



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

**Pima County**  
Department of  
Wastewater Management  
June 30, 2002

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**Debra K. Davenport**  
Auditor General

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Pima County  
Department of Wastewater Management  
Report on Audit of Financial Statements  
June 30, 2002

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of Pima County, Arizona

We have audited the accompanying financial statements of the Pima County Department of Wastewater Management as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Pima County Department of Wastewater Management's financial statements are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities and major funds of the County that is attributable to the transactions of the Pima County Department of Wastewater Management. They do not purport to, and do not, present fairly the financial position, and the changes in financial position and cash flows of the County in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Pima County Department of Wastewater Management as of June 30, 2002, and the changes in financial position and cash flows of the Department for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, Pima County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2002, to implement a new financial reporting model. Also, as described in Note 2, the County changed its policy for capitalizing assets by raising its capitalization threshold. This represents a change in the application of an accounting principle.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pima County Department of Wastewater Management taken as a whole. The accompanying financial information listed as supplementary schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Debbie Davenport  
Auditor General

December 31, 2002

Pima County  
 Department of Wastewater Management  
 Statement of Net Assets—Enterprise Fund  
 June 30, 2002

Assets

Current assets:

Cash and cash equivalents	\$ 19,465,023
Interest receivable	38,371
Accounts receivable, net	8,356,809
Due from other Pima County funds	76,486
Due from other governments	621,219
Inventory of materials and supplies	2,556,859
Prepaid expenses	<u>81,429</u>
Total current assets	<u>31,196,196</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents:

Restricted for construction	14,429,416
Restricted for debt service	1,215,915
Restricted for operation and maintenance	3,265,258
Held in escrow as construction contract retentions	1,188,030

Interest receivable	<u>99,212</u>
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Total restricted assets	<u>20,197,831</u>
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Capital assets, net of accumulated depreciation where applicable:

Land and other improvements	11,858,947
Solid waste transfer stations, net	1,638,239
Conveyance systems, net	260,194,637
Treatment facilities, net	137,727,075
Equipment, net	5,717,591
Construction in progress	<u>73,886,991</u>
Total capital assets, net	<u>491,023,480</u>

Deferred financing costs	<u>936,904</u>
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Total noncurrent assets	<u>512,158,215</u>
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Total assets	<u>\$543,354,411</u>
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(Continued)

See accompanying notes to financial statements.

Pima County  
 Department of Wastewater Management  
 Statement of Net Assets—Enterprise Fund  
 June 30, 2002  
 (Continued)

Liabilities

Current liabilities:

Accounts payable	\$ 4,518,795
Accrued payroll and employee benefits	2,641,719
Due to other Pima County funds	65,057
Current portion of sewer revenue bonds payable	5,200,000
Current portion of wastewater loans payable	3,686,774
Deferred sewer connection revenue	1,925,028
Deferred sludge hauling revenue	500
Current liabilities payable from restricted assets:	
Accounts payable	4,340,051
Accrued interest payable	<u>6,259</u>
Total current liabilities	<u>22,384,183</u>

Noncurrent liabilities:

Construction contract retentions payable	3,684,792
Landfill closure and postclosure care costs payable	14,566,670
Sewer revenue bonds payable, less current portion	68,240,000
Wastewater loans payable, less current portion	54,133,496
Deferred interest expense and bond discount	<u>(5,993,291)</u>
Total noncurrent liabilities	<u>134,631,667</u>

Total liabilities	<u>157,015,850</u>
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Net Assets

Invested in capital assets, net of related debt	366,693,405
Restricted for:	
Debt service	1,215,915
Capital projects	15,297,124
Wastewater management	15,748,332
Unrestricted (deficit)	<u>(12,616,215)</u>
Total net assets	<u>\$386,338,561</u>

See accompanying notes to financial statements.

Pima County  
 Department of Wastewater Management  
 Statement of Revenues, Expenses, and  
 Changes in Fund Net Assets—Enterprise Fund  
 Year Ended June 30, 2002

Operating revenues:	
Sewer utility service	\$ 40,935,336
Solid waste fees	5,185,545
Engineering review and inspection fees	61,564
Permits and fines	31,902
Other income	<u>569,486</u>
Total operating revenues	<u>46,783,833</u>
Operating expenses:	
Employee compensation	22,346,885
Operating supplies	4,742,661
Utilities	2,056,990
Sludge and refuse disposal	1,500,518
Repairs and maintenance	3,573,954
Landfill closure and postclosure care costs	1,030,243
General and administrative	5,859,870
Consultants and professional services	3,785,448
Depreciation	<u>16,542,803</u>
Total operating expenses	<u>61,439,372</u>
Operating loss	<u>(14,655,539)</u>
Nonoperating revenues (expenses):	
Grant revenue	2,174,075
Interest income	1,642,444
Sewer connection revenue	17,479,915
Shared state tax revenue	904,818
Loss on disposal of equipment	(8,452)
Interest expense	(5,602,982)
Amortization of deferred charges	<u>(88,645)</u>
Total nonoperating revenues	<u>16,501,173</u>
Income before capital contributions and transfers	<u>1,845,634</u>
Capital contributions	11,958,081
Transfers in from other Pima County funds	<u>1,173,577</u>
Increase in net assets	14,977,292
Net assets—July 1, 2001, as restated	<u>371,361,269</u>
Net assets—June 30, 2002	<u>\$386,338,561</u>

See accompanying notes to financial statements.

