietary funds for 2004. Future minimum lease payments as of December 31, 2004 are as follows:

Year	Governmental Funds
2005	\$ 1,989,673
2006	1,290,589
2007	1,065,289
2008	654,690
2009	575,971
Total	<u>\$ 5,576,212</u>

The county leases certain property to various tenants under noncancelable operating lease agreements. As business-type activities, the Pierce County Airport leases out most of the buildings and grounds to companies in the aviation industry and the Pierce County Ferry dock leases space to McNeil Corrections Center for secure transport of prisoners between the mainland and the corrections facility on McNeil Island. Certain other land and building space devoted to governmental activities are also leased out under long-term

operating leases. The following schedule is an analysis of the county investment in property under long-term, noncancelable operating leases as of December 31, 2004.

Land	\$ 261,088
Buildings	793,650
Less Depreciation	<u>(695,186)</u>
Total Property Leased To Others, Net	<u>\$ 359,552</u>

Minimum future lease receipts based on contract amounts and terms as of December 31, 2004 are as follows:

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 172,086	\$ 318,389
2006	142,336	325,669
2007	142,336	322,585
2008	142,336	196,840
2009	119,913	196,440
2010 - 2014	39,000	510,710
2015 - 2019	39,000	236,697
2020 - 2024	39,000	220,422
2025 - 2029	39,000	154,803
2030 - 2034	39,000	159,447
2035 - 2039	39,000	164,230
2040 - 2044	39,000	169,157
2045 - 2049	39,000	174,232
2050 - 2054	7,800	160,692
Total	<u>\$ 1,038,807</u>	<u>\$ 3,310,313</u>

CAPITAL PROJECTS

The county has active construction projects as of December 31, 2004. The projects include development of new parks, street construction, wastewater treatment facility expansion and construction of a fertilizer manufacturing facility. Capital projects will be funded from existing undesignated fund balance and future revenues. Commitments for capital projects at December 31, 2004 are as follows:

<u>Capital Project</u>	<u>Description</u>	<u>Amount</u>
Parks and recreation	Regional parks, paths and trails, and open space	\$ 7,886,798
County roads	Transportation improvement plan projects	6,757,046
Sewer utilities	System capital improvements	1,577,125
Sewer utilities	Fertilizer manufacturing facility	4,110,153
Other	Various other construction projects	<u>1,351,628</u>
Total		<u>\$ 21,682,750</u>

SOLID WASTE MANAGEMENT FUNDS

The county has contracted with Pierce County Recycling, Composting, and Disposal, LLC (PCRCD) to operate all county landfill sites. PCRCD collects landfill user fees sufficient to fund current closure and postclosure care costs. The county and PCRCD are required to provide financial assurance that future closure and postclosure care costs will be funded. Interest earnings on contributions made by PCRCD to a trust will fund any future cost increases due to inflation. However, should interest earnings not be sufficient or postclosure 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

In the fund financial statements, governmental funds report reservations of fund balance that are either legally segregated for a specific future use or that are otherwise not available for appropriation. Designations of fund balance represent tentative management plans that are subject to changes. Fund balances reserved at December 31, 2004 are as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total
Reserved For:					
Advances To Other Funds	\$ 2,991,000	\$ -	\$ -	\$ -	\$ 2,991,000
Inventory	176,822	102,119	-	-	278,941
Debt Service	-	-	607,467	-	607,467
Continuing Appropriations	-	-	-	45,931,756	45,931,756
Other Purposes	267,285	-	-	-	267,285
Total Reserved Fund Balance	<u>\$ 3,435,107</u>	<u>\$ 102,119</u>	<u>\$ 607,467</u>	<u>\$ 45,931,756</u>	<u>\$ 50,076,449</u>

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.

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.

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

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 "carries over" each year until the respective projects are completed.

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).

NOTE 9 - INTERFUND TRANSACTIONS

Interfund loans and advances payable at December 31, 2004 consist of the following:

Payable To	Payable From		Total
	Nonmajor Governmental Funds	Nonmajor Business-Type Funds	
General Fund	\$ 4,094,000	\$ -	\$ 4,094,000
Internal Service Funds	-	226,052	226,052
Sewer Utility	-	963,000	963,000
Total	<u>\$ 4,094,000</u>	<u>\$ 1,189,052</u>	<u>\$ 5,283,052</u>

\$1,103,000 of amounts due to the *General Fund* from *Nonmajor Governmental Funds* resulted from loans to cover temporary cash shortfalls. The entire \$1,103,000 will be collected in the subsequent year. The \$2,991,000 balance is a loan to fund a major road construction project, which will be repaid during 2006.

