



NOTES TO FINANCIAL STATEMENTS

December 31, 2007

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. There is no evidence that the Council can influence the programs and activities of these organizations or that they create a significant financial benefit or burden to the county. For these reasons they do not warrant inclusion in the reporting entity. There were no material financial transactions during 2007 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 activities) report information on all of the nonfiduciary activities of the county. 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 government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in fund financial statements.

When both restricted and unrestricted resources are available for use, county policy stipulates use of restricted resources first, then unrestricted resources as 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 government-wide and enterprise fund financial statements, *Pierce County* has elected to apply only Financial Accounting Standards issued on or before November 30, 1989.

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

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 the current 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 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 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 primary county operating fund and accounts for all general government financial resources 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 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. *Special Revenue Funds* are used to account for arts; community development; criminal justice activities; enhanced 911 emergency telephone system; parks; open space acquisition; surface water management; and other services. *Debt Service Funds* are used to account for the accumulation of resources for and payment of principal and interest on county 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 *Capital Project Funds*.

Proprietary Funds. Certain county business-type activities and centralized intragovernmental activities are accounted for in *Enterprise Funds* and *Internal Service Funds*, respectively. Proprietary funds use 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing, producing, and/or delivering goods in connection with respective principal ongoing fund 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 principal services. All other revenues and expenses that do not meet these criteria are reported as nonoperating revenues and expenses.

Enterprise Funds account for various business-type activities as follows:

Major *Enterprise Funds* include the *Sewer Utility Fund*, the *Chambers Bay Golf Course Fund* and the *Ferry Services Fund*. The *Sewer Utility Fund* accounts for all activities necessary to provide sewer services to county residents. Such activities include but are not limited to administration, operations, maintenance, construction, and related debt service. *Chambers Bay Golf Course Fund* accounts for development and operations of a championship eighteen-hole golf course and trail system on land adjacent to the county wastewater treatment plant. The *Ferry Services Fund* accounts for maintenance and operation of the county-owned ferry system.

Nonmajor *Enterprise Funds* include other business-type operations such as solid waste management and related reserves funding postclosure costs; airport operations; and golf course operations.

Internal Service Funds account for centralized services provided by one department or agency to other county departments or agencies on a cost reimbursement basis. Centralized intragovernmental services include heavy equipment and vehicle acquisition and maintenance; computer systems and data processing; operation of county facilities and communications systems; risk management; and general administrative services.

Fiduciary Funds. Two major classifications of fiduciary funds are used 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 used by *Pierce County* in a fiduciary capacity as trustee or agent for assets held for forfeited performance bonds, funds dedicated to preservation of Lake Tapps as an important public resource, and funds held for the Nisqually Interpretive Center. *Private-Purpose Trust Funds* are accounted for in essentially the same manner as proprietary funds.

Agency Funds are custodial in nature and, accordingly, do not measure results of operations and do not apply a measurement focus. The county recognizes two major classifications of *Agency Funds*: 1) those used with operations of county government such as undistributed taxes, and salary and claim clearing funds; and 2) those which account for cash received and disbursed by the county operating as 'ex officio' treasurer or collection agent for special districts and other governments such as school districts and fire districts.

CASH

Cash includes cash on hand, demand deposits, and certain short-term investments held in the treasury pool or held in certain trustee accounts. The 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, 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 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 for 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 related real 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:

New construction within the taxing district.
Improvements within the taxing district.
Increase in state assessed property within the taxing district.

} multiplied
by the
preceding
year
tax rate

For 2007, *Pierce County* was permitted to levy \$1.178 per \$1,000 on 2006 assessed valuation of \$79 billion 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 2007, \$1.224 per \$1,000 for county roads and \$.297 per \$1,000 for voter approved law enforcement was levied on 2006 assessed valuation of \$35 billion within the unincorporated county.

Assessments Receivable. Assessments levied against real property located within sewer utility local improvement districts are recorded as “Assessments Receivable” and “Capital Contributions” when assessment rolls are issued. Proceeds are restricted for revenue bond debt service. Similarly, 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 available for payment of current liabilities and proceeds are restricted for special assessment debt service. Of the \$7.5 million of assessments receivable at December 31, 2007, \$359 thousand is delinquent. The recorded allowance for uncollectible assessments is \$39 thousand.

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. Such long-term advances are offset by a fund balance reserve for governmental fund types to indicate such amounts 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 governmental activities and business-type activities are reported in 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 presents gross receivables with related estimated uncollectible accounts:

Governmental Activities Accounts and Contracts Receivable (in thousands)	General Fund	Human Services	Roads	Other Governmental Funds	Total Governmental Activities
Accounts Receivable	\$ 74,764	\$ 616	\$ 264	\$ 3,333	\$ 78,977
Contracts Receivable	-	-	-	25	25
Estimated Uncollectible Accounts Receivable	(61,201)	-	-	-	(61,201)
Accounts Receivable, Net	<u>\$ 13,563</u>	<u>\$ 616</u>	<u>\$ 264</u>	<u>\$ 3,358</u>	<u>\$ 17,801</u>

Business-Type Activities Accounts and Contracts Receivable (in thousands)	Sewer Utility	Chambers Bay Golf Course	Other Enterprise Funds	Total Business-Type Activities
Accounts Receivable	\$ 4,375	\$ 46	\$ 709	\$ 5,130
Contracts Receivable	203	-	-	203
Estimated Uncollectible Accounts Receivable	(1)	-	-	(1)
Accounts Receivable, Net	<u>\$ 4,577</u>	<u>\$ 46</u>	<u>\$ 709</u>	<u>\$ 5,332</u>

INVENTORIES AND PREPAID ITEMS

Inventories are valued at cost using the first-in, first-out costing method. Inventories for governmental fund types are not significant at December 31, 2007 and, accordingly, are not recorded for financial reporting purposes and are recorded as expenditure when purchased. Proprietary fund types recognize the cost of inventory items as expense when consumed. Certain other purchases representing costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements. Any 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 applicable governmental or business-type activities columns in government-wide financial statements. Buildings and infrastructure assets are considered capital assets when initial individual cost exceeds \$75,000. Other assets are defined as capital assets when initial individual cost is more than \$5,000 with 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. Estimated cost of infrastructure assets includes the entire network of roads, bridges, levees, and surface water improvements acquired after January 1, 1981. 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 to 75 yrs.	Transportation equipment	-	3 to 10 yrs.
Airport hangars	-	10 yrs.	Tools and shop equipment	-	3 to 5 yrs.
Furniture and office equipment	-	4 to 15 yrs.	Other equipment	-	5 yrs.
Sewer pumping plant, collection and transmission lines	-	10 to 50 yrs.	Infrastructure	-	25 to 99 yrs

Proprietary funds charge depreciation of exhaustible capital assets to operating expense. Repairs and maintenance are expensed 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.