Pima County  
 Department of Wastewater Management  
 Statement of Cash Flows—Enterprise Fund  
 Year Ended June 30, 2002

Cash flows from operating activities:	
Receipts from customers	\$ 45,593,128
Miscellaneous receipts	505,900
Payments to suppliers for goods and services	(19,009,875)
Payments to other Pima County funds	(4,147,170)
Payments to employees	<u>(21,951,731)</u>
Net cash provided by operating activities	<u>990,252</u>
Cash flows from noncapital financing activities:	
Transfers in from other Pima County funds	1,173,577
Noncapital grant receipts	2,174,075
Shared state tax receipts	904,818
Net interfund borrowings (repayments)	<u>(823,589)</u>
Net cash provided by noncapital financing activities	<u>3,428,881</u>
Cash flows from capital and related financing activities:	
Proceeds from issuing sewer bonds and loans	28,646,751
Sewer connection receipts from customers	17,421,316
Purchase and construction of capital assets	(39,664,347)
Proceeds from sale of capital assets	10,750
Principal payments on revenue bonds and loans	(7,661,855)
Interest payments on revenue bonds and loans	<u>(5,675,889)</u>
Net cash used for capital and related financing activities	<u>(6,923,274)</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,766,836</u>
Net cash provided by investing activities	<u>1,766,836</u>
Net decrease in cash and cash equivalents	(737,305)
Cash and cash equivalents, July 1, 2001	<u>40,300,947</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 39,563,642</u>

(Continued)

See accompanying notes to financial statements.

Pima County  
 Department of Wastewater Management  
 Statement of Cash Flows—Enterprise Fund  
 Year Ended June 30, 2002  
 (Continued)

Reconciliation of operating loss to net cash  
 provided by operating activities:

Operating loss	\$(14,655,539)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	16,542,803
Landfill closure and postclosure care costs	1,030,243
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	(63,586)
Due from other governments	(621,219)
Inventory of materials and supplies	(48,227)
Prepaid expenses	(15,343)
Increase (decrease) in liabilities:	
Accrued payroll and employee benefits	395,154
Accounts payable	(1,316,462)
Due to other governments	<u>(257,572)</u>
Net cash provided by operating activities	<u>\$ 990,252</u>

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2002, Pima County transferred capital assets with a net book value of \$710,463 to the Department. This transaction was recorded as a capital contribution.

During the year ended June 30, 2002, the U.S. Department of the Interior transferred capital assets with a net book value of \$5,000 to the Department. This transaction was recorded as a capital contribution.

During the year ended June 30, 2002, the Department sold capital assets with a net book value of \$19,202 for \$10,750, resulting in a loss on disposal of \$8,452.

During the year ended June 30, 2002, developers conveyed capital assets with an estimated fair value of \$11,715,495 to the Department. Because the fair value of the conveyed capital assets exceeded the required amount, the Department recorded capital contributions in the amount of \$11,242,618 and deferred revenue in the amount of \$472,877.

See accompanying notes to financial statements.

Pima County  
Department of Wastewater Management  
Notes to Financial Statements  
June 30, 2002

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Department of Wastewater Management conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2002, Pima County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model for state and local governments. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures. As a result, the Department has changed its financial statement presentation to conform to the reporting requirements for business-type activities. A summary of the Department's more significant accounting policies follows.

A. Reporting Entity

The Department is accounted for as an enterprise fund of Pima County, Arizona, and is responsible for managing and operating all liquid and solid waste programs in Pima County. The Department's management is directed by an administrator appointed by the Pima County Board of Supervisors. However, ultimate financial accountability for the Department remains with Pima County.

B. Fund Accounting

The Department's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Department's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. A fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses.

The Department's financial transactions are recorded and reported as an enterprise fund because its operations are financed and operated in a manner similar to private business enterprises, in which the intent of the Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Department follows those Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research bulletins, unless those pronouncements conflict with GASB pronouncements.

Pima County  
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June 30, 2002

### C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Department are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred, regardless of when the related cash flows take place. When both restricted and unrestricted net assets are available to finance departmental expenses, restricted resources are used before unrestricted resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to Pima County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the Department are eliminated for the consolidated financial statement presentation.

### D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the Department at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Department's obligations. Invested in capital assets net of related debt represents the net value of capital assets less the debt incurred to acquire or construct the asset. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about the Department's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and transfers.

A statement of cash flows provides information about the Department's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either, operating, noncapital financing, capital financing, or investing.

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June 30, 2002

The Department's measurement focus is the flow of economic resources. With this measurement focus, all assets and all liabilities associated with the operation of the Department are included on the statement of net assets. Net assets are segregated into invested in capital assets, net of related debt; restricted; and unrestricted. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets

### E. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, investments with the State Treasurer in the investment pool, and deposits held in escrow accounts. All investments are stated at fair value.

### F. Deferred Charges

Deferred charges (primarily bond and loan issuance costs) are being amortized over the life of the related debt using the straight-line method.

