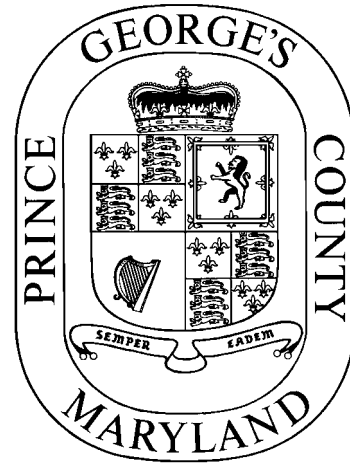


---

## **FINANCIAL SECTION**

---

This section contains the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, Required Supplementary Information, and the Combining and Individual Fund Statements and Schedules.



---

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

---

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Management is pleased to present this narrative overview and analysis of Prince George's County's financial activities for the fiscal year ended June 30, 2005. We suggest using this information along with additional information furnished in the letter of transmittal (located in the Introductory Section of this report) to profile our operations. The following discussion focuses on the County's primary government and, unless otherwise noted, component unit information is not included.

**FINANCIAL HIGHLIGHTS**

- Prince George's County's assets exceeded its liabilities at June 30, 2005 by \$1.4 billion (net assets). The primary government has a negative unrestricted net asset balance of \$291.3 million, mainly because of debt related to assets owned by its component units - the Board of Education and the Community College.
- The County's total net assets increased by \$142.5 million from the previous year. Net assets of governmental activities increased \$137.6 million, while the net assets of business-type activities increased \$4.9 million.
- At June 30, 2005, Prince George's County's governmental funds report combined ending fund balances of \$425.0 million, an increase of \$41.2 million in comparison to the previous fiscal year. Of this amount, \$216.0 million remains in various funds of the County as unreserved.
- At June 30, 2005, unreserved fund balance for the general fund was \$222.0 million, which represents approximately 20.0% of total general fund expenditures for fiscal year 2005.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Prince George's County Government's financial statements, which include government-wide and fund statements, as well as notes to the financial statements.

Government-Wide Financial Statements

Similar to private-sector reporting, government-wide financial statements are designed to provide a broad overview of the financial position of Prince George's County. They include a **statement of net assets** and a **statement of activities**. These statements appear on pages 17 and 18 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2005. The difference between these assets and liabilities is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position.

The statement of activities follows the statement of net assets and presents information on how net assets changed during the fiscal year. The statement presents all underlying events, which give rise to the change, regardless of the timing of the related cash flows.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Both statements distinguish functions of Prince George's County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements of Prince George's County (known as the primary government) include general government, public safety, public works and transportation, health, public welfare, and education. The government-wide financial statements also include the legally separate component units for which the County is financially accountable. Financial information for these component units is reported separately from the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, Prince George's County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the County government can be divided into three categories: governmental, proprietary and fiduciary.

**Governmental funds** – Governmental funds, presented on pages 19 to 24, essentially account for the same functions as those reported under the governmental activities in the government-wide financial statements. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide statements. This information may be useful in evaluating the County's near-term financing requirements and available resources.

By comparing functions between the two sets of statements for governmental funds and governmental activities, readers can discern the long-term impact of near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Governmental funds individually presented in the County's basic financial statements include three major funds: the General Fund, the Capital Projects Fund, and the Federal and State Aided Programs Fund. The remaining five funds have been combined and presented in one column as "Other Governmental Funds." Combining statements for these other governmental funds are presented on pages 105 to 108 of this report.

**Proprietary funds** – Prince George's County maintains two different types of proprietary funds: enterprise and internal service funds. These funds are included on pages 25 to 29 of this report.

Enterprise funds are used to report, in detail, the same information presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for solid waste and stormwater management, both of which are considered major funds of the County. Internal service funds are an accounting device used to accumulate and allocate costs internally for the County. The County uses internal service funds to account for self-insurance, vehicle maintenance, and computer services. Because the internal service funds predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide statements. The internal service funds are presented in total in the fund financial statements, but may be viewed separately in the combining statements on pages 109 to 113 in this report.

