



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statement Audit

Pima County

Department of
Wastewater Management
Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Pima County
Department of Wastewater Management
Report on Audit of Financial Statements
Year Ended June 30, 2004

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

DEBRA K. DAVENPORT, CPA
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, 2004, 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 Pima County that is attributable to the Pima County Department of Wastewater Management. They do not purport to, and do not, present fairly the financial position of Pima County as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pima County Department of Wastewater Management as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Pima County Department of Wastewater Management. 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 3, 2004

Pima County
 Department of Wastewater Management
 Statement of Net Assets—Enterprise Fund
 June 30, 2004

Assets

Current assets:

Cash and cash equivalents	\$ 5,777,819
Interest receivable	12,075
Accounts receivable, net	6,510,978
Due from other Pima County funds	80,675
Due from other governments	438,529
Inventory of materials and supplies	2,696,458
Prepaid expenses	<u>91,619</u>
Total current assets	<u>15,608,153</u>

Noncurrent assets:

Restricted assets:

Cash and cash equivalents:

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Restricted for construction</td> <td style="text-align: right; width: 20%;">2,580,668</td> </tr> <tr> <td>Restricted for debt service</td> <td style="text-align: right;">1,303,858</td> </tr> <tr> <td>Restricted for operation and maintenance</td> <td style="text-align: right;">3,696,170</td> </tr> <tr> <td>Held in escrow as construction contract retentions</td> <td style="text-align: right;">2,044,618</td> </tr> </table>	Restricted for construction	2,580,668	Restricted for debt service	1,303,858	Restricted for operation and maintenance	3,696,170	Held in escrow as construction contract retentions	2,044,618	
Restricted for construction	2,580,668								
Restricted for debt service	1,303,858								
Restricted for operation and maintenance	3,696,170								
Held in escrow as construction contract retentions	2,044,618								
Interest receivable	<u>254</u>								
Total restricted assets	<u>9,625,568</u>								

Capital assets, net of accumulated depreciation where applicable:

Land and other improvements	12,396,649
Solid waste transfer stations, net	1,542,490
Conveyance systems, net	279,617,421
Treatment facilities, net	132,281,118
Equipment, net	7,514,558
Construction in progress	<u>152,420,644</u>
Total capital assets, net	<u>585,772,880</u>

Deferred financing costs	<u>944,874</u>
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Total noncurrent assets	<u>596,343,322</u>
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Total assets	<u>611,951,475</u> (Continued)
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See accompanying notes to financial statements.

Pima County
 Department of Wastewater Management
 Statement of Net Assets—Enterprise Fund
 June 30, 2004
 (Continued)

Liabilities

Current liabilities:

Accounts payable	\$ 5,288,294
Accrued payroll and employee benefits	3,398,405
Due to other Pima County funds	125,439
Interest payable	68,934
Current portion of sewer revenue bonds payable	4,705,000
Current portion of wastewater loans payable	4,950,734
Deferred revenue	<u>3,727,653</u>
Total current liabilities	<u>22,264,459</u>

Noncurrent liabilities:

Construction contract retentions payable	5,782,697
Landfill closure and postclosure care costs payable	16,021,633
Sewer revenue bonds payable, less current portion	60,075,000
Wastewater loans payable, less current portion	79,281,579
Deferred interest expense and bond discount	<u>(5,007,375)</u>
Total noncurrent liabilities	<u>156,153,534</u>

Total liabilities	<u>178,417,993</u>
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Net Assets

Invested in capital assets, net of related debt	442,712,816
Restricted for:	
Debt service	499,214
Capital projects	87,540
Wastewater management	3,696,170
Unrestricted deficit	<u>(13,462,258)</u>
Total net assets	<u>\$433,533,482</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, 2004