### G. Capital Assets

Property, plant, and equipment are capitalized at cost. Donated property, plant, and equipment are capitalized at their estimated fair market value at the time received. The Department capitalizes all land and buildings regardless of cost and all other property, plant and equipment valued at \$5,000 and above. Costs for internally constructed plant and equipment includes material, direct labor, engineering, interest, and allocated portions of other indirect costs related to the construction projects. Depreciation of such assets is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	3 to 50 years
Conveyance systems	50 years
Solid waste transfer stations	50 years

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#### H. Compensated Absences

Compensated absences consist of annual leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 240 hours of annual leave, but must forfeit any annual leave hours in excess of the maximum that are unused at the end of the payroll period in which the employee's anniversary date falls. Upon termination, all unused and unforfeited annual leave benefits are paid to employees. Accordingly, annual leave benefits are accrued as a liability in the financial statements. Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but do not vest with employees and therefore, are not accrued in the financial statements. However, for employees who retire with 20 years or more of continuous service or who have a combined total of age and years of service equal to 80 points, and who retire from service into the Arizona State Retirement System, sick leave benefits do vest and, therefore, are accrued.

#### I. Construction Contract Retentions

The Department has numerous construction projects in process. The Department retains a percentage of each progress payment until the project's successful completion. In some instances, contract retentions are deposited in escrow accounts so contractors may earn interest during the construction period.

#### J. Deferred Interest Expense

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the refunded debt or the refunding debt, whichever is shorter. This deferred amount is reported as a deduction from the new debt liability on the statement of net assets.

#### K. Revenues

Sewer utility billings are based on the content and volume of wastewater discharged and a minimum charge for service. Solid waste fees are based on landfill location, weight of disposed material, and material type.

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 Notes to Financial Statements  
 June 30, 2002

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as an increase in net assets at their estimated fair value. In those instances where a developer makes enhancements that exceed the requirements for the conveyance systems, the Department establishes reduced fees and credits that can be used to offset future fees charged to developers for each new connection to the conveyance systems. These credits are recorded as deferred sewer connection revenue and recognized as income when connection permits are issued.

Sewer connection fees are assessed to land developers based on the type and number of fixtures attached to the conveyance systems. Fees are established at a level to provide for the recovery of the Department's operating expenses that are not recovered by the sewer utility service fees. Accordingly, fees collected are classified as nonoperating revenues.

Note 2 - Accounting Changes

As a result of implementing GASB Statement No. 34, the Department's fund equity balances have been restated as net assets. Additionally, as of July 1, 2001, Pima County changed its capitalization threshold from \$1,000 to \$5,000 and applied that policy change retroactively. The cumulative effect of these changes follows:

Total fund equity at June 30, 2001, as previously reported	\$372,960,852
Cumulative effect of change in capitalization threshold	<u>(1,599,583)</u>
Total fund equity at July 1, 2001	<u>\$371,361,269</u>
Net assets—Invested in capital assets, net of related debt	\$346,992,817
Net assets—Restricted	37,920,645
Net assets—Unrestricted	<u>(13,552,193)</u>
Total net assets at July 1, 2001	<u>\$371,361,269</u>

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 Department of Wastewater Management  
 Notes to Financial Statements  
 June 30, 2002

Note 3 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following amounts.

Current assets:

Cash on hand	\$ 3,850
Cash and investments held by the Pima County Treasurer	3,570,225
Investments with State Treasurer	<u>15,890,948</u>
Total current cash and cash equivalents	<u>19,465,023</u>

Restricted assets:

Cash and investments held by the Pima County Treasurer	4,481,173
Investment with the State Treasurer	14,429,416
Deposits held in escrow accounts	<u>1,188,030</u>
Total restricted cash and cash equivalents	<u>20,098,619</u>

Total cash and cash equivalents	<u>\$39,563,642</u>
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The Department's cash and investments held by the Pima County Treasurer represent a proportionate interest in the County Treasurer's investment pool portfolios. This portion is not identified with specific investments and is not subject to custodial credit risk.

In addition, the investments with the State Treasurer represent investments in the State Treasurer's Local Government Investment Pool. The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Of the deposits held in escrow by financial institutions, \$211,158 was covered by federal depository insurance and \$976,872 was uninsured and uncollateralized.

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Notes to Financial Statements  
June 30, 2002

Note 4 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2002, is presented in the following schedule. Beginning capital asset and accumulated depreciation balances were restated for a change in the capitalization threshold as described in Note 2.

	Balance July 1, 2001 <u>(as restated)</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2002
Capital assets not being depreciated:				
Land and other improvements	\$ 10,957,315	\$ 901,632		\$ 11,858,947
Construction in progress	<u>38,335,432</u>	<u>37,879,985</u>	<u>\$(2,328,426)</u>	<u>73,886,991</u>
Total capital assets not being depreciated	<u>49,292,747</u>	<u>38,781,617</u>	<u>(2,328,426)</u>	<u>85,745,938</u>
Capital assets being depreciated:				
Transfer stations	2,123,743	44,637		2,168,380
Conveyance systems	371,838,657	14,977,910		386,816,567
Treatment facilities	213,305,091	931,942		214,237,033
Equipment	<u>13,278,205</u>	<u>2,012,591</u>	<u>(455,391)</u>	<u>14,835,405</u>
Total capital assets being depreciated	<u>600,545,696</u>	<u>17,967,080</u>	<u>(455,391)</u>	<u>618,057,385</u>
Less accumulated depreciation for:				
Transfer stations	(487,666)	(42,475)		(530,141)
Conveyance systems	(118,355,087)	(8,266,843)		(126,621,930)
Treatment facilities	(68,950,940)	(7,559,018)		(76,509,958)
Equipment	<u>(8,879,536)</u>	<u>(674,467)</u>	<u>436,189</u>	<u>(9,117,814)</u>
Total accumulated depreciation	<u>(196,673,229)</u>	<u>(16,542,803)</u>	<u>436,189</u>	<u>(212,779,843)</u>
Total capital assets being depreciated, net	<u>403,872,467</u>	<u>1,424,277</u>	<u>(19,202)</u>	<u>405,277,542</u>
Total capital assets, net	<u>\$ 453,165,214</u>	<u>\$ 40,205,894</u>	<u>\$(2,347,628)</u>	<u>\$ 491,023,480</u>