The \$226,052 due to *Internal Service Funds* from *Nonmajor Business-Type Funds* resulted from loans made to subsidize airport improvement projects; \$24,527 of this balance will be repaid in 2005.

The \$963,000 due to the *Sewer Utility* from *Nonmajor Business-Type Funds* resulted from two loans; 1) a \$409,000 loan to provide working capital during start-up of the *Water Utility* that will not be collected in the subsequent year, and 2) a \$554,000 loan to the *Chambers Bay Golf Course Fund* to provide cash flow during the design phase of the golf course. The \$554,000 will be repaid when long-term bonds are issued for the golf course project.

Interfund balances at December 31, 2004 consist of the following:

Due To	Due From							Total
	General Fund	Human Services	Roads	Sewer Utility	Internal Service	Nonmajor Governmental	Nonmajor Business-Type	
General Fund	\$ -	\$ 117,949	\$ 27,617	\$ 362,201	\$ 121,344	\$ 362,090	\$ 2,568	\$ 993,769
Human Services	61,932	-	-	-	-	278,208	-	340,140
Roads	21,157	-	-	8,437	5,136	128,814	4,999	168,542
Sewer Utility	8,752	-	4,557	-	-	267,550	45,489	326,348
Internal Service	663,157	66,819	925,123	200,173	18,711	245,555	10,007	2,129,545
Nonmajor Governmental	4,112,529	27,347	9,220,475	2,574	99,453	2,942,543	97,987	16,502,909
Nonmajor Business-Type	-	-	18,285	11,500	-	61,072	-	90,857
	<u>\$ 4,867,527</u>	<u>\$ 212,115</u>	<u>\$ 10,196,058</u>	<u>\$ 584,885</u>	<u>\$ 244,644</u>	<u>\$ 4,285,831</u>	<u>\$ 161,050</u>	<u>\$ 20,552,110</u>

Interfund balances result from the time lag between the dates that interfund goods and services are provided and reimbursable expenditures occur, or when transactions are recorded in the accounting system and payments are made between funds.

Interfund Transfers for the year ended December 31, 2004 were as follows:

Transfers Out	Transfers In							Total
	General Fund	Human Services	Roads	Sewer Utility	Internal Service	Nonmajor Governmental	Nonmajor Business-Type	
General Fund	\$ -	\$ 106,730	\$ -	\$ -	\$ 127,316	\$ 10,866,214	\$ -	\$ 11,100,260
Human Services	123,380	-	-	-	-	804,003	-	927,383
Roads	1,225,870	-	-	-	381,995	20,718,848	540,570	22,867,283
Sewer Utility	39,600	-	-	-	70,291	115,500	20,000	245,391
Internal Service	-	-	-	-	-	180,000	-	180,000
Nonmajor Governmental	238,128	-	-	-	707,373	6,112,981	118,830	7,177,312
Nonmajor Business-Type	-	-	-	-	467	73,502	-	73,969
	<u>\$ 1,626,978</u>	<u>\$ 106,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,287,442</u>	<u>\$ 38,871,048</u>	<u>\$ 679,400</u>	<u>\$ 42,571,598</u>

Transfers are routinely used to move revenues from the fund that statute or budget requires to collect them, to the fund that statute or budget requires to expend them. In the year ended December 31, 2004, the following transfers were significant or of a nonroutine nature:

- ✦ \$1,000,000 was transferred out of the *Roads Fund* to the *General Fund* to provide support for traffic enforcement activities.
- ✦ \$4,599,673 was transferred from *General Fund* to *Debt Service Funds* to fund routine debt service payments.
- ✦ \$1,250,000 was transferred from *General Fund* to the *New Jail Construction Fund* (a *Nonmajor Governmental Fund*) to finance completion of the construction project.
- ✦ \$598,463 was transferred from *General Fund* to the *Administration Building Fund* (a *Nonmajor Governmental Fund*) for the purchase of building occupied by county departments.
- ✦ \$890,854 was transferred from *General Fund* to the *2051 Corporate Express Building Fund* (a *Nonmajor Governmental Fund*) to finance construction of an emergency services facility.
- ✦ \$2,457,000 was contributed to *Geographical Information Fund* (a *Nonmajor Special Revenue Fund*) to fund operations. Primary contributors were *General Fund* \$1,475,500, the *Roads Fund* \$372,000, and *Surface Water Management* (a *Nonmajor Special Revenue Fund*) \$260,000.
- ✦ \$7,537,119 was transferred from the *Roads Fund* to *Public Works Construction Fund* (a *Nonmajor Governmental Fund*) to finance road construction projects.
- ✦ \$12,475,000 was transferred from the *Roads Fund* to the *Transportation Facilities Construction Fund* (a *Nonmajor Governmental Fund*) to finance construction of transportation services maintenance and administration facilities.
- ✦ \$504,000 was transferred from the *Roads Fund* to *Ferry Services Division* (a *Nonmajor Business-Type Fund*) to subsidize ferry operations.