Long-term obligations are reported as liabilities in the statements of net assets for applicable governmental and business-type activities in government-wide financial statements and in proprietary fund type statements. Bond premiums, discounts, and issuance costs, as well as any gains or losses on refunding, are deferred and amortized over the life of the related bonds using the straight line method (which approximates the effective interest method). Bonds payable are reported net of premiums, discounts and any gains or losses on refunding.

Deferred charges in *Enterprise Funds* include unamortized debt issuance costs, preliminary survey charges, and landfill closure and postclosure 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 if related projects are abandoned. *Solid Waste Management Fund* landfill postclosure costs are amortized over an estimated postclosure care period of 25 years.

Arbitrage occurs when county funds borrowed at tax-exempt interest rates are invested by the county in higher yielding taxable securities. When such investment interest earnings exceed interest expense for tax-exempt debt, the county recognizes a liability to the Federal Government and reduces interest revenue. When such interest earnings are less than interest expense, the county recognizes and interest revenue for any refund as a receivable.

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 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

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 is accrued. The vesting method is used to calculate sick leave.

OTHER POSTEMPLOYMENT BENEFITS

Lifetime full medical coverage is provided to full-time law enforcement officers who became members of the Law Enforcement Officers and Fire Fighters (LOEFF) retirement system prior to October 1, 1977. During 2007 the county adopted current financial reporting standards to measure and report the costs of this benefit program (see Note 12). Accordingly, a liability for the accumulated unfunded actuarially required contribution is reported in the statement of net assets. Actual medical benefit costs are reported as expenditures in the year incurred.

FUND EQUITY

In fund financial statements, governmental funds report reservations of fund balance to segregate any 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 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-Profitteering and Revolving Special Revenue Fund* was 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 year-end 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 designations of fund balance. Outstanding encumbrances for governmental funds other than *Capital Project Funds* are not material at year-end.

DEFICIT FUND EQUITY

The *Corporate Express Building Capital Project Fund* reported a deficit fund balance of \$1.1 million. The deficit is due to an interfund loan payable that will be repaid ratably thru 2019.

The *Chambers Bay Golf Course Fund* reported a net asset deficit of \$371 thousand due primarily to start-up costs for the new golf course construction and operation. The deficit will be recovered over the next few years as golf course operations are developed and marketed.

The *Water Utility Fund* reported a net asset deficit of \$711 thousand from start-up costs for the new water utility operation. Such deficits are expected for several years as water resources are developed and marketed.

The *Workers Compensation Fund* reported a net asset deficit of \$1.5 million due primarily to certain unusually large claims. The deficit will be recovered through rate increases in 2008 and thereafter.

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 balance sheet for governmental funds 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 major elements of the reconciliation including certain government-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 statement of revenues, expenditures, and changes in fund balances for governmental funds includes a reconciliation that summarizes differences between “Net Change in Fund Balances – Total Governmental Funds” and “Changes in Net Assets of Governmental Activities” 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 \$82.1 million difference are as follows:

	<u>(in thousands)</u>
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.	\$ 81,025
Increases in government-wide net assets on the statement of activities for other capital expenditures from the <i>General Fund</i> and <i>Special Revenue Funds</i> that are capitalized in the government-wide statements, not expensed.	16,324
Decreases in government-wide net assets in the statement of activities for capital costs of construction in progress expensed for certain projects donated to or annexed by other governments, but not expensed in governmental fund statements.	(1,888)
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>(13,388)</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to determine Changes in Net Assets of Governmental Activities	<u>\$ 82,073</u>

An additional element of that reconciliation states “Governmental funds report the issuance of long-term debt; the repayment of the principal on long-term debt; and related items occurring when debt is first issued (such as issuance costs, premiums, and/or discounts) as increases or decreases in total governmental fund balances” and “This amount represents the net effect of differences in the treatment of long-term debt and

related items.” Details of this \$4.4 million difference are as follows:

	<u>(in thousands)</u>
Changes in governmental fund balances include decreases for repayment of principal on long-term debt and changes in related premiums, discounts, issue costs and amortization of losses on refundings. In entity-wide statements, principal payments and related charges are treated as a reduction of debt resulting in adjustments to governmental fund balance to determine changes in net assets for government-wide reporting as follows:	
Repayment of principal on long-term debt	\$ 4,385
Related premiums, discounts, issue costs and amortization, net	<u>(27)</u>
Net adjustment to increase Net Changes in Fund Balances - Total Governmental Funds to determine Changes in Net Assets of Governmental Activities	<u>\$ 4,358</u>

An additional 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.” Details of this (\$3.7) million difference are as follows:

	<u>(in thousands)</u>
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.	\$ (3,221)
The decrease in accrued interest reduces expense and increases government-wide net assets in the statement of activities. Changes in accrued interest expense are not included in governmental fund statements.	(208)
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>(228)</u>
Net adjustment to decrease Net Changes In Fund Balances - Total Governmental Funds to determine Changes In Net Assets of Governmental Activities	<u>\$ (3,657)</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 \$4.3 million difference are as follows:

	<u>(in thousands)</u>
To eliminate profit (loss) from services provided between <i>Internal Service Funds</i> and services provided to governmental funds (e.g. within governmental activities).	\$ 794
To eliminate transfers between <i>Internal Service Funds</i> and transfers to or from governmental funds (e.g. within governmental activities).	2,322
To record income from external sources for <i>Internal Service Funds</i> .	<u>1,211</u>
Net adjustment to increase Net Changes In Fund Balances - Total Governmental Funds to determine Changes In Net Assets of Governmental Activities	<u>\$ 4,327</u>

NOTE 3 - CASH AND INVESTMENTS

As of December 31, 2007, the county has the following investments and maturities:

Investment Type (in thousands)	Total Fair Value	Investment Maturities (in months)				
		Less Than 1	2 to 3	4 to 6	7 to 12	More than 12
Certificates of Deposit	\$ 1,040,227	\$ 387,789	\$ 324,573	\$ 233,290	\$ 81,575	\$ 13,000
Local Government Investment Pool	99,000	-	99,000	-	-	-
Federal Home Loan Bank	47,666	-	9,984	9,956	-	27,726
Federal Home Loan Mortgage Corporation	18,022	10,002	-	-	-	8,020
Federal National Mortgage Association - Bonds	60,108	20,000	-	-	-	40,108
Registered Warrants	178	-	-	-	-	178
Municipal Bonds	1,675	-	-	-	-	1,675
Total	<u>\$ 1,266,876</u>	<u>\$ 417,791</u>	<u>\$ 433,557</u>	<u>\$ 243,246</u>	<u>\$ 81,575</u>	<u>\$ 90,707</u> ⁽¹⁾

(1) Of the securities maturing in more than 12 months \$5,997 are callable at any time with 5 or 10 days notice; and \$44,089 are callable quarterly.