Pima County  
Department of Wastewater Management  
Notes to Financial Statements  
June 30, 2002

Note 5 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2002.

	<u>Balance</u> <u>July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 2, 2002</u>	<u>Due Within</u> <u>1 year</u>
Sewer revenue bonds	\$ 77,560,000		\$4,120,000	\$ 73,440,000	\$5,200,000
Less unamortized deferred amounts	<u>6,116,234</u>		<u>487,266</u>	<u>5,628,968</u>	<u>                    </u>
Total revenue bonds payable	<u>71,443,766</u>		<u>3,632,734</u>	<u>67,811,032</u>	<u>5,200,000</u>
Wastewater loans payable	32,715,374	\$28,646,751	3,541,855	57,820,270	3,686,774
Less unamortized deferred amounts	<u>400,517</u>		<u>36,194</u>	<u>364,323</u>	<u>                    </u>
Total loans payable	<u>32,314,857</u>	<u>28,646,751</u>	<u>3,505,661</u>	<u>57,455,947</u>	<u>3,686,774</u>
Landfill closure and postclosure care costs	13,536,427	1,030,243		14,566,670	
Construction contract retentions payable	<u>3,452,244</u>	<u>232,548</u>		<u>3,684,792</u>	
Total long-term liabilities	<u>\$120,747,294</u>	<u>\$29,909,542</u>	<u>\$7,138,395</u>	<u>\$143,518,441</u>	<u>\$8,886,774</u>

**Sewer Revenue Bonds**—The Department has issued several series of sewer revenue bonds (Series 1992, Series 1993, Refunding 1994A, Series 1994B, Series 1998, and Series 2001) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and improvements to the sewer system. The bonds are callable at various prices depending on the date of call. Interest on the bonds is payable semiannually. Of the total amount originally authorized, \$23,114,714 from the May 20, 1997, bond election remains unissued.

**Loans Payable**—The Department has entered into three loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, and 2000 loans payable) to provide funds for the defeasance of prior sewer revenue bonds and the construction and improvement of wastewater treatment facilities. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period.

During the year ending June 30, 2002, the Department increased the loan amount for the 2000 Water Infrastructure Financing Authority of Arizona loan. The authorization was increased \$21,180,286 from the original \$40,000,000 to \$61,180,286 of which only \$44,264,399 has been drawn down. Payments of principal, which are subject to change, are based upon the total amounts drawn, and started on June 30, 2002.

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**Debt Covenants**—All revenue bonds were issued and the loan agreements were executed with a first lien on the first pledge of the Department's net revenues and have restrictive covenants, primarily related to minimum utility rates and limitations on future bond issues. The bond covenants also require the Department to either maintain a surety bond guaranteeing the payment of annual debt service or to maintain in the Bond Reserve Account monies equal to the average annual debt service payment. At June 30, 2002, the Department had a surety bond in place to meet the requirements of the debt covenants. The Department is also authorized to issue additional parity bonds if certain conditions are met (primarily that net revenues for the fiscal year immediately preceding issuance of the parity bonds exceed 120 percent of the maximum annual debt service requirements immediately after such issuance).

Bonds and loans outstanding at June 30, 2002, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal June 30, 2002</u>
Series 1992	6.0-7.5%	2003	\$ 665,000
Series 1993	5.6-6.5%	2003-2005	895,000
Refunding 1994A	4.1-5.0%	2003-2015	26,725,000
Series 1994B	5.0-6.5%	2003-2005	1,135,000
Series 1998	4.0-5.5%	2003-2004	24,920,000
Refunding 2001	4.0-5.4%	2003-2015	<u>19,100,000</u>
Total bonds payable			<u>\$73,440,000</u>
1996 loan payable	3.19%	2004-2012	11,313,350
1997 loan payable	2.95%	2003-2011	5,278,593
2000 loan payable	2.02%	2003-2016	<u>41,228,327</u>
Total loans payable			<u>\$57,820,270</u>

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Revenue bond debt service and loan payment requirements to maturity, are as follows:

Year ending June 30,	<u>Revenue Bond Debt Service</u>		<u>Revenue Loan Debt Service</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 5,200,000	\$ 3,578,914	\$ 3,686,774	\$ 2,125,303
2004	4,965,000	3,315,786	4,269,721	1,990,127
2005	4,595,000	3,067,341	4,950,734	1,833,535
2006	4,470,000	2,841,886	5,502,957	1,651,913
2007	5,525,000	2,622,699	4,892,394	1,449,941
2008-2012	29,350,000	8,961,109	30,127,543	3,624,129
2013-2016	<u>19,335,000</u>	<u>2,024,425</u>	<u>4,390,147</u>	<u>1,553,254</u>
Total	<u>\$73,440,000</u>	<u>\$26,412,160</u>	<u>\$57,820,270</u>	<u>\$14,228,202</u>

**Refunded Sewer Revenue Bonds Outstanding**—The Department used the proceeds of the 1994A refunding issue, the 1996 loan payable, a portion of the Series 1998, and Refunding Series 2001 proceeds to refund various sewer revenue bonds. The proceeds were used to purchase U.S. government securities, which were placed in irrevocable trusts with the escrow agents to provide for future debt service payments on the refunded bonds. Accordingly, the trust account assets of \$13,982,307 and the liability for the defeased bonds summarized below are not included in the Department's financial statements.

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Principal June 30, 2002</u>
Series 1992	6.0-6.5%	2004-2012	\$7,770,000
Series 1993	5.0-5.9%	2006-2012	2,845,000
Series 1994B	5.6-5.8%	2005-2008	<u>2,650,000</u>
Total			<u>\$13,265,000</u>

**Landfill Closure and Postclosure Care Costs**—State and federal laws and regulations require the Department to place a final cover on its solid waste landfill sites when these sites stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the Department reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$14,566,670 reported as landfill closure and postclosure care liability at June 30, 2002, represents the cumulative amount reported to date based on the use of 88, 93, and 75 percent of the estimated

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capacity of the Ajo, Sahuarita, and Tangerine landfills, respectively. The Department will recognize the remaining estimated cost of closure and postclosure care of \$4,226,793 as the remaining estimated capacity of each landfill is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2002. The Department expects to close the Ajo, Sahuarita, and Tangerine, landfills in the years 2022, 2003, and 2007, respectively, and actual costs may be higher due to inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure the County can meet the costs of landfill closure, postclosure and corrective action when needed. The County is in compliance with these requirements.

El Camino del Cerro Landfill stopped accepting waste during 1978 and is not subject to the state and federal regulations referred to above. However, the Arizona Department of Environmental Quality has filed a complaint pursuant to other state and federal laws alleging that hazardous substances have been released at the landfill. The County has entered into settlement negotiations with the Arizona Department of Environmental Quality to resolve the cleanup litigation. The County has also voluntarily incurred cleanup expenses for a soil vapor extraction system, a series of drainage improvements, a re-grade of the landfill cap, and groundwater remediation. No liability has been recognized in the financial statements because the outcome of the litigation is uncertain. The County's cleanup costs could total \$3.6 million and county management plans to finance any required cleanup costs through future bond issues.

**Construction Contract Retentions Payable**—State laws and regulations require the Department to withhold a portion of progress payments made on construction contracts until the successful completion of the construction project.

## Note 6 - Related Party Transactions

**Administrative and Fiscal Services**—The Department incurred expenses from Pima County for a variety of administrative and fiscal services, including \$1,441,653 for the allocation of overhead; \$475,098 for self-insurance premiums; \$2,127,849 for motor pool charges; \$333,160 for nonmedical professional charges; \$68,733 for printing charges; and \$258,114 for miscellaneous other charges.

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**Public Works Center**—The Department occupies a portion of the Public Works Center and pays rent expense based on a prorata share of the building expenses incurred by the Pima County Facilities Management department. The Department's rent expense totaled \$472,806 for the year ended June 30, 2002

Note 7 - Significant Commitments

Commitments under construction contracts at June 30, 2002, totaled \$30,430,114.

Note 8 - Risk Management

The Department is a participant in Pima County's self-insurance program. The County's self-insurance program covers the Department for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In the opinion of the Department's management, any unfavorable outcomes from these types of risks would be covered by that self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to Pima County's self-insurance program. All estimated losses for these unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the *Pima County Comprehensive Annual Financial Report*.

Risks of loss arising from contractual breaches are not covered by the County's self-insurance program or commercial insurance. The Department's management does not believe that these types of losses would be material to the financial statements; therefore, no accrual of losses has been made within the financial statements. At June 30, 2002, there were no material lawsuits related to contractual breaches.

Note 9 - Intergovernmental Agreement

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID) and Oro Valley Water provide sewer utility billing and collection services, certain computer services, accounting information, and statistical data to the Department. During the year ended June 30, 2002, the Department paid fees totaling \$1,333,539, \$104,903, and \$94,193, respectively, for such services. As part of its agreement, the City of Tucson invests cash collected from utility customers and held for remittance to the Department. Interest earnings on such investments are remitted to the Department. The MDWID and Oro Valley Water submit cash receipts to the Department regularly. However, cash collections are not invested, and therefore, neither MDWID or Oro Valley Water remit interest to the Department.

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 June 30, 2002

Note 10 - Segment Information

Liquid Waste, a division of the Department, is reported within the Department's enterprise fund. Liquid Waste operates the sewer system which provides wastewater collection, treatment, and disposal throughout Pima County. All revenues generated by the ownership, use, and operation of Pima County's sewer system are pledged in support of sewer system debt. In addition, debt covenants require sewer system revenues, expenses, gains, losses, assets, and liabilities to be accounted for separately. As a result, condensed financial information for Liquid Waste is presented in the following tables.