NOTE 10 - 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 2004 county financial statements, however, 2004 audited financial information is not available for these joint ventures. Therefore the most recent audited information is presented below.

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 at December 31, 2004 of \$598,870 is included in governmental assets. During 2004 the county contributed \$285,000 to *Cheney Stadium*.

2003 audited financial data for the stadium operation is summarized as follows (amounts in thousands):

Total Assets		\$	1,847
Total Liabilities			72
Net Assets:			
Invested in capital assets net of related debt	\$	1,198	
Unrestricted		<u>574</u>	1,772
Total Operating Revenues			162
Total Operating Expenses			192
Nonoperating Revenues, Net			68

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 2004, *Pierce County* contributed \$2,995,309 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.

2003 audited financial data for the health department is summarized as follows (amounts in thousands):

Total Assets		\$	13,174
Total Liabilities			3,691
Net Assets:			
Invested in capital assets		1,866	
Restricted		5,505	
Unrestricted		<u>2,113</u>	9,484
Total Revenues			31,526
Total Expenses			31,389

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 approximately equal amounts annually for the operation. During 2004, *Pierce County* contributed \$6,801,795. Financial statements of LESA are included in the Comprehensive Annual Financial Report for the City of Tacoma.

2002 audited financial data for LESA is summarized as follows (amounts in thousands):

Fund Assets	\$	2,489
Fund Liabilities		885
Fund Equity		1,604
Capital Assets		7,531
Long-Term Liabilities		569
Total Revenues		14,154
Total Expenditures		13,516

NOTE 11 - 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 accounts for self-insurance activities through two *Internal Service Funds*: the *Self-Insurance Fund* is used 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 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 (\$490 million policy limit), ferry operations (\$20 million limit), water pollution-ferries (\$5 million), airport operations (\$20 million limit), operating aircraft (\$2 million), medical professional (\$2 million limit), and performance/honesty bonds/accident coverage for employees and public officials (ranging from \$50,000 to \$600,000 limit). The county also purchases excess self-insurer liability policies (\$10 million aggregate limit) to provide stop-loss coverage in excess of the self-insured retention limit of \$2 million per occurrence.

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. 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. Total claims liability excludes non-incremental costs such as administrative costs and overhead costs expensed as incurred over the life of each claim.

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 interfund transactions. Premiums are based on various hourly rates for different employee risk classifications. The county also purchases excess workers compensation self-insurer liability coverage (\$1 million limit) for stop-loss coverage in excess of a statutory self-insured retention limit of \$500,000 per occurrence.

Liabilities for workers compensation claims are recorded when losses occur and are reported to

management. The amount of the loss is estimated by the plan administrator based on guidelines issued by the Washington State Department of Labor and Industries. Total claims liability includes an estimate of claims that have been incurred but not reported at the balance sheet date. Total claims liability excludes non-incremental costs such as administrative costs and overhead costs expensed as incurred over the life of each claim.

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

	Self-Insurance		Workers Compensation	
	2004	2003	2004	2003
Balance - Beginning Of Year	\$ 8,421,342	\$ 7,913,039	\$ 1,649,563	\$ 2,338,594
Claims Incurred During The Period	680,673	2,198,212	1,448,159	1,235,954
Changes In Estimated Claims From Prior Periods	725,467	712,334	1,000,660	73,948
Claim Payments	(1,806,453)	(2,402,243)	(2,223,318)	(1,998,933)
Balance - End Of Year	\$ 8,021,029	\$ 8,421,342	\$ 1,875,064	\$ 1,649,563

During 2004, there was no reduction in self-insurance or workers compensation coverage. Interfund premiums and insurance coverage have been adequate to fund claims settlements over the past three years.

NOTE 12 - 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, 2004 the county had 8 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 2004 was \$812,071.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS AND PLANS

All full-time employees of *Pierce County* participate in either the Public Employees Retirement System (PERS) or the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). Both plans are administered by the State of Washington. Historical trend and other information regarding each plan are presented in the State Department of Retirement Systems 2003 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 2004, *Pierce County* and county employees made all required contributions. Contribution amounts and rates expressed as a percentage of covered payrolls for the three years ended December 31 follows:

	PERS Plan 1		PERS Plan 2		PERS Plan 3		LEOFF Plan 1		LEOFF Plan 2	
	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount
2002										
Employee	6.00%	\$ 1,077,411	0.65%	\$ 945,261	5 to 15%	\$ 19,346	0.00%	\$ -	4.39%	\$ 1,015,281
Employer	1.32%	<u>260,690</u>	1.32%	<u>1,902,840</u>	1.32%	<u>3,412</u>	0.22%	<u>2,553</u>	2.86%	<u>661,065</u>
Total 2002		<u>\$ 1,338,101</u>		<u>\$ 2,848,101</u>		<u>\$ 22,758</u>		<u>\$ 2,553</u>		<u>\$ 1,676,346</u>
2003										
Employee	6.00%	\$ 934,900	1.18%	\$ 1,112,098	5 to 15%	\$ 537,346	0.00%	\$ -	5.05%	\$ 1,084,005
Employer	1.40%	<u>211,611</u>	1.40%	<u>1,668,506</u>	1.40%	<u>108,737</u>	0.22%	<u>1,768</u>	3.25%	<u>701,647</u>
Total 2003		<u>\$ 1,146,511</u>		<u>\$ 2,780,604</u>		<u>\$ 646,083</u>		<u>\$ 1,768</u>		<u>\$ 1,785,652</u>
2004										
Employee	6.00%	\$ 923,042	1.18%	\$ 1,522,924	5 to 15%	\$ 875,791	0.00%	\$ -	5.09%	\$ 1,200,527
Employer	1.38%	<u>214,479</u>	1.38%	<u>1,800,697</u>	1.38%	<u>185,467</u>	0.19%	<u>1,544</u>	3.25%	<u>770,489</u>
Total 2004		<u>\$ 1,137,521</u>		<u>\$ 3,323,621</u>		<u>\$ 1,061,258</u>		<u>\$ 1,544</u>		<u>\$ 1,971,016</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 is a cost-sharing multiple-employer retirement system comprised of three separate plans. Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan.

Participants who joined the system by September 30, 1977 are PERS 1 members. 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.

Participants who joined the system between October 1, 1977 and August 31, 2002, are PERS 2 members unless they exercise an option to transfer to PERS 3. 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 eligible 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.

Participants joining the system after September 1, 2002 have the option of choosing membership in either PERS 2 or PERS 3. Participants who fail to choose within 90 days default to PERS 3. PERS 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1% of eligible salary. PERS 3 defined contribution benefits are solely dependent upon the results of investment activities. PERS 3 members become eligible for retirement if they have: at least 10 years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS 2 prior to June 1, 2003. PERS 3 retirements prior to the age of 65 receive reduced benefits. There is no cap on 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 employer contribution rates for all three plans and employee contribution rates for PERS 2. Employee contribution rates for PERS 1 and PERS 3 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 14 - CONTINGENCIES

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.

NOTE 15 - SUBSEQUENT EVENTS

There were no significant events directly affecting *Pierce County* that occurred between the end of 2004 and the completion date of these financial statements.

NOTE 16 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

CHANGE IN ACCOUNTING PRINCIPLE

In May of 2004, the GASB issued Statement No. 44, Economic Condition Reporting: The Statistical Section. This statement establishes and modifies financial reporting standards for disclosure requirements related to supplementary information presented in a statistical section. Requirements of this statement are effective for county financial statements for periods beginning after June 15, 2005 (effectively January 1, 2006). County adoption of this standard will not have a material impact on county financial statements.

In June of 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions, which establishes standards of accounting and financial reporting of costs and obligations for postemployment health care and other nonpension benefits provided to employees as part of their compensation for services. Requirements of this statement are effective for county financial statements for periods beginning after June 15, 2006 (effectively January 1, 2007). The county is in the process of determining the impact of this standard on county financial statements.

In December of 2004, GASB also issued Statement No. 46, Net Assets Restricted by Enabling Legislation as an amendment of GASB Statement No. 34. This statement establishes and modifies financial reporting standards for disclosure requirements related to restrictions of net assets resulting from enabling legislation. Requirements of this statement are effective for county financial statements for the periods beginning after June 15, 2005 (effectively January 1, 2006). County adoption of this standard will not have a material impact on county financial statements.

RESTATEMENT OF NET ASSETS

Reporting general capital assets. Historical value of governmental capital assets was understated by \$379,732 and accumulated depreciation was overstated by \$5,434,554 on the Statement of Net Assets at December 31, 2003. This correction resulted in a restatement to increase beginning net assets by \$5,814,286 at January 1, 2004.

Reporting accounts receivable. Accounts receivable and the associated allowance for doubtful accounts were understated by \$20,678,331 and \$16,456,136 respectively on the Statement of Net Assets at December 31, 2003. This correction resulted in a restatement to increase beginning net assets by \$4,222,195 at January 1, 2004.