**Fiduciary funds** – Prince George's County uses fiduciary funds to account for resources held for the benefit of parties outside the County government. Although these funds are presented with the fund statements, they do not appear in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting method used for fiduciary funds is much like that used for proprietary funds. These funds are presented on pages 30 and 31 of this report.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages 33 to 85 of this report.

Other Information

This report also includes required supplementary information related to the funding progress of the County's Pension Trust Funds. This information is included on pages 87 and 88.

Combining and individual statements and schedules referred to earlier, which present more detailed views of nonmajor funds, internal service funds, and nonmajor component units are presented on pages 89 to 125.

Additional information about the County, which may be of interest to the reader, is found in the Statistical Section of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, changes in net assets over time is a useful indicator of a business enterprise's financial position. The County's total net assets as of June 30, 2005 were \$1.4 billion. Investment in capital assets such as land, roads, bridges, buildings, machinery and equipment accounts for \$1.5 billion of net assets. The amount is presented less any outstanding debt related to the acquisition and accumulated depreciation of those assets. The County uses capital assets to provide services to the citizens, and consequently, these assets are not available for future spending. Although assets are reported net of related debt, the capital assets themselves cannot be used to liquidate that liability, and other resources will be needed to repay any associated debt.

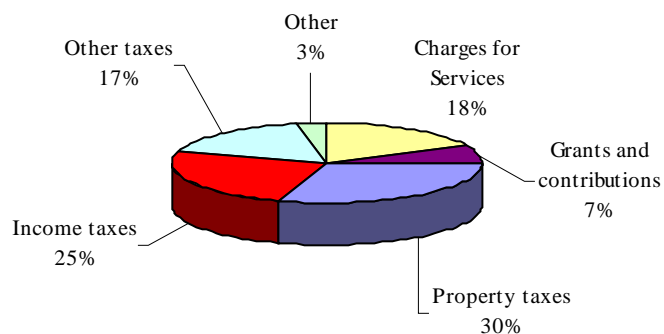
PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

<b>Schedules of Net Assets</b>							
<b>June 30, 2005 and 2004</b>							
(in thousands)							
		Governmental activities		Business-type activities		Total	
		2005	2004	2005	2004	2005	2004
Current and other assets	\$	696,092	642,591	143,131	138,929	839,223	781,520
Capital assets		1,758,006	1,686,318	199,034	201,537	1,957,040	1,887,855
<b>Total assets</b>		<b>2,454,098</b>	<b>2,328,909</b>	<b>342,165</b>	<b>340,466</b>	<b>2,796,263</b>	<b>2,669,375</b>
Long-term liabilities		914,232	929,453	158,251	162,848	1,072,483	1,092,301
Other liabilities		275,157	272,346	23,939	22,584	299,096	294,930
<b>Total liabilities</b>		<b>1,189,389</b>	<b>1,201,799</b>	<b>182,190</b>	<b>185,432</b>	<b>1,371,579</b>	<b>1,387,231</b>
Net assets							
Invested in capital assets, net of related debt		1,361,494	1,279,249	98,064	93,120	1,459,558	1,372,369
Restricted		237,414	218,256	19,001	19,379	256,415	237,635
Unrestricted (deficit)		(334,199)	(370,395)	42,910	42,535	(291,289)	(327,860)
<b>Total net assets</b>	<b>\$</b>	<b>1,264,709</b>	<b>1,127,110</b>	<b>159,975</b>	<b>155,034</b>	<b>1,424,684</b>	<b>1,282,144</b>