**Condensed Statement of Net Assets**

	<u>Liquid Waste</u>
<b>Assets</b>	
Current assets	\$ 28,923,316
Restricted assets	20,197,831
Capital assets, net of accumulated depreciation	480,891,831
Other noncurrent assets	<u>936,904</u>
Total assets	<u>530,949,882</u>
<b>Liabilities</b>	
Current liabilities	22,061,758
Noncurrent liabilities	<u>120,064,997</u>
Total liabilities	<u>142,126,755</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	352,876,964
Restricted	<u>35,946,163</u>
Total net assets	<u>\$388,823,127</u>

Pima County  
 Department of Wastewater Management  
 Notes to Financial Statements  
 June 30, 2002

**Condensed Statement of Revenues, Expenses,  
 and Changes in Fund Net Assets**

	<u>Liquid Waste</u>
Operating revenues (expenses)	
Sewer utility service	\$ 40,935,336
Other operating revenues	605,291
Depreciation expense	(16,356,222)
Other operating expenses	<u>(39,183,098)</u>
Operating loss	(13,998,693)
Nonoperating revenues (expenses)	
Sewer connection revenue	17,479,915
Other nonoperating revenues	3,805,655
Interest expense	(5,588,521)
Other nonoperating expenses	(97,097)
Capital contributions	<u>11,242,618</u>
Change in net assets	12,843,877
Net assets, July 1, 2001, as restated	<u>375,979,250</u>
Net assets, June 30, 2002	<u>\$388,823,127</u>

**Condensed Statement of Cash Flows**

Net cash provided by (used for)	
Operating activities	\$ 632,825
Noncapital financing activities	2,184,988
Capital and related financing activities	(6,840,362)
Investment activities	<u>1,771,927</u>
Decrease in cash	(2,250,622)
Cash and cash equivalents, July 1, 2001	<u>40,118,042</u>
Cash and cash equivalents, June 30, 2002	<u>\$37,867,420</u>

Pima County  
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Note 11 - Retirement Plan

**Plan Description**—The Department contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System that covers general employees of the Department. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a publicly available annual financial report that includes its financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the Department's contribution rates. For the year ended June 30, 2002, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Department's contributions to ASRS for the years ended June 30, 2002, 2001, and 2000, were \$449,580, \$427,785, and \$403,940, respectively, which were equal to the required contributions for the year.

Note 12 - Subsequent Events

**Northwest Outfall Sewer Rupture**—On September 7, 2002, the 42-inch Northwest Outfall sewer line ruptured causing several sink holes and discharging raw sewage into the Santa Cruz River. The Department began immediate cleanup activities, spending approximately \$4 million and expecting to spend another \$2 million. Pima County's Risk Management Department has also incurred related expenses of \$0.5 million and expects to incur future related expenses of approximately \$0.5 million. Additionally, claims have been filed by affected residents and businesses, and the Arizona Department of Environmental Quality has notified the Department that rupture and related sewage discharge violated 11 environmental laws and regulations. The liability and future outcome of any related litigation is unknown at this time.

**Randolph Park Water Reclamation Facility**—In July 2002, construction began on the Randolph Park Water Reclamation Facility. The construction contract was awarded for slightly more than \$29 million. The Department plans to pay for the construction with available sewer system development funds and future sewer revenue loan proceeds.

Pima County  
Department of Wastewater Management  
Notes to Financial Statements  
June 30, 2002

**Recent Investment Losses in the State Treasurer's Local Government Investment Pool—**

Pursuant to statutory authority, a portion of the Department's monies are invested in the State Treasurer's Local Government Investment Pool (LGIP), which was established in 1980 for the collective investment of State and local government monies. Monies in the LGIP may be invested in various types of investments prescribed by law, including bonds, debentures, or other evidences of indebtedness that are issued by entities organized and doing business in the United States that have a minimum rating of "Baa" from Moody's Investors Service or "BBB" from Standard & Poor's Rating Service. In December 2002, the State Treasurer announced that the LGIP currently holds approximately \$131 million of asset-backed securities issued by an NPF-12 trust that are serviced by National Century Financial Enterprises (NCFE). Recently, NCFE has come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, and various state authorities for possible fraud and violations of federal and state laws. NCFE has since declared bankruptcy and the trustee for the bonds has informed the State Treasurer that the interest payment due December 1, 2002, was not received.

All LGIP participants have been allocated a proportional share of the value of the NPF-12 securities, and such securities have been placed by the State Treasurer into a separate pool (the "Separate LGIP Pool"). It is likely that the LGIP will incur a loss on the total securities held of approximately \$131 million. Of this likely loss to the LGIP, the County currently estimates the Department would be allocated approximately \$1 million as its proportional share as an LGIP participant. The State is pursuing legal action to the fullest extent possible to protect the interests of the LGIP participants which may eventually include the recovery of all or a portion of the investment loss.