Interest Rate Risk. The county investment policy does not specifically address the management of interest rate risk. The exposure to fair value losses arising from increasing interest rates is managed by limiting the weighted average maturity of the portfolio to between six months and one year.

Credit Risk. Through its investment policy, the county manages credit risk by restricting county investments to obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities; bankers acceptances; primary certificates of deposit issued by qualified public depositories designated by the Washington Public Deposit Protection Commission; the Washington State local government investment pool; municipal bonds issued by the state or its local governments; and repurchase agreements collateralized by any previously authorized investments. Bankers' acceptances must be ranked in either of the two highest rating categories by Moody's Investor Service or Standard Poors. With the exception of U.S. Treasuries and Government agencies and instrumentalities, no more than 20% of investments shall be from any single issuer. The credit quality distribution for securities with credit exposure as a percentage of total investments at December 31, 2007 follows:

Investment Type	Moody's	
	Investor Service	Standard & Poor's
Local Government Investment Pool	Not rated	Not rated
Federal Home Loan Bank	Aaa	AAA
Federal Home Loan Mortgage Corp	Aaa	AAA
Federal National Mortgage Association	Aaa	AAA
Energy NW Washington Electric	Aaa	AA-

Custodial Credit Risk. County investment policy limits deposits in any single financial institution to 20% of the non-trustee portfolio to minimize custodial credit risk. At December 31, 2007 all cash and time deposits, which total \$1,044.7 billion, are insured by either federal depository insurance or by the Washington Public Deposit Protection Commission (WPDPC).

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 landfill self-insurance and postclosure costs in the *Landfill Reserve Fund*; and for capital purposes in the *Airport Fund*.

MAJOR FUNDS

Sewer Utility Funds. Restricted assets for sewer utilities at December 31, 2007 are as follows:

Sewer Utility Restricted Assets (in thousands)	Capital Improvement Accounts		Total
	Bond Accounts		
Cash In Treasury Pool	\$ 4	\$ 323	\$ 327
Investments	4,735	26,726	31,461
Accrued Interest And Penalties	511	57	568
Assessments Receivable	7,533	–	7,533
Contracts Receivable	–	2	2
Advances Receivable	–	2,027	2,027
Due From Other Funds	–	203	203
Due From Other Governments	201	–	201
Unamortized Debt Expense	87	–	87
Total Restricted Assets	\$ 13,071	\$ 29,338	\$ 42,409

At year-end \$12.7 million of sewer utility net assets were restricted for debt service, and \$29.3 million were restricted for capital projects.

NONMAJOR FUNDS

Solid Waste Management and Landfill Reserve Funds. Restricted assets for solid waste and landfill reserves at December 31, 2007 are as follows:

Solid Waste Management Restricted Assets (in thousands)	Self-Insurance Reserve	Postclosure Care Accounts	Total
Cash In Treasury Pool	\$ 101	\$ 202	\$ 303
Investments	1,490	7,489	8,979
Landfill Postclosure Receivable	-	866	866
Total Restricted Assets	<u>\$ 1,591</u>	<u>\$ 8,557</u>	<u>\$ 10,148</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. The county and PCRCD are required by State law to provide financial assurance that future closure and postclosure care costs will be funded.

The county maintains a trust fund to provide funding for future costs associated with closed landfill sites. At year-end, \$8.6 million of assets in the postclosure care accounts have been placed in trust as restricted assets to fund estimated liabilities of \$6.0 million. Unfunded portions of certain postclosure liabilities are recorded as a receivable (deferred charge). 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, \$1.6 million is held as restricted assets in the self-insurance reserve fund for such purposes. Net assets restricted for landfill self-insurance and postclosure costs total \$4.1 million at year-end. At December 31, 2007 the county and PCRCD are in compliance with all provisions of the contract, and with related state and federal regulations.

Airport Fund. At December 31, 2007, \$1.3 million of total fund assets were restricted in the *Airport Fund*. Net assets of \$687 thousand were restricted for capital purposes.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of governmental activities for the year ended December 31, 2007 follows:

Governmental Activities Capital Asset Activity (in thousands)	Balance 01-01-07	Additions	Reductions	Balance 12-31-07
Capital assets not being depreciated:				
Land and land rights	\$ 100,655	\$ 12,417	\$ -	\$ 113,072
Construction in progress	152,191	96,531	(58,924)	189,798
Total capital assets not being depreciated	<u>252,846</u>	<u>108,948</u>	<u>(58,924)</u>	<u>302,870</u>
Capital assets being depreciated:				
Buildings	178,496	16,136	-	194,632
Improvements other than buildings	14,448	1,425	-	15,873
Machinery and equipment	82,248	11,885	(5,936)	88,197
Infrastructure	346,932	38,026	-	384,958
Total capital assets being depreciated	<u>622,124</u>	<u>67,472</u>	<u>(5,936)</u>	<u>683,660</u>
Less accumulated depreciation for:				
Buildings	(37,613)	(4,224)	-	(41,837)
Improvements other than buildings	(1,348)	(541)	-	(1,889)
Machinery and equipment	(35,480)	(7,416)	4,505	(38,391)
Infrastructure	(60,668)	(6,107)	-	(66,775)
Total accumulated depreciation	<u>(135,109)</u>	<u>(18,288)</u>	<u>4,505</u>	<u>(148,892)</u>
Total capital assets being depreciated, net	<u>487,015</u>	<u>49,184</u>	<u>(1,431)</u>	<u>534,768</u>
Governmental activities capital assets, net	<u>\$ 739,861</u>	<u>\$ 158,132</u>	<u>\$ (60,355)</u>	<u>\$ 837,638</u>

Capital asset activity of business-types activities for the year ended December 31, 2007 follows:

Business-Type Activities Capital Asset Activity (in thousands)	Balance 01-01-07	Additions	Reductions	Balance 12-31-07
Capital assets not being depreciated:				
Land and land rights	\$ 47,530	\$ 2,020	\$ —	\$ 49,550
Construction in progress	43,900	10,174	(41,573)	12,501
Avigation rights	562	—	—	562
Total capital assets not being depreciated	<u>91,992</u>	<u>12,194</u>	<u>(41,573)</u>	<u>62,613</u>
Capital assets being depreciated:				
Buildings and system	89,719	5,261	(4,073)	90,907
Improvements other than buildings	14,822	17,278	(8)	32,092
Machinery and equipment	56,559	21,445	(1,387)	76,617
Infrastructure	355,831	8,524	—	364,355
Total capital assets being depreciated	<u>516,931</u>	<u>52,508</u>	<u>(5,468)</u>	<u>563,971</u>
Less accumulated depreciation for:				
Buildings and system	(34,467)	(2,807)	—	(37,274)
Improvements other than buildings	(2,294)	(415)	—	(2,709)
Machinery and equipment	(14,611)	(3,046)	4,299	(13,358)
Infrastructure	(120,779)	(7,290)	—	(128,069)
Total accumulated depreciation	<u>(172,151)</u>	<u>(13,558)</u>	<u>4,299</u>	<u>(181,410)</u>
Total capital assets being depreciated, net	<u>344,780</u>	<u>38,950</u>	<u>(1,169)</u>	<u>382,561</u>
Business-type activities capital assets, net	<u>\$ 436,772</u>	<u>\$ 51,144</u>	<u>\$ (42,742)</u>	<u>\$ 445,174</u>

During 2007, certain completed projects for governmental and business-type activities were transferred within capital assets from construction in progress to the departments responsible for maintaining the assets. Certain other projects were expensed as minor improvements and repairs.

The reduction of \$58.9 million from construction in progress for governmental activities includes \$57.0 million of completed projects placed in service and transferred to other capital asset classifications, and \$1.9 million of projects expensed for various minor improvements and repairs to county facilities. The following is a summary of the \$57.0 million of capital assets transferred from construction in progress and placed in service during 2007 for governmental activities:

Governmental Activities Capital Projects Placed in Service (in thousands)	Land and Land Rights	Buildings and Improvements	Infrastructure	Equipment	Total
Roads Construction	\$ 3,596	\$ —	\$ 11,218	\$ —	\$ 14,814
Transportation Facilities	—	4,619	—	—	4,619
Water Programs Improvements	6,070	—	15,769	—	21,839
Parks Improvements	—	2,068	—	—	2,068
County-City Building Improvements	—	7,585	—	665	8,250
Annex West Building Improvements	1,876	2,374	—	—	4,250
Other Real Estate and Improvements	—	407	—	—	407
Other Equipment	—	—	—	785	785
Total Governmental Activities	<u>\$ 11,542</u>	<u>\$ 17,053</u>	<u>\$ 26,987</u>	<u>\$ 1,450</u>	<u>\$ 57,032</u>

The \$41.6 million reduction of construction in progress for business-type activities includes the following transfers from construction in progress to other capital asset classifications: \$19.0 million for the Chambers Bay Golf Course; \$13.8 million for a new ferry; \$8.1 million for completed utilities related improvements; and \$700 thousand for various other completed projects. Completed construction projects for business-type activities include \$773 thousand of capitalized interest.

Depreciation expense for the year ended December 31, 2007 was charged to functions and/or programs of *Pierce County* as follows:

Governmental Activities Depreciation Expense	(in thousands)
General Government	\$ 1,626
Public Safety	4,140
Physical Environment	312
Transportation	6,002
Economic Environment	42
Health And Human Services	235
Culture & Recreation	1,031
Capital Assets Held By <i>Internal Service Funds</i> (charged to various functions based on usage of related equipment and services)	4,900
Total Depreciation Expense, Governmental Activities	\$ 18,288

Business-Type Activities Depreciation Expense	(in thousands)
Sewer Utility	\$ 11,797
Chambers Bay Golf Course	763
Ferry Services	626
Solid Waste Management	158
Airport	124
Golf Course	79
Water Utility	11
Total Depreciation Expense, Business-Type Activities	\$ 13,558

NOTE 6 - DEBT

LONG-TERM DEBT

General obligation debt and revenue debt are used to finance purchases 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 governmental 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 county. The following general obligation bonds are serviced by *General Fund* revenues:

Governmental Activities General Obligation Bonds (In Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Bonds Outstanding 12-31-07
Parking Garage	08-01-99	08-01-09	4.50% to 5.20%	\$ 5,230	\$ 480
Jail Facility	11-01-00	08-01-10	5.00% to 6.00%	37,000	3,420
Partial Refunding of 1994 G.O. Issue	03-04-03	12-01-14	3.43%	8,319	5,921
2005 G.O. Refunding	06-07-05	08-01-25	3.25% to 5.125%	32,915	32,875
Conservation Futures Land Purchases	02-27-06	08-01-26	3.50% to 4.375%	31,825	30,250
Combined Maintenance Facility	10-10-06	12-01-26	4.00% to 5.00%	27,385	26,640
				\$ 142,674	\$ 99,586

General obligation bonds serviced by business-type activities are as follows:

Business-Type Activities General Obligation Bonds (In Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Bonds Outstanding 12-31-07
2005 G.O. Refunding Sewer	06-07-05	08-01-17	3.00% to 5.25%	\$ 5,465	\$ 3,450
Chambers Bay Golf Course	09-27-05	12-01-35	3.00% to 4.50%	20,770	20,770
Chambers Bay Golf Course Equipment	05-14-07	07-01-12	4.30%	685	623
				\$ 26,920	\$ 24,843

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 property, plant and equipment. During 2007, the *Enterprise Funds* were in compliance with all significant financial bond covenants. Details of the revenue bond outstanding at year-end serviced by the *Sewer Utility* follow:

Business-Type Activities Revenue Bonds (In Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Bonds Outstanding 12-31-07
Sewer Revenue - ULID 90-4	03-15-01	08-01-21	4.25% to 5.10%	\$ 18,495	\$ 11,175

Installment Contracts represent loans from the Washington State Public Works Trust Fund to finance construction of ferry boats and expansion of a major arterial in *Pierce County*.