Operating revenues:	
Sewer utility service	\$ 47,685,465
Solid waste fees	4,826,508
Engineering review and inspection fees	104,062
Permits and fines	70,647
Other income	<u>1,201,488</u>
Total operating revenues	<u>53,888,170</u>
Operating expenses:	
Employee compensation	27,553,707
Operating supplies	4,866,003
Utilities	3,068,401
Sludge and refuse disposal	2,461,343
Repairs and maintenance	1,981,955
Landfill closure and postclosure care costs	376,681
General and administrative	6,779,330
Consultants and professional services	3,100,422
Depreciation	<u>17,184,294</u>
Total operating expenses	<u>67,372,136</u>
Operating loss	<u>(13,483,966)</u>
Nonoperating revenues (expenses):	
Grant revenue	378,845
Interest income	253,134
Sewer connection revenue	29,404,130
State-shared tax revenue	1,146,493
Gain on disposal of equipment	56,847
Interest expense	(4,455,632)
Amortization of deferred charges	<u>(91,452)</u>
Total nonoperating revenues	<u>26,692,365</u>
Income before capital contributions and transfers	13,208,399
Capital contributions	22,677,128
Transfers in	48,791
Transfers out	(1,028,623)
Increase in net assets	34,905,695
Net assets—July 1, 2003	<u>398,627,787</u>
Net assets—June 30, 2004	<u>\$433,533,482</u>

See accompanying notes to financial statements.

Pima County
 Department of Wastewater Management
 Statement of Cash Flows—Enterprise Fund
 Year Ended June 30, 2004

Cash flows from operating activities:	
Receipts from customers	\$ 52,884,455
Miscellaneous receipts	1,201,488
Payments to suppliers for goods and services	(13,535,210)
Payments to other Pima County funds for goods and services	(8,791,195)
Payments to employees	<u>(27,302,210)</u>
Net cash provided by operating activities	<u>4,457,328</u>
Cash flows from noncapital financing activities:	
Noncapital grant receipts	378,845
State-shared tax receipts	1,146,493
Cash transfers from other Pima County Funds	48,791
Repayment of interfund borrowings	(10,933,877)
Cash transfers to other Pima County Funds	<u>(4,913)</u>
Net cash used for noncapital financing activities	<u>(9,364,661)</u>
Cash flows from capital and related financing activities:	
Proceeds from loans	24,623,005
Sewer connection receipts from customers	29,342,116
Proceeds from issuance of refunding bonds	250,000
Proceeds from the sale of capital assets	20,064
Federal contract receipts	2,442,489
Purchase and construction of capital assets	(32,375,908)
Cash transfers to other Pima County Funds	(1,023,710)
Principal payments on revenue bonds and loans	(7,979,721)
Interest payments on revenue bonds and loans	<u>(4,124,025)</u>
Net cash provided by capital and related financing activities	<u>11,174,310</u>
Cash flows from investing activities:	
Interest received on investments	<u>267,778</u>
Net cash provided by investing activities	<u>267,778</u>
Net increase in cash and cash equivalents	6,534,755
Cash and cash equivalents, July 1, 2003	<u>8,868,378</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 15,403,133</u>
	(Continued)

See accompanying notes to financial statements.

Pima County
 Department of Wastewater Management
 Statement of Cash Flows—Enterprise Fund
 Year Ended June 30, 2004
 (Continued)

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

Operating loss	\$(13,483,966)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	17,184,294
Landfill closure and postclosure care costs	376,681
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	348,785
Due from other governments	(151,012)
Inventory of materials and supplies	(85,507)
Prepaid expenses	37,258
Increase (decrease) in liabilities:	
Accounts payable	(33,346)
Accrued payroll and employee benefits	251,497
Due to other Pima County funds	<u>12,644</u>
Net cash provided by operating activities	<u>\$ 4,457,328</u>

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2004, Pima County transferred capital assets with a net book value of \$463,525 to the Department. This transaction was recorded as a capital contribution.

During the year ended June 30, 2004, the Department retired capital assets with a net book value of \$4,190.

During the year ended June 30, 2004, developers conveyed capital assets with an estimated fair value of \$22,213,603 to the Department. This transaction was recorded as a capital contribution.

(Continued)

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Statement of Cash Flows—Enterprise Fund
Year Ended June 30, 2004
(Continued)

During the year ended June 30, 2004, the Department performed a physical inventory of capital assets and increased the net book value of capital assets by \$40,973. This increase included adjustments to accumulated depreciation, as well as capital assets.