## Supplementary Schedules

Pima County  
 Department of Wastewater Management  
 Combining Statement of Net Assets  
 June 30, 2002

Assets	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 17,768,801	\$ 1,696,222	\$ 19,465,023
Interest receivable	36,629	1,742	38,371
Accounts receivable, net	7,992,167	364,642	8,356,809
Due from other Pima County funds	75,503	983	76,486
Due from other governments	414,379	206,840	621,219
Inventory of materials and supplies	2,556,859		2,556,859
Prepaid expenses	<u>78,978</u>	<u>2,451</u>	<u>81,429</u>
Total current assets	<u>28,923,316</u>	<u>2,272,880</u>	<u>31,196,196</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents:			
Restricted for construction	14,429,416		14,429,416
Restricted for debt service	1,215,915		1,215,915
Restricted for operation and maintenance	3,265,258		3,265,258
Held in escrow as construction contract retentions	1,188,030		1,188,030
Accrued interest receivable	<u>99,212</u>		<u>99,212</u>
Total restricted assets	<u>20,197,831</u>		<u>20,197,831</u>
Capital assets, net of accumulated depreciation where applicable:			
Land and other improvements	4,117,586	7,741,361	11,858,947
Solid waste transfer stations, net		1,638,239	1,638,239
Conveyance systems, net	260,194,637		260,194,637
Treatment facilities, net	137,727,075		137,727,075
Equipment, net	4,965,542	752,049	5,717,591
Construction in progress	<u>73,886,991</u>		<u>73,886,991</u>
Total capital assets, net	<u>480,891,831</u>	<u>10,131,649</u>	<u>491,023,480</u>
Deferred financing costs	<u>936,904</u>		<u>936,904</u>
Total noncurrent assets	<u>502,026,566</u>	<u>10,131,649</u>	<u>512,158,215</u>
Total assets	<u>\$530,949,882</u>	<u>\$12,404,529</u>	<u>\$543,354,411</u>

(Continued)

Pima County  
 Department of Wastewater Management  
 Combining Statement of Net Assets  
 June 30, 2002  
 (Continued)

Liabilities	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Current liabilities:			
Accounts payable	\$ 4,400,334	\$ 118,461	\$ 4,518,795
Accrued payroll and employee benefits	2,446,980	194,739	2,641,719
Due to other Pima County funds	55,832	9,225	65,057
Current portion of sewer revenue bonds payable	5,200,000		5,200,000
Current portion of wastewater loans payable	3,686,774		3,686,774
Deferred sewer connection revenue	1,925,028		1,925,028
Deferred sludge hauling revenue	500		500
Current liabilities payable from restricted assets:			
Accounts payable	4,340,051		4,340,051
Accrued interest payable	<u>6,259</u>	<u>          </u>	<u>6,259</u>
Total current liabilities	<u>22,061,758</u>	<u>322,425</u>	<u>22,384,183</u>
Noncurrent liabilities:			
Construction contract retentions payable	3,684,792		3,684,792
Landfill closure and postclosure care costs payable		14,566,670	14,566,670
Sewer revenue bonds payable, less current portion	68,240,000		68,240,000
Wastewater loans payable, less current portion	54,133,496		54,133,496
Deferred interest expense and bond discount	<u>(5,993,291)</u>	<u>          </u>	<u>(5,993,291)</u>
Total noncurrent liabilities	<u>120,064,997</u>	<u>14,566,670</u>	<u>134,631,667</u>
Total liabilities	<u>142,126,755</u>	<u>14,889,095</u>	<u>157,015,850</u>
Net Assets			
Invested in capital assets, net of related debt	356,561,756	10,131,649	366,693,405
Restricted for:			
Debt service	1,215,915		1,215,915
Capital projects	15,297,124		15,297,124
Wastewater management	15,748,332		15,748,332
Unrestricted (deficit)	<u>          </u>	<u>(12,616,215)</u>	<u>(12,616,215)</u>
Total net assets	<u>\$388,823,127</u>	<u>\$ (2,484,566)</u>	<u>\$386,338,561</u>

Pima County  
Department of Wastewater Management  
Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Year Ended June 30, 2002

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Operating revenues:			
Sewer utility service	\$ 40,935,336		\$ 40,935,336
Solid waste fees		\$ 5,185,545	5,185,545
Engineering review and inspection fees	61,564		61,564
Permits and fines	31,902		31,902
Other income	<u>511,825</u>	<u>57,661</u>	<u>569,486</u>
Total operating revenues	<u>41,540,627</u>	<u>5,243,206</u>	<u>46,783,833</u>
Operating expenses:			
Employee compensation	20,425,999	1,920,886	22,346,885
Operating supplies	4,737,986	4,675	4,742,661
Utilities	1,991,998	64,992	2,056,990
Sludge and refuse disposal	1,345,172	155,346	1,500,518
Repairs and maintenance	3,204,837	369,117	3,573,954
Landfill closure and postclosure care costs		1,030,243	1,030,243
General and administrative	4,125,081	1,734,789	5,859,870
Consultants and professional services	3,352,025	433,423	3,785,448
Depreciation	<u>16,356,222</u>	<u>186,581</u>	<u>16,542,803</u>
Total operating expenses	<u>55,539,320</u>	<u>5,900,052</u>	<u>61,439,372</u>
Operating loss	<u>(13,998,693)</u>	<u>(656,846)</u>	<u>(14,655,539)</u>
Nonoperating revenues (expenses):			
Grant revenue	2,174,075		2,174,075
Interest income	1,631,580	10,864	1,642,444
Sewer connection revenue	17,479,915		17,479,915
Shared state tax revenue		904,818	904,818
Loss on disposal of equipment	(8,452)		(8,452)
Interest expense	(5,588,521)	(14,461)	(5,602,982)
Amortization of deferred charges	<u>(88,645)</u>		<u>(88,645)</u>
Total nonoperating revenues	<u>15,599,952</u>	<u>901,221</u>	<u>16,501,173</u>
Income before capital contributions and transfers	<u>1,601,259</u>	<u>244,375</u>	<u>1,845,634</u>
Capital contributions	11,242,618	715,463	11,958,081
Transfers in from other county funds		<u>1,173,577</u>	<u>1,173,577</u>
Increase in net assets	12,843,877	2,133,415	14,977,292
Net assets—July 1, 2001, as restated	<u>375,979,250</u>	<u>(4,617,981)</u>	<u>371,361,269</u>
Net assets—June 30, 2002	<u>\$388,823,127</u>	<u>\$(2,484,566)</u>	<u>\$386,338,561</u>