Governmental activities debt includes a road expansion loan to be repaid from the *Road Fund* as follows:

Governmental Activities Installment Contracts (In Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Balance Outstanding 12-31-07
Public Works Trust Fund Loan #3 - Road Expansion	06-15-05	07-01-25	0.50%	\$ 2,795	\$ 2,648

Business-type activities debt includes two ferry boat loans that represent general obligation debt and are expected to be repaid from revenues of the *Ferry Services* (a *Nonmajor Enterprise Fund*) as follows:

Business-Type Activities Installment Contracts (In Thousands)	Date Of Issue	Maturity Date	Interest Rates	Original Amount	Balance Outstanding 12-31-07
Public Works Trust Fund Loan - Ferry	10-23-92	07-01-12	1.00%	\$ 3,500	\$ 926
Public Works Trust Fund Loan #2 - Ferry	07-07-04	07-01-24	0.50%	7,058	6,420
				\$ 10,558	\$ 7,346

CHANGES IN LONG-TERM LIABILITIES

A summary of long-term debt activity of *Pierce County* for the year ended December 31, 2007 follows:

Governmental Activities (In Thousands)	Balance 01-01-07	Additions	Reductions	Balance 12-31-07	Amount Due Within One Year
General Obligation Bonds	\$ 103,825	\$ -	\$ 4,239	\$ 99,586	\$ 4,292
Less Unamortized Discounts, Premiums and Loss, Net	(11)	-	106	(117)	-
Installment Contracts	2,795	-	147	2,648	147
Claims and Judgements	10,817	6,454	5,737	11,534	4,818
Post-Employment Health Care Benefits	-	2,022	1,123	899	899
Compensated Absences Payable	17,909	15,690	13,189	20,410	14,310
Total Long-Term Liabilities For Governmental Activities	\$ 135,335	\$ 24,166	\$ 24,541	\$ 134,960	\$ 24,466

Business-Type Activities (In Thousands)	Balance 01-01-07	Additions	Reductions	Balance 12-31-07	Amount Due Within One Year
Revenue Bonds	\$ 13,920	\$ -	\$ 2,745	\$ 11,175	\$ 915
General Obligation Bonds	25,255	685	1,097	24,843	1,556
Less Unamortized Discounts, Premiums and Loss, Net	(48)	-	5	(53)	-
Landfill Postclosure Liabilities	5,850	489	368	5,971	-
Installment Contracts	7,556	353	563	7,346	564
Compensated Absences Payable	974	1,511	1,348	1,137	750
Total Long-Term Liabilities For Business-Type Activities	\$ 53,507	\$ 3,038	\$ 6,127	\$ 50,419	\$ 3,785

Internal Service Funds predominantly serve governmental funds. Accordingly, year-end long-term liabilities for governmental activities include a \$1.734 million liability for compensated absences from *Internal Service Funds*. The remaining governmental activities liability for compensated absences is generally liquidated by individual governmental funds in which employees receiving payments are budgeted, most significantly in the *General Fund*, *Roads Fund*, and *Human Services Fund*.

MATURITIES OF LONG-TERM LIABILITIES

A schedule of principal and interest payments for outstanding debt follows:

(In Thousands)	Governmental Activities		Business-Type Activities			
	General Obligation Debt		General Obligation Debt		Revenue Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 4,439	\$ 4,438	\$ 2,119	\$ 1,070	\$ 915	\$ 531
2009	4,631	4,263	1,394	1,015	920	491
2010	4,806	4,080	1,530	984	920	452
2011	5,005	3,875	1,595	946	–	413
2012	5,221	3,668	1,645	900	–	413
2013-2017	25,649	15,067	5,393	3,922	4,575	1,634
2018-2022	28,301	9,401	5,173	3,236	3,845	497
2023-2027	24,182	2,573	4,790	2,446	–	–
2028-2032	–	–	2,865	1,533	–	–
2033-2037	–	–	5,685	767	–	–
	<u>\$ 102,234</u>	<u>\$ 47,365</u>	<u>\$ 32,189</u>	<u>\$ 16,819</u>	<u>\$ 11,175</u>	<u>\$ 4,431</u>

REFUNDED BONDS

The county has six outstanding refunded and defeased bond issues of limited tax general obligation bonds and revenue bonds that were originally reported in governmental and business-type activities on the statement of net assets. Payments of principal and interest on these bond issues are the responsibility of the escrow agent. Accordingly, the liability for defeased bonds has been removed from the statement of net assets. The amount of defeased debt outstanding but removed from the statement of net assets at December 31, 2007 is \$33.9 million.

NOTE 7 - COMMITMENTS

OPERATING LEASES

Pierce County has various operating lease agreements for office facilities and equipment. Agreements provide various annual minimum rental payments due in monthly installments. Total costs of such leases were \$3.2 million for governmental activities and \$39 thousand for business-type activities in 2007. Future minimum lease payments as of December 31, 2007 are as follows:

Governmental Activities Operating Lease Payments	(In Thousands)
2008	\$ 2,043
2009	1,515
2010	990
2011	660
2012	215
Total	<u>\$ 5,423</u>

The county leases certain property to various tenants under noncancelable operating lease agreements. As business-type activities, the *Airport Fund* leases out most of the buildings and grounds to companies in the aviation industry. The *Ferry Services Fund* has an agreement with 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.

A summary of county investment in property under long-term, noncancelable operating leases as of December 31, 2007 follows.

<u>Property under Long-Term Lease</u>	<u>(In Thousands)</u>
Land	\$ 5,397
Buildings	2,620
Less Depreciation	<u>(797)</u>
Total Property Leased To Others, Net	<u>\$ 7,220</u>

Minimum future lease receipts based on contract amounts and terms as of December 31, 2007 follows:

<u>Minimum Lease Receipts</u> <u>(In Thousands)</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
2008	378	508
2009	278	350
2010	92	355
2011	22	360
2012	9	189
2013 - 2017	49	830
2018 - 2022	51	900
2023 - 2027	1	903
2028 - 2032	-	1,046
2033 - 2037	-	1,213
2038 - 2042	-	1,399
2043 - 2047	-	1,452
2048 - 2052	-	1,556
2053 - 2057	-	1,350
2058 - 2062	-	917
Total	<u>\$ 880</u>	<u>\$ 13,328</u>

CAPITAL PROJECTS

Active county construction projects as of December 31, 2007 include development of new parks, street construction, wastewater treatment facility expansion, and construction of an emergency operations center and a centralized transportation maintenance facility. Capital projects will be funded from undesignated fund balance, general obligation debt, and future revenues. Commitments for capital projects at December 31, 2007 are as follows:

<u>Capital Project</u>	<u>Description</u>	<u>(In Thousands)</u>
Parks and Recreation	Regional parks, paths and trails, and open space	\$ 1,078
County Roads	Transportation improvement plan projects	10,121
Sewer Utilities	System capital improvements	5,440
Ferry	Capital improvement and maintenance	186
Water programs	Capital improvements and services	5,746
Emergency Management	Emergency Operations Center	794
Transportation Facilities	Centralized transportation maintenance facilities	1,190
Other	Various other construction projects	<u>4,079</u>
Total		<u>\$ 28,634</u>

NOTE 8 - RESTRICTED NET ASSETS AND RESERVED FUND BALANCES

Government-wide and proprietary fund financial statements present net assets in three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Governmental fund financial statements report fund balances in two categories: reserved and unreserved.

RESTRICTED NET ASSETS

Restricted net assets result when constraints on use of net assets are stipulated either by external parties or by law through constitutional provisions or enabling legislation. \$78.1 million of the \$180 million of restricted net assets reported on the government-wide statement of net assets is restricted by enabling legislation at December 31, 2007.