During the year ended June 30, 2004, the Department issued \$25,770,000 of Sewer Revenue Bonds, Series 2004, at a premium of \$1,257,569 to refund sewer revenue bonds issued in 1994. Bond issuance costs totaling \$424,244 were deducted from the refunding bond proceeds, and \$26,603,325 was deposited immediately to refund \$25,520,000 of 1994A sewer revenue bonds.

See accompanying notes to financial statements.

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

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). 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.

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 Department's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when 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

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

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.

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. The Department has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

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 value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. 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. Operating revenues and expenses generally result from providing waste services. Accordingly, operating revenues, such as sewer utility service and solid waste fees, result from transactions associated with the Department's principal activities. Other revenues, such as sewer connection revenues and interest income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the costs of providing sewer services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

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.

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

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, 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

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. The Department capitalizes all land and buildings regardless of cost and all other capital assets costing \$5,000 or more. Costs for internally constructed capital assets include 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	4 to 50 years
Conveyance systems	50 years
Solid waste transfer stations	50 years

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.

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

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 service charge. Solid waste fees are based on landfill location, weight of disposed material, and material type.

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 when 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.

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following amounts:

Current assets:	
Cash on hand	\$ 3,900
Cash and investments held by the Pima County Treasurer	<u>5,773,919</u>
Total current cash and cash equivalents	<u>5,777,819</u>
Restricted assets:	
Cash and investments held by the Pima County Treasurer	7,493,409
Investments with State Treasurer	87,287
Deposits held in escrow accounts	<u>2,044,618</u>
Total restricted cash and cash equivalents	<u>9,625,314</u>
 Total cash and cash equivalents	 <u>\$15,403,133</u>

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 Investment 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, \$100,000 was covered by federal depository insurance and \$1,944,618 was uninsured and uncollateralized.

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2004, is presented in the following schedule:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated:				
Land and other improvements	\$ 11,958,225	\$ 503,851	\$ 65,427	\$ 12,396,649
Construction in progress	<u>136,170,979</u>	<u>27,272,077</u>	<u>11,022,412</u>	<u>152,420,644</u>
Total capital assets not being depreciated	<u>148,129,204</u>	<u>27,775,928</u>	<u>11,087,839</u>	<u>164,817,293</u>
Capital assets being depreciated:				
Transfer stations	2,168,380			2,168,380
Conveyance systems	399,746,492	23,618,364	27,600	423,337,256
Treatment facilities	214,255,956	8,835,915	252,508	222,839,363
Equipment	<u>16,982,581</u>	<u>2,012,560</u>	<u>273,728</u>	<u>18,721,413</u>
Total capital assets being depreciated	<u>633,153,409</u>	<u>34,466,839</u>	<u>553,836</u>	<u>667,066,412</u>
Less accumulated depreciation for:				
Transfer stations	572,616	53,274		625,890
Conveyance systems	135,081,509	8,883,360	245,034	143,719,835
Treatment facilities	83,615,223	7,195,530	252,508	90,558,245
Equipment	<u>10,029,582</u>	<u>1,344,159</u>	<u>166,886</u>	<u>11,206,855</u>
Total accumulated depreciation	<u>229,298,930</u>	<u>17,476,323</u>	<u>664,428</u>	<u>246,110,825</u>
Total capital assets being depreciated, net	<u>403,854,479</u>	<u>16,990,516</u>	<u>110,592</u>	<u>420,955,587</u>
Capital assets, net	<u>\$551,983,683</u>	<u>\$44,766,444</u>	<u>\$10,977,247</u>	<u>\$585,772,880</u>

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

Note 4 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2004:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Due within 1 year
Sewer revenue bonds	\$ 68,240,000	\$25,770,000	\$29,230,000	\$ 64,780,000	\$4,705,000
Less unamortized deferred amounts	<u>5,141,938</u>	<u>2,400,840</u>	<u>2,826,862</u>	<u>4,715,916</u>	<u> </u>
Total sewer revenue bonds payable	<u>63,098,062</u>	<u>23,369,160</u>	<u>26,403,138</u>	<u>60,064,084</u>	<u>4,705,000</u>
Wastewater loans payable	63,879,029	24,623,005	4,269,721	84,232,313	4,950,734
Less unamortized deferred amounts	<u>327,891</u>	<u> </u>	<u>36,432</u>	<u>291,459</u>	<u> </u>
Total wastewater loans payable	<u>63,551,138</u>	<u>24,623,005</u>	<u>4,233,289</u>	<u>83,940,854</u>	<u>4,950,734</u>
Landfill closure and postclosure care costs	15,644,952	376,681		16,021,633	
Construction contract retentions payable	<u>6,848,853</u>	<u>1,447,458</u>	<u>2,513,614</u>	<u>5,782,697</u>	<u> </u>
Total long-term liabilities	<u>\$149,143,005</u>	<u>\$49,816,304</u>	<u>\$33,150,041</u>	<u>\$165,809,268</u>	<u>\$9,655,734</u>