Pima County  
 Department of Wastewater Management  
 Combining Statement of Cash Flows  
 Year Ended June 30, 2002

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 40,614,423	\$ 4,978,705	\$ 45,593,128
Miscellaneous receipts	269,991	235,909	505,900
Payments to suppliers for goods and services	(16,593,755)	(2,416,120)	(19,009,875)
Payments to other Pima County funds	(3,621,159)	(526,011)	(4,147,170)
Payments to employees	<u>(20,036,675)</u>	<u>(1,915,056)</u>	<u>(21,951,731)</u>
Net cash provided by operating activities	<u>632,825</u>	<u>357,427</u>	<u>990,252</u>
Cash flows from noncapital financing activities:			
Transfers in from other Pima County funds		1,173,577	1,173,577
Noncapital grant receipts	2,174,075		2,174,075
Shared state tax receipts		904,818	904,818
Net interfund borrowings (repayments)	<u>10,913</u>	<u>(834,502)</u>	<u>(823,589)</u>
Net cash provided by noncapital financing activities	<u>2,184,988</u>	<u>1,243,893</u>	<u>3,428,881</u>
Cash flows from capital and related financing activities:			
Proceeds from issuing sewer bonds and loans	28,646,751		28,646,751
Sewer connection receipts from customers	17,421,316		17,421,316
Purchase and construction of capital assets	(39,581,435)	(82,912)	(39,664,347)
Proceeds from sale of capital assets	10,750		10,750
Principal payments on revenue bonds and loans	(7,661,855)		(7,661,855)
Interest payments on revenue bonds and loans	<u>(5,675,889)</u>		<u>(5,675,889)</u>
Net cash used for capital and related financing activities	<u>(6,840,362)</u>	<u>(82,912)</u>	<u>(6,923,274)</u>
Cash flows from investing activities:			
Interest received on investments	<u>1,771,927</u>	<u>(5,091)</u>	<u>1,766,836</u>
Net cash provided by investing activities	<u>1,771,927</u>	<u>(5,091)</u>	<u>1,766,836</u>
Net increase (decrease) in cash and cash equivalents	(2,250,622)	1,513,317	(737,305)
Cash and cash equivalents, July 1, 2001	<u>40,118,042</u>	<u>182,905</u>	<u>40,300,947</u>
Cash and cash equivalents, June 30, 2002	<u>\$ 37,867,420</u>	<u>\$ 1,696,222</u>	<u>\$ 39,563,642</u>

(Continued)

Pima County  
Department of Wastewater Management  
Combining Statement of Cash Flows  
Year Ended June 30, 2002  
(Continued)

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$(13,998,693)	\$ (656,846)	\$(14,655,539)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	16,356,222	186,581	16,542,803
Landfill closure and postclosure care costs		1,030,243	1,030,243
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	(241,834)	178,248	(63,586)
Due from other governments	(414,379)	(206,840)	(621,219)
Inventory of materials and supplies	(48,227)		(48,227)
Prepaid expenses	(13,239)	(2,104)	(15,343)
Increase (decrease) in liabilities:			
Accrued payroll and employee benefits	389,324	5,830	395,154
Accounts payable	(1,138,777)	(177,685)	(1,316,462)
Due to other governments	<u>(257,572)</u>	<u>                    </u>	<u>(257,572)</u>
Net cash provided by operating activities	<u>\$ 632,825</u>	<u>\$ 357,427</u>	<u>\$ 990,252</u>

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2002, Pima County transferred capital assets with a net book value of \$710,463 to the Solid Waste Division. This transaction was recorded as a capital contribution.

During the year ended June 30, 2002, the U.S. Department of the Interior transferred capital assets with a net book value of \$5,000 to the Solid Waste Division. This transaction was recorded as a capital contribution.

During the year ended June 30, 2002, the Liquid Waste Division sold capital assets with a net book value of \$19,202 for \$10,750, resulting in a loss on disposal of \$8,452.

During the year ended June 30, 2002, developers conveyed capital assets with an estimated fair value of \$11,715,495 to the Liquid Waste Division. Because the fair value of the conveyed capital assets exceeded the required amount, the Department recorded capital contributions in the amount of \$11,242,618 and deferred revenue in the amount of \$472,877.