RESERVED FUND BALANCES

Governmental fund financial statements report reservations of fund balance that are either legally segregated for a specific future use or that are otherwise not available for appropriation. Fund balances reserved at December 31, 2007 are as follows:

Governmental Funds Reserved Fund Balances (In Thousands)	General Fund	Special Revenue Funds	Total
Reserved For:			
Advances To Other Funds	\$ 159	\$ –	\$ 159
Loans	–	13	13
Other Purposes	475	150	625
Total Reserved Fund Balance	<u>\$ 634</u>	<u>\$ 163</u>	<u>\$ 797</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.

Loans. Fund balance equal to the amount of long-term loans receivable is reserved to segregate the amount of fund balance that is neither available nor spendable resources for current fund operations.

Other Purposes. This portion of reserved fund balance represents the amount of resources legally restricted to use in public sports stadium facilities (pending interpretation of Washington State law) and for future construction of a canine facility for the Sheriffs department.

NOTE 9 - INTERFUND TRANSACTIONS

Interfund loans and advances payable at December 31, 2007 consist of the following:

Interfund Loans and Advances (In Thousands)	Payable From				Total
	Chambers Bay Golf Course	Sewer Utility	Nonmajor Governmental Funds	Nonmajor Business-Type Funds	
Payable To					
General Fund	\$ –	\$ 2,000	\$ 627	\$ 159	\$ 2,786
Sewer Utility	1,248	–	–	779	2,027
Internal Service Funds	–	–	4,168	–	4,168
Total	<u>\$ 1,248</u>	<u>\$ 2,000</u>	<u>\$ 4,795</u>	<u>\$ 938</u>	<u>\$ 8,981</u>

The \$627 thousand due to the *General Fund* from *Nonmajor Governmental Funds* resulted from loans to cover temporary cash shortfalls and will be repaid in the subsequent year. *Sewer Utility* loans to *Nonmajor Business-Type Funds* and to the *Chambers Bay Golf Course Fund* provided working capital during business start-up phases. Of the \$4.2 million due to *Internal Service Funds* for advances to fund capital projects, \$3.8 million will be repaid during 2008. The \$2 million payable from the *Sewer Utility* to the *General Fund* will be repaid in the subsequent year. Other balances will not be repaid in the subsequent year.

Interfund balances at December 31, 2007 consist of the following:

Interfund Balances (In Thousands)	Due From										Total Due From
	General Fund	Human Services	Roads	Sewer Utility	Chambers Bay Golf Course	Ferry Services	Internal Service	Nonmajor Governmental	Nonmajor Business-Type		
General Fund	\$ -	\$ 39	\$ 25	\$ 10	\$ -	\$ 2	\$ 6	\$ 143	\$ 15	\$ 240	
Human Services	42	-	-	-	-	-	-	-	-	42	
Roads	22	-	-	205	1	2	8	108	17	363	
Sewer Utility	8	-	6	-	33	-	-	254	228	529	
Internal Service	1,250	51	1,011	189	-	31	14	624	6	3,176	
Nonmajor Governmental	3,974	637	6,476	-	-	-	187	6,765	2	18,041	
Nonmajor Business-Type	-	-	-	3	-	-	-	61	-	64	
Total Due To	\$ 5,296	\$ 727	\$ 7,518	\$ 407	\$ 34	\$ 35	\$ 215	\$ 7,955	\$ 268	\$ 22,455	

Interfund balances result from the time lag between dates that reimbursable expenditures for interfund goods and services occur and when actual payments between funds are recorded in the accounting system.

Interfund Transfers for the year ended December 31, 2007 were as follows:

Interfund Transfers (In Thousands)	Transfers From									Total Transfers In
	General Fund	Human Services	Roads	Sewer Utility	Chambers Bay Golf Course	Internal Service	Nonmajor Governmental	Nonmajor Business-Type		
General Fund	\$ -	\$ -	\$ 1,308	\$ 45	\$ -	\$ -	\$ 205	\$ -	\$ 1,558	
Human Services	106	-	-	-	-	-	-	-	106	
Roads	2	-	-	-	-	-	20	-	22	
Internal Service	1,749	-	468	635	-	-	379	-	3,231	
Nonmajor Governmental	8,041	700	15,538	171	23	397	26,464	94	51,428	
Nonmajor Business-Type	-	-	42	5	-	-	273	-	320	
Total Transfers Out	\$ 9,898	\$ 700	\$ 17,356	\$ 856	\$ 23	\$ 397	\$ 27,341	\$ 94	\$ 56,665	

Interfund 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, 2007, the following transfers were significant or of a nonroutine nature:

- ✦ \$1.3 million of transfers from *Roads Fund* to *General Fund* to support traffic enforcement activities.
- ✦ \$3.6 million from *General Fund*, \$792 thousand from *Parks Sales Tax Fund* and \$1.5 million from *Conservation Futures Fund* (a *Nonmajor Governmental Funds*) transferred to *Debt Service Funds* to provide funds for routine debt service payments.
- ✦ \$3.3 million transferred to the *2501 Corporate Express Building Fund* (a *Nonmajor Governmental Fund*) to finance construction of an emergency services facility and remodel the building for other general county use. Transfers included \$25 thousand from *General Fund*, \$319 thousand from *Internal Service Funds*, and \$2.9 million from *Nonmajor Governmental Funds*.
- ✦ \$4.3 million of contributions to the *Geographical Information Fund* (a *Nonmajor Governmental Fund*) to fund operations, including contributions from major funds as follows: *General Fund* - \$2.7million, *Roads Fund* - \$610 thousand, *Human Services Fund* - \$38 thousand and *Sewer Utility Fund* - \$183 thousand.
- ✦ \$24.4 million of transferred to *Public Works Construction Fund* (a *Nonmajor Governmental Fund*) to finance road construction projects, including \$12.6 million from *Roads Fund* and \$11.8 million from *Second Real Estate Excise Tax-Roads Fund* (a *Nonmajor Governmental Fund*).
- ✦ \$1 million from *Parks Impact Fees Fund* (a *Nonmajor Governmental Fund*), \$957 thousand from *Parks Sales Tax Fund* (a *Nonmajor Governmental Fund*), and \$3,2 million from *Second Real Estate Excise Tax-Parks Fund* (a *Nonmajor Governmental Fund*) transferred in total to *Parks Construction Fund* (a *Nonmajor Governmental Fund*) for construction of and improvements to various county parks.

NOTE 10 - JOINT VENTURES

Pierce County participates with other local governments in three joint ventures as follows: *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. This information represents the most recent audited financial data.