Sewer Revenue Bonds Payable—The Department has issued several series of sewer revenue bonds (Series 1993, Series 1998, Refunding 2001, and Refunding 2004) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and the construction of 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, \$5,894,000 from the May 20, 1997, bond election, and \$150,000,000 from the May 18, 2004, bond election remain unissued.

Advance Refunding of Sewer Revenue Bonds – In May 2004, the Department issued \$25,770,000 in Sewer Refunding Bonds Series 2004. The net proceeds of the refunding bond issuance were used to purchase securities that were placed in an irrevocable trust account to advance-refund \$25,520,000 of Sewer Revenue Refunding Bonds Series 1994A issued January 1, 1994. Consequently, the refunded portion of the bonds is considered defeased and the related liabilities are not included in the financial statements.

As a result of the Sewer Revenue Refunding Bonds Series 2004 issue, the Department reduced its total debt service payments by \$164,371. This resulted in an economic gain of \$656,848.

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

Wastewater loans payable—The Department has entered into four loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, 2000, and 2004 loans payable) to provide funds for the defeasance of 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.

At June 30, 2004, the Department has drawn down only \$17,452,651 of the \$18,015,219 authorized loan amount for the 2004 Water Infrastructure Financing Authority of Arizona loan. Payments of principal, which are subject to change, are based on the total amounts drawn.

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 requirements or to maintain in the Bond Reserve Account monies equal to the average annual debt service payment. At June 30, 2004, the Department had a surety bond 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, 2004, were as follows:

Description	Interest Rates	Maturity Dates	Outstanding Principal
Series 1993	6.5%	2005	\$ 315,000
Series 1998	4.0-5.5%	2005-15	21,575,000
Refunding 2001	4.0-5.4%	2005-15	17,120,000
Refunding 2004	2.0-5.5%	2005-15	<u>25,770,000</u>
Total sewer revenue bonds payable			<u>\$64,780,000</u>
1996 loan payable	3.19%	2004-12	\$10,615,744
1997 loan payable	2.95%	2004-11	4,221,855
2000 loan payable	2.20%	2004-16	51,942,063
2004 loan payable	1.81%	2005-24	<u>17,452,651</u>
Total wastewater loans payable			<u>\$84,232,313</u>

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

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

Year ending June 30,	<u>Revenue Bond Debt Service</u>		<u>Loan Payment Requirements</u>	
	Principal	Interest	Principal	Interest
2005	\$ 4,705,000	\$ 2,953,123	\$ 4,950,734	\$ 3,037,444
2006	4,550,000	2,759,658	5,502,957	2,855,817
2007	5,570,000	2,573,045	5,640,514	2,653,850
2008	5,800,000	2,339,501	5,871,286	2,449,641
2009	6,025,000	2,098,076	6,230,119	2,237,038
2010-14	30,060,000	6,472,879	34,259,533	7,397,791
2015-19	8,070,000	383,387	16,236,605	2,060,849
2020-24			<u>5,540,565</u>	<u>526,101</u>
Total	<u>\$64,780,000</u>	<u>\$19,579,669</u>	<u>\$84,232,313</u>	<u>\$23,218,531</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 in each operating period even though actual payouts will not occur until the landfill is closed.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The Sahuarita Landfill was increased from 2,069,819 cubic yards at June 30, 2003, to 5,130,192 cubic yards at June 30, 2004. Concurrently the estimated year of closure was adjusted to 2019 from 2003. The \$16,021,633 reported as landfill closure and postclosure care liability at June 30, 2004, represents the cumulative amount reported to date based on the use of 99, 41, and 88 percent of the estimated capacity of the Ajo, Sahuarita, and Tangerine landfills, respectively. The Department will recognize the remaining estimated cost of closure and postclosure care of \$5,515,067 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 2004. The Department expects to close the Ajo, Sahuarita, and Tangerine landfills in the years 2005, 2019, and 2006, 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 that the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

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 (ADEQ) 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 ADEQ 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 regrade of the landfill cap, and groundwater remediation. No liability has been recognized in the financial statements because the outcome of the litigation is uncertain and the amount of the loss cannot be reasonably estimated.