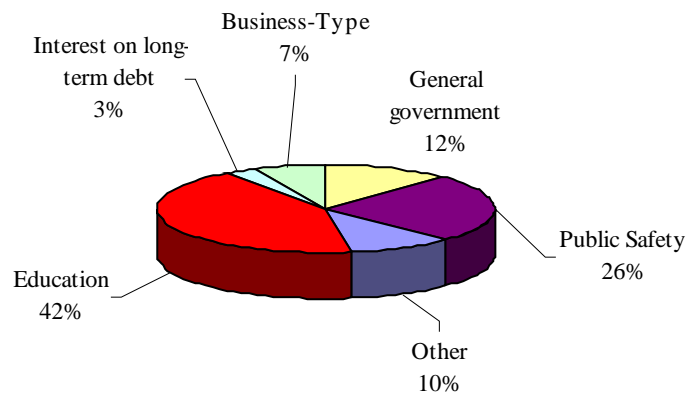
PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Restricted net assets are resources subject to external restriction on how they may be used to meet the County's ongoing obligations to citizens and creditors. As noted earlier, the County's net asset deficit in governmental activities unrestricted net assets is primarily attributable to outstanding debt that has been issued on behalf of the County's component units. The majority of this debt is for the Board of Education as the County continues to issue bonds to finance school construction projects. Counties in the State of Maryland issue debt for school construction; however, the buildings are owned by the County's Board of Education. All other governmental and business-type activities had positive net asset balances as of June 30, 2005.

**Revenue by Source FY 2005**



**Expenditures by Function FY 2005**

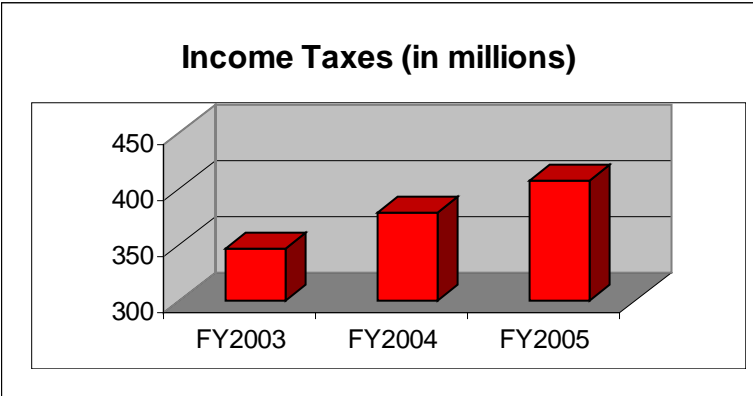
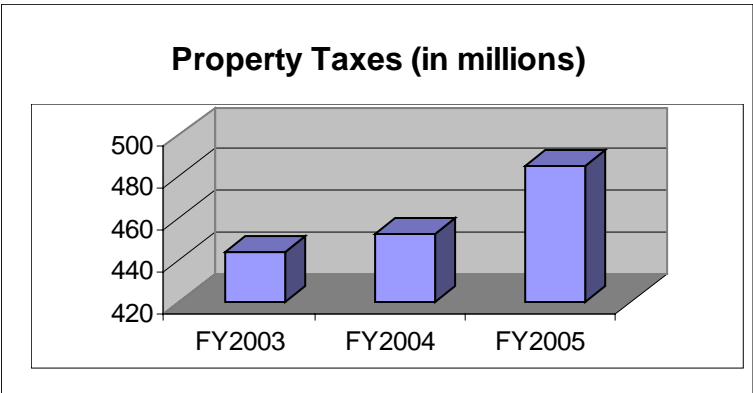


PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Governmental Activities

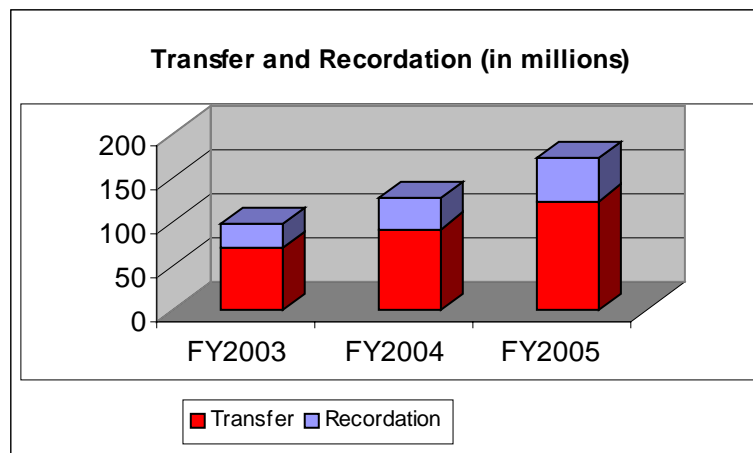
Net assets for the County's governmental activities increased by approximately \$137.6 million in fiscal year 2005.