CHENEY STADIUM

Pierce County and the City of Tacoma each have a 50% interest in the capital assets of *Cheney Stadium* and are jointly responsible for financing deficits. 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. Financial statements of *Cheney Stadium* are included in the City of Tacoma's Comprehensive Annual Financial Report. The county equity interest of \$917 thousand is based on 2006 audited financial data and is included in governmental assets. During 2007 the county contributed \$80 thousand to Cheney Stadium.

2006 audited financial data for the stadium operation is summarized as follows:

	<u>(In Thousands)</u>	
Total Assets	\$	2,753
Total Liabilities		4
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$	1,835
Unrestricted	<u>914</u>	2,749
Total Operating Revenues		226
Total Operating Expenses		298
Nonoperating Revenues, Net		59

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 fiscal agent for the joint operation which is accounted for in the *County-City Health Pooling Agency Fund*. During 2007 *Pierce County* contributed \$3.0 million for operation of the health department from the *General Fund*. Complete financial statements for the health department fiscal year ending December 31, 2006 may be obtained by contacting *Tacoma - Pierce County Health Department*, 3629 South D Street, Tacoma, WA 98408.

2006 audited financial data for the health department is summarized as follows:

	<u>(In Thousands)</u>	
Total Assets	\$	12,200
Total Liabilities		4,470
Net Assets:		
Invested in Capital Assets	\$	2,474
Restricted	3,779	
Unrestricted	<u>1,477</u>	7,730
Total Revenues		33,787
Total Expenses		35,771

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 operations. During 2007 *Pierce County* contributed \$5.9 million. Complete financial statements for the fiscal year ending December 31, 2006 may be obtained by contacting Law Enforcement Support Agency, 2415 S. 35th Street, Tacoma, WA 98409.

2006 audited financial data for *LESA* is summarized as follows:

	(In Thousands)	
Total Assets:	\$	5,462
Total Liabilities:		1,437
Net Assets:		
Invested in Capital Assets	\$	2,337
Unrestricted	1,689	4,026
Total Revenues		15,735
Total Expenditures		15,443

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 in two *Internal Service Funds*. The *Self-Insurance Fund* is used for general risk management losses, and the *Workers Compensation Fund* manages costs of 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 in 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 general property damage (\$500 million policy limit), property damage to watercraft (\$200,000 to \$11 million limit), property damage to aircraft (\$2 million limit), ferry operations (\$20 million limit), water pollution coverage for ferries (\$5 million), airport operations (\$20 million limit), operating aircraft (\$2 million), human services professional liability (\$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 loss self-insured 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 that are 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 is supplemented by an excess loss 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 excess loss workers compensation self-insured liability insurance provides stop-loss coverage (\$1 million limit) in excess of a statutory self-insured retention limit of \$600,000 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.

SELF-INSURED CLAIMS ACTIVITY

A summary of changes in self-insurance and workers compensation liabilities for estimated claim settlements for the years ended December 31, 2007, 2006, and 2005 follows:

(In Thousands)	Self-Insurance			Workers Compensation		
	2007	2006	2005	2007	2006	2005
Balance - Beginning Of Year	\$ 8,696	\$ 9,807	\$ 8,021	\$ 2,121	\$ 1,516	\$ 1,875
Claims Incurred - Current Period	1,877	861	2,012	1,492	1,599	1,170
Changes - Prior Years Estimated Claims	1,236	470	1,065	1,849	1,042	(52)
Claim Payments	(3,254)	(2,442)	(1,291)	(2,483)	(2,036)	(1,477)
Balance - End Of Year	<u>\$ 8,555</u>	<u>\$ 8,696</u>	<u>\$ 9,807</u>	<u>\$ 2,979</u>	<u>\$ 2,121</u>	<u>\$ 1,516</u>
Estimated To Be Paid Within One Year	\$ 2,139	\$ 1,996	\$ 2,507	\$ 2,679	\$ 2,021	\$ 1,416
Estimated Long-Term Portion	<u>6,416</u>	<u>6,700</u>	<u>7,300</u>	<u>300</u>	<u>100</u>	<u>100</u>
Balance - End Of Year	<u>\$ 8,555</u>	<u>\$ 8,696</u>	<u>\$ 9,807</u>	<u>\$ 2,979</u>	<u>\$ 2,121</u>	<u>\$ 1,516</u>

During 2007, no reductions in self-insurance or workers compensation coverage occurred. Interfund premiums and insurance coverage have been sufficient to fund claims settlements over the past three years. Certain significant losses in the *Workers Compensation Fund* contributed to a (\$1.5) million fund balance deficit at December 31, 2007. The deficit will be recovered by increasing future interfund premiums.

NOTE 12 - POSTEMPLOYMENT HEALTH CARE BENEFITS

As required by Washington State law (RCW 41.26.150), health care benefits are provided under a defined benefit healthcare plan to certain law enforcement officers. The plan is administered by the county to provide benefits for retired full-time law enforcement officers who were members of the Washington Law Enforcement Officer's and Fire Fighter's Retirement System (LEOFF) prior to October 1, 1977. The plan provides necessary hospital, medical and nursing care expenses not covered by workers compensation, Social Security, or other coverage. During 2007, the county adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (GASB 45). Accordingly, the government-wide financial statements include activity for the LEOFF retiree healthcare plan as discussed below (see also Note 15).

The annual other postemployment benefit (OPEB) cost of the LEOFF retiree healthcare plan is calculated by an independent actuary based upon guidelines provided by GASB 45. Actuarial valuations involve estimating the value of reported amounts and making assumptions about the probability of occurrence of future events. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and annual required employer contributions are subject to continual revision as actual results are compared with past expectations and revised estimates are established for the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. Actuarial methods and assumptions used include techniques that are designed to reduce effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term nature of the calculations.

January 1, 2007 was the most recent actuarial valuation date. The actuarial valuation uses the entry age normal actuarial cost method, and applies certain actuarial assumptions including a 5% discount rate, which is based upon the long-term investment yield of the investments expected to be used to finance payment of

benefits.

As of January 1, 2007, the plan was unfunded. The accrued liability for benefits was \$30.4 million, and the actuarial value of plan assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$30.4 million. The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at January 1, 2007 was 30 years.

Annual costs include the annual required contribution (ARC), an amount actuarially determined based on certain assumptions. The ARC represents the annual contribution to fund plan benefits that, if paid on an ongoing basis, would fully fund normal costs of benefits earned each year and would provide sufficient funding to amortize a portion of any unfunded actuarial liability over a period of thirty years as of January 1, 2007.