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 5 - Short-Term Debt

During the year, the Department's cash and investment accounts with the County Treasurer often had deficit balances. The deficits were funded with short-term loans from the County's General Fund or the Treasurers' revolving line of credit. The following table summarizes the Department's short-term loan activity during the year.

Beginning Balance	Draws	Repayments	Ending Balance
\$4,064,370	\$54,522,861	\$58,587,231	\$0

Note 6 - Due to Other Pima County Funds

Due to other Pima County funds represents payables for goods or services. At June 30, 2004, the payables included \$42,317 due to the General Fund, \$81,938 due to the Capital Projects Fund, and \$1,184 due to other governmental funds.

Note 7 - Related Party Transactions

Administrative and fiscal services—The Department incurred expenses from Pima County for a variety of administrative and fiscal services, including \$1,704,880 for the allocation of overhead; \$932,611 for self-insurance premiums; \$2,472,843 for interdepartmental supplies and services charges; \$1,702,556 for motor pool charges; \$307,919 for professional charges; \$732,994 for repair and maintenance charges; \$80,421 for printing charges; and \$420,008 for miscellaneous other charges.

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

Public Works Center—The Department occupies a portion of the Public Works Center and pays rent based on a pro rata share of the building expenses incurred by the Pima County Facilities Management Department. The Department's rent totaled \$449,607 for the year ended June 30, 2004.

Note 8 - Significant Commitments

Commitments under construction contracts at June 30, 2004, totaled \$27,746,327.

Note 9 - 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 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 reported in the financial statements. At June 30, 2004, there were no material lawsuits related to contractual breaches.

The Department has received a Notice of Violation from the ADEQ that could result in various penalties, fines, or remediation requirements as a result of the Northwest Outfall sewer line failure, which ruptured on September 7, 2002, causing several sink holes and discharging raw sewage into the Santa Cruz River. The Department is currently in negotiations with the ADEQ, and is unable to speculate on a possible settlement agreement or the resulting financial impact of any such agreement at this time. Previous Notices of Violations received by the Department did not result in financial penalties; however, the violations were not of the same magnitude as the most recent sewer line failure. Any loss incurred by the Department for the sewer rupture will not be covered by the County's self-insurance program, since that program does not cover risks of loss related to maintenance issues.

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

Note 10 - 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, 2004, the Department paid fees totaling \$1,412,749, \$109,258, and \$101,596, 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 nor Oro Valley Water remit interest to the Department.

Note 11 - Segment Information

Liquid Waste, a division of the Department, is reported within the Department's enterprise fund. Liquid Waste operates the sewer system that 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 the Liquid Waste Division is presented below:

Condensed Statement of Net Assets

Assets:

Current assets	\$ 11,199,907
Due from other Pima County funds	80,675
Restricted assets	9,625,568
Capital assets, net of accumulated depreciation	574,205,271
Other noncurrent assets	<u>944,874</u>
Total assets	<u>596,056,295</u>

Liabilities:

Current liabilities	21,538,340
Due to other Pima County funds	108,336
Noncurrent liabilities	<u>140,131,901</u>
Total liabilities	<u>161,778,577</u>

Net Assets:

Invested in capital assets, net of related debt	431,145,207
Restricted	4,282,924
Unrestricted deficit	<u>(1,150,413)</u>
Total net assets	<u>\$434,277,718</u>

Pima County
 Department of Wastewater Management
 Notes to Financial Statements
 June 30, 2004