The County's total revenues from governmental activities was approximately \$1.55 billion in fiscal year 2005 (approximately \$156.9 million greater than fiscal year 2004.) Property and income taxes make up approximately 57 percent of this revenue. Property taxes increased by approximately \$25.1 million or 5.6 percent reflecting a steady increase in property values. Income taxes increased by approximately \$30.4 million or 8.0 percent in fiscal year 2005.



PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Transfer and recordation taxes (\$174.3 million), telecommunications taxes (\$48.3 million), and energy taxes (\$43.3 million) comprise the majority of the remaining other taxes. Other taxes increased by approximately \$48.1 million or 20.4 percent. The \$46.9 million increase in transfer and recordation tax is due to the continued increase in refinancing of mortgages.



The County's total expenses from governmental activities was approximately \$1.40 billion in fiscal year 2005 (approximately \$76.2 million greater than fiscal year 2004.) The categories experiencing the largest increases general government (approximately \$24.8 million) and public safety (approximately \$28.4 million.) General government expenditures increased by approximately 15.8 percent. A portion of the increase relates to an increase in grants and contribution to other organizations (approximately \$5.6 million) and an increase in spending on economic development (\$1.9 million). Public safety expenditures increased by approximately 7.9 percent. The fringe benefits for public safety increased by \$8.4 million (11.6 percent).

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

<b>Schedule of Changes in Net Assets</b>							
<b>For the years ended June 30, 2005 and 2004</b>							
(in thousands)							
		Governmental activities		Business-type activities		Total	
		2005	2004	2005	2004	2005	2004
<b>Revenues:</b>							
<b>Program Revenue:</b>							
	Charges for services	\$ 215,745	176,534	83,348	80,305	299,093	256,839
	Operating grants and contributions	96,370	101,679	-	-	96,370	101,679
	Capital grants and contributions	17,003	10,553	838	2,018	17,841	12,571
<b>General revenue:</b>							
	Property taxes	476,947	451,849	25,224	24,019	502,171	475,868
	Income taxes	409,881	379,438	-	-	409,881	379,438
	Other taxes	284,041	235,904	-	-	284,041	235,904
	Other revenues	47,301	34,458	3,797	2,776	51,098	37,234
	<b>Total revenues</b>	<b>1,547,288</b>	<b>1,390,415</b>	<b>113,207</b>	<b>109,118</b>	<b>1,660,495</b>	<b>1,499,533</b>
<b>Expenses:</b>							
	General government	182,388	157,604	-	-	182,388	157,604
	Public safety	388,604	360,239	-	-	388,604	360,239
	Public works and transportation	67,027	71,068	-	-	67,027	71,068
	Health	55,967	58,284	-	-	55,967	58,284
	Public welfare	23,964	25,698	-	-	23,964	25,698
	Education	644,515	614,628	-	-	644,515	614,628
	Interest on long-term debt	41,387	40,177	-	-	41,387	40,177
	Solid waste	-	-	81,850	83,352	81,850	83,352
	Stormwater management	-	-	26,416	24,801	26,416	24,801
	<b>Total expenses</b>	<b>1,403,852</b>	<b>1,327,698</b>	<b>108,266</b>	<b>108,153</b>	<b>1,512,118</b>	<b>1,435,851</b>
<b>Extraordinary item:</b>							
	Loss from asset impairment	(5,837)	-	-	-	(5,837)	-
	<b>Increase in net assets</b>	<b>137,599</b>	<b>62,717</b>	<b>4,941</b>	<b>965</b>	<b>142,540</b>	<b>63,682</b>
	<b>Net assets - beginning of year</b>	<b>1,127,110</b>	<b>1,064,393</b>	<b>155,034</b>	<b>154,069</b>	<b>1,282,144</b>	<b>1,218,462</b>
	<b>Net assets - end of year</b>	<b>\$ 1,264,709</b>	<b>1,127,110</b>	<b>159,975</b>	<b>155,034</b>	<b>1,424,684</b>	<b>1,282,144</b>