A summary of the components of annual OPEB cost, current employer contributions, and changes in the net OPEB obligation for 2007 follows:

Components of Other Postemployment Employee Benefit Plan - LEOFF
At December 31, 2007
(in thousands)

<u>Determination of Annual Required Contribution</u>	
Normal cost - 2007	\$ 42
Amortization of UAAL (1)	1,980
Annual Required Contribution (ARC)	<u>\$ 2,022</u>
<u>Determination of Net OPEB Obligation</u>	
Annual Required Contribution	\$ 2,022
Interest on prior year Net OPEB Obligation	n/a
Adjustment to ARC	n/a
Annual OPEB Cost	<u>2,022</u>
Contributions made	<u>1,123</u>
Increase in Net OPEB Obligation	899
Net OPEB Obligation - Beginning of Year	n/a
Net OPEB Obligation - End of Year	<u>\$ 899</u>

(1) Unfunded Actuarial Acrued Liability (UAAL)

The annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2007 follows:

<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB cost Contributed</u>	<u>Net OPEB Obligation</u>
2007	<u>\$ 2,022</u>	55.54%	<u>\$ 899</u>

The \$899 thousand net OPEB obligation (as of the most recent valuation date) is included as a current liability in the government-wide statement of net assets.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS AND PLANS

All full-time employees of *Pierce County* participate in the Public Employees Retirement System (PERS), in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), or in the Public Safety Employees' Retirement System (PSERS). All plans are administered by the State of Washington to provide retirement and disability retirement benefits. Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems 2006 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.

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; certain college and university employees; judges of district and municipal courts; noncertificated employees of school districts; and employees of local governments. 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. For the year ended December 31, 2007, PERS 1 members were required to contribute 6%, and the county was required to contribute 6.13% of annual covered salary. Contributions (in thousands) paid to the Department of Retirement Systems by members were \$674, \$766, and \$857 and county contributions were \$641, \$382, and \$264 for the years 2007, 2006, and 2005, respectively.

Participants who joined the system between October 1, 1977 and August 31, 2002, are PERS 2 members unless an option was exercised to transfer to PERS 3. For the year ended December 31, 2007, PERS 2 members were required to contribute 4.15% and the county was required to contribute 6.13% of annual covered salary. Contributions (in thousands) paid to the Department of Retirement Systems by members were \$5,553, \$4,088, and \$2,261 and county contributions were \$8,379, \$4,360, and \$2,523 for the years 2007, 2006, and 2005, respectively.

Participants joining the system after September 1, 2002 have the option of choosing membership in either PERS 2 or PERS 3. Participants who do not choose within 90 days default to PERS 3. PERS 3 has a dual benefit structure. Member contributions which finance the defined contribution component of the plan vary between 5% and 15% of annual covered salary. The county's required contribution of 6.13% of annual covered salary finances the defined benefit component. Contributions (in thousands) paid to the Department of Retirement Systems by members were \$1,256, \$1,170, and \$995, and county contributions were \$1,140, \$547, and \$287 for the years 2007, 2006, and 2005, respectively.

Retirement benefits in PERS 1 and PERS 2 are funded by employee and employer contributions, and by investment earnings. PERS 3 defined contribution benefits are dependent on discretionary employee contributions and results of employee directed investment activities. PERS 3 defined benefit component is funded by employer contributions and investment earnings.

The State Legislature establishes employer contribution rates for the three retirement plans and employee contribution rates for PERS 2. 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. During 2007, *Pierce County* and county employees made all required contributions.

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.

Participants who joined the system by September 30, 1977 are LOEFF 1 members. For the year ended December 31, 2007, the county contributed 0.16% of annual covered salary and LOEFF 1 members were not required to contribute. County contributions (in thousands) for LOEFF 1 paid to the Department of Retirement Systems were \$0.4, \$0.7, and \$1 for the years 2007, 2006, and 2005 respectively.

Participants who joined the system after October 1, 1977 are LOEFF 2 members. For the year ended December 31, 2007, LOEFF 2 members are required to contribute 8.60%, and the county contributes 5.33% of annual covered salary. Contributions (in thousands) paid to the Department of Retirement Systems by members were \$2,072, \$1,690, and \$1,307, and county contributions were \$1,289, \$1,058, and \$827 for the years 2007, 2006, and 2005, respectively. Death and disability benefits are also provided. Benefits provisions are 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 contributions do not fully fund benefits and the state is responsible for the balance of the funding. During 2007, *Pierce County* made all required contributions.

PUBLIC SAFETY EMPLOYEES' RETIREMENT SYSTEM (PSERS)

The 2004 Legislature created PSERS Plan 2, a retirement plan for certain public employees whose jobs contain a high degree of physical risk to their own personal safety, but who are not eligible for membership in LOEFF. Members of PERS Plan 2 or 3, working in PSERS positions on or before July 1, 2006 had the option to prospectively begin PSERS membership if elected by September 30, 2006. Employees hired into designated PSERS positions after July 1, 2006 are automatically enrolled in PSERS.

For the year ended December 31, 2007, PSERS members are required to contribute 6.57%, and the county contributes 8.55% of annual covered salary. Contributions (in thousands) paid to the Department of Retirement Systems by members were \$665 and \$183, and Pierce County's contributions were \$863 and \$189 for the years 2007, and 2006. Retirement and survivor benefits in PSERS Plan 2 are financed from employee and employer contributions and investment earnings. During 2007, *Pierce County* and county employees made all required contributions.

NOTE 14 - CONTINGENCIES

Solid Waste Management Trust 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. 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 should postclosure care costs increase because of changes in technology or regulations, any additional costs may be funded by charges to future landfill users or paid from future county tax revenue.

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 material 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 material uninsured losses that may arise from such claims.

NOTE 15 - SUBSEQUENT EVENTS

The Regional Support Network (RSN) division of Pierce County Mental Health Services discontinued the contract with Washington State Department of Social and Health Services (DSHS) after December 31, 2007. RSN recorded \$3.1 million liability for unspent DSHS funds received in 2007 related to this contract. In April 2008 DSHS and *Pierce County* agreed the total unexpended amount to be returned to DSHS is \$6.8 million.

NOTE 16 - ACCOUNTING CHANGES

CHANGE IN ACCOUNTING AND FINANCIAL REPORTING PRINCIPLES

During 2007, the county implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (GASB 45). This statement improves the relevance and usefulness of financial reporting for the costs of other

postretirement employee benefit (OPEB). The statement requires systematic, accrual-basis measurement and recognition of OPEB costs over a period that will approximate employees' years of service and provides information about actuarial accrued liabilities associated with OPEB. Requirements also include disclosures of whether and to what extent progress is being made funding the plan. The provisions of GASB 45 were implemented on a prospective basis.

In 2007, the county also implemented GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues. This statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. Implementation of this standard did not materially impact the financial position or operations of the county.