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

Operating revenues (expenses):	
Sewer utility service	\$ 47,685,465
Other operating revenues	1,303,790
Depreciation expense	(16,737,366)
Other operating expenses	<u>(44,703,885)</u>
Operating loss	(12,451,996)
Nonoperating revenues (expenses):	
Sewer connection revenue	29,404,130
Other nonoperating revenues	592,133
Interest expense	(4,455,632)
Gain on disposal of equipment	149,961
Other nonoperating expenses	(91,452)
Capital contributions	22,213,603
Transfers in from other county funds	48,791
Transfers out to other county funds	<u>(1,027,171)</u>
Increase in net assets	34,382,367
Net assets, July 1, 2003	<u>399,895,351</u>
Net assets, June 30, 2004	<u>\$ 434,277,718</u>

Condensed Statement of Cash Flows

Net cash provided by (used for):	
Operating activities	\$ 4,503,125
Noncapital financing activities	(12,488,730)
Capital and related financing activities	11,492,214
Investing activities	<u>227,978</u>
Increase in cash and cash equivalents	3,734,587
Cash and cash equivalents, July 1, 2003	<u>7,904,561</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 11,639,148</u>

Pima County
Department of Wastewater Management
Notes to Financial Statements
June 30, 2004

Note 12 - Retirement Plan

Plan description—The Department contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS) 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 ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 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, 2004, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Department's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002, were \$1,219,545, \$495,645, and \$449,580, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Pima County
Department of Wastewater Management
Combining Statement of Net Assets
June 30, 2004

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,013,834	\$ 3,763,985	\$ 5,777,819
Interest receivable	8,954	3,121	12,075
Accounts receivable, net	6,184,150	326,828	6,510,978
Due from other Pima County funds	80,675		80,675
Intrafund due from (due to)	23,230	(23,230)	
Due from other governments	188,529	250,000	438,529
Inventory of materials and supplies	2,696,458		2,696,458
Prepaid expenses	<u>84,752</u>	<u>6,867</u>	<u>91,619</u>
Total current assets	<u>11,280,582</u>	<u>4,327,571</u>	<u>15,608,153</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents:			
Restricted for construction	2,580,668		2,580,668
Restricted for debt service	1,303,858		1,303,858
Restricted for operation and maintenance	3,696,170		3,696,170
Held in escrow as construction contract retentions	2,044,618		2,044,618
Interest receivable	<u>254</u>		<u>254</u>
Total restricted assets	<u>9,625,568</u>		<u>9,625,568</u>
Capital assets, net of accumulated depreciation where applicable:			
Land and other improvements	4,556,010	7,840,639	12,396,649
Solid waste transfer stations, net		1,542,490	1,542,490
Conveyance systems, net	279,617,421		279,617,421
Treatment facilities, net	132,281,118		132,281,118
Equipment, net	5,330,078	2,184,480	7,514,558
Construction in progress	<u>152,420,644</u>		<u>152,420,644</u>
Total capital assets, net	<u>574,205,271</u>	<u>11,567,609</u>	<u>585,772,880</u>
Deferred financing costs	<u>944,874</u>		<u>944,874</u>
Total noncurrent assets	<u>584,775,713</u>	<u>11,567,609</u>	<u>596,343,322</u>
Total assets	<u>596,056,295</u>	<u>15,895,180</u>	<u>611,951,475</u>

(Continued)

Pima County
 Department of Wastewater Management
 Combining Statement of Net Assets
 June 30, 2004
 (Continued)

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 4,929,645	\$ 358,649	\$ 5,288,294
Accrued payroll and employee benefits	3,156,374	242,031	3,398,405
Due to other Pima County funds	108,336	17,103	125,439
Interest payable	68,934		68,934
Current portion of sewer revenue bonds payable	4,705,000		4,705,000
Current portion of wastewater loans payable	4,950,734		4,950,734
Deferred revenue	<u>3,727,653</u>		<u>3,727,653</u>
Total current liabilities	<u>21,646,676</u>	<u>617,783</u>	<u>22,264,459</u>
Noncurrent liabilities:			
Construction contract retentions payable	5,782,697		5,782,697
Landfill closure and postclosure care costs payable		16,021,633	16,021,633
Sewer revenue bonds payable, less current portion	60,075,000		60,075,000
Wastewater loans payable, less current portion	79,281,579		79,281,579
Deferred interest expense and bond discount	<u>(5,007,375)</u>		<u>(5,007,375)</u>
Total noncurrent liabilities	<u>140,131,901</u>	<u>16,021,633</u>	<u>156,153,534</u>
Total liabilities	<u>161,778,577</u>	<u>16,639,416</u>	<u>178,417,993</u>
Net Assets			
Invested in capital assets, net of related debt	431,145,207	11,567,609	442,712,816
Restricted for:			
Debt service	499,214		499,214
Capital projects	87,540		87,540
Wastewater management	3,696,170		3,696,170
Unrestricted deficit	<u>(1,150,413)</u>	<u>(12,311,845)</u>	<u>(13,462,258)</u>
Total net assets	<u>\$434,277,718</u>	<u>\$ (744,236)</u>	<u>\$433,533,482</u>

Pima County
Department of Wastewater Management
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Year Ended June 30, 2004

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Operating revenues:			
Sewer utility service	\$ 47,685,465		\$ 47,685,465
Solid waste fees		\$ 4,826,508	4,826,508
Engineering review and inspection fees	104,062		104,062
Permits and fines	70,647		70,647
Other income	<u>1,129,081</u>	<u>72,407</u>	<u>1,201,488</u>
Total operating revenues	<u>48,989,255</u>	<u>4,898,915</u>	<u>53,888,170</u>
Operating expenses:			
Employee compensation	25,446,829	2,106,878	27,553,707
Operating supplies	4,865,095	908	4,866,003
Utilities	3,020,741	47,660	3,068,401
Sludge and refuse disposal	1,512,541	948,802	2,461,343
Repairs and maintenance	1,430,383	551,572	1,981,955
Landfill closure and postclosure care costs		376,681	376,681
General and administrative	5,743,142	1,036,188	6,779,330
Consultants and professional services	2,685,154	415,268	3,100,422
Depreciation	<u>16,737,366</u>	<u>446,928</u>	<u>17,184,294</u>
Total operating expenses	<u>61,441,251</u>	<u>5,930,885</u>	<u>67,372,136</u>
Operating loss	<u>(12,451,996)</u>	<u>(1,031,970)</u>	<u>(13,483,966)</u>
Nonoperating revenues (expenses):			
Grant revenue	378,845		378,845
Interest income	213,288	39,846	253,134
Sewer connection revenue	29,404,130		29,404,130
State-shared tax revenue		1,146,493	1,146,493
Gain (loss) on disposal of equipment	149,961	(93,114)	56,847
Interest expense	(4,455,632)		(4,455,632)
Amortization of deferred charges	<u>(91,452)</u>		<u>(91,452)</u>
Total nonoperating revenues	<u>25,599,140</u>	<u>1,093,225</u>	<u>26,692,365</u>
Income before capital contributions and transfers	<u>13,147,144</u>	<u>61,255</u>	<u>13,208,399</u>
Capital contributions	22,213,603	463,525	22,677,128
Transfers in	48,791		48,791
Transfers out	<u>(1,027,171)</u>	<u>(1,452)</u>	<u>(1,028,623)</u>
Increase in net assets	34,382,367	523,328	34,905,695
Net assets—July 1, 2003	<u>399,895,351</u>	<u>(1,267,564)</u>	<u>398,627,787</u>
Net assets—June 30, 2004	<u>\$434,277,718</u>	<u>\$ (744,236)</u>	<u>\$433,533,482</u>

Pima County
 Department of Wastewater Management
 Combining Statement of Cash Flows
 Year Ended June 30, 2004

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 47,988,924	\$ 4,895,531	\$ 52,884,455
Miscellaneous receipts	1,129,081	72,407	1,201,488
Payments to suppliers for goods and services	(12,837,638)	(697,572)	(13,535,210)
Payments to other Pima County funds for goods and services	(6,553,189)	(2,238,006)	(8,791,195)
Payments to employees	<u>(25,224,053)</u>	<u>(2,078,157)</u>	<u>(27,302,210)</u>
Net cash provided by (used for) operating activities	<u>4,503,125</u>	<u>(45,797)</u>	<u>4,457,328</u>
Cash flows from noncapital financing activities:			
Intrafund borrowings	(1,979,028)	1,979,028	
Noncapital grant receipts	378,845		378,845
State-shared tax receipts		1,146,493	1,146,493
Cash transfers from other Pima County Funds	48,791		48,791
Repayment of interfund borrowings	(10,933,877)		(10,933,877)
Cash transfers to other Pima County Funds	<u>(3,461)</u>	<u>(1,452)</u>	<u>(4,913)</u>
Net cash provided by (used for) noncapital financing activities	<u>(12,488,730)</u>	<u>3,124,069</u>	<u>(9,364,661)</u>
Cash flows from capital and related financing activities:			
Proceeds from loans	24,623,005		24,623,005
Sewer connection receipts from customers	29,342,116		29,342,116
Proceeds from issuance of refunding bonds	250,000		250,000
Proceeds from the sale of capital assets		20,064	20,064
Federal contract receipts	2,442,489		2,442,489
Purchase and construction of capital assets	(32,037,940)	(337,968)	(32,375,908)
Cash transfers to other Pima County funds	(1,023,710)		(1,023,710)
Principal payments on revenue bonds and loans	(7,979,721)		(7,979,721)
Interest payments on revenue bonds and loans	<u>(4,124,025)</u>		<u>(4,124,025)</u>
Net cash provided by (used for) capital and related financing activities	<u>11,492,214</u>	<u>(317,904)</u>	<u>11,174,310</u>
Cash flows from investing activities:			
Interest received on investments	<u>227,978</u>	<u>39,800</u>	<u>267,778</u>
Net cash provided by investing activities	<u>227,978</u>	<u>39,800</u>	<u>267,778</u>
Net increase in cash and cash equivalents	3,734,587	2,800,168	6,534,755
Cash and cash equivalents, July 1, 2003	<u>7,904,561</u>	<u>963,817</u>	<u>8,868,378</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 11,639,148</u>	<u>\$ 3,763,985</u>	<u>\$ 15,403,133</u>

(Continued)

Pima County
 Department of Wastewater Management
 Combining Statement of Cash Flows
 Year Ended June 30, 2004
 (Continued)

	<u>Liquid Waste</u>	<u>Solid Waste</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:			
Operating loss	\$(12,451,996)	\$(1,031,970)	\$(13,483,966)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	16,737,366	446,928	17,184,294
Landfill closure and postclosure care costs		376,681	376,681
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	229,762	119,023	348,785
Due from other governments	(101,012)	(50,000)	(151,012)
Inventory of materials and supplies	(85,507)		(85,507)
Prepaid expenses	38,734	(1,476)	37,258
Increase (decrease) in liabilities:			
Accounts payable	(86,998)	53,652	(33,346)
Accrued payroll and employee benefits	222,776	28,721	251,497
Due to other Pima County funds	<u> </u>	<u>12,644</u>	<u>12,644</u>
Net cash provided by (used for) operating activities	<u>\$ 4,503,125</u>	<u>\$ (45,797)</u>	<u>\$ 4,457,328</u>

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2004, Pima County transferred capital assets with a net book value of \$463,525 to the Solid Waste Division. This transaction was recorded as a capital contribution.

During the year ended June 30, 2004, the Solid Waste Division retired capital assets with a net book value of \$4,190.

During the year ended June 30, 2004, the Liquid Waste Division retired \$292,961 of fully-depreciated capital assets.

During the year ended June 30, 2004, developers conveyed capital assets with an estimated fair value of \$22,213,603 to the Liquid Waste Division. This transaction was recorded as capital contribution.

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2004
(Continued)

During the year ended June 30, 2004, the Department performed a physical inventory of its capital assets. As a result, the Department increased the net book value of its capital assets by \$40,973. This net adjustment consisted of a \$149,961 increase in Liquid Waste capital assets and a \$108,988 decrease in Solid Waste capital assets. These adjustments affected accumulated depreciation, as well as capital assets.

During the year ended June 30, 2004, the Liquid Waste Division issued \$25,770,000 of Sewer Refunding Bonds, Series 2004, at a premium of \$1,257,569 to refund sewer revenue bonds issued in 1994. Bond issuance costs totaling \$424,244 were deducted from the refunding bond proceeds, and \$26,603,325 was deposited immediately to refund \$25,520,000 of 1994A sewer revenue bonds.