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Business-type Activities

Business-type activities increased the County's net assets by approximately \$4.9 million in fiscal year 2005. Key elements of this increase are as follows:

- Total revenues for the Solid Waste Fund increased by approximately \$1.9 million or 2 percent. This was primarily a result of an overall increase of charges for services and an increase in interest income. Charges for services, which are driven by residential services, increased by over \$900 thousand or 1 percent. Interest income increased by \$730 thousand or 30 percent. This was a result of an increase in interest rates, from 1.72 percent to 2.46 percent.
- Total revenues for the Stormwater Management Fund also increased by approximately \$2.2 million or 7.2 percent. This was primarily a result of an increase in licenses and permits and property taxes stemming from the increase of new residential development.

**FINANCIAL ANALYSIS OF GOVERNMENT FUNDS**

Governmental Funds

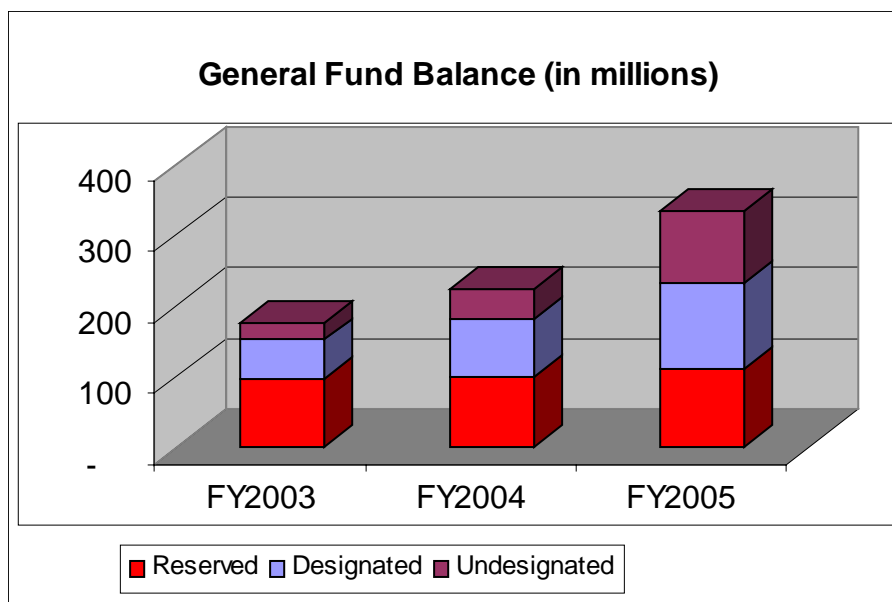
As noted earlier, Prince George's County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds provide information on near-term inflows, outflows, and balances of spendable resources. In assessing Prince George's County's financing requirements, unreserved fund balance is a particularly useful measure of net resources available for spending at the end of the fiscal year.

As of June 30, 2005, County governmental funds reported combined fund balances of \$425.0 million, an increase of \$41.2 million in comparison to the prior year balances. Governmental funds reserved \$208.9 million to meet current commitments in the next fiscal year including \$42.0 million for contracts and purchase orders not received at year-end, \$99.3 million for a charter-mandated contingency reserve (Rainy Day Fund), \$63.0 million for school construction, and \$4.6 million for other purposes.

The General Fund is the chief operating fund of the County. At June 30, 2005, total fund balance in the general fund was \$334.0 million of which \$222.0 million was unreserved. The General Fund balance increased by \$111.7 million as a result of current fiscal year operations. The following key factors were responsible for the growth:

- Homeowners continued to take advantage of lower interest rates on mortgages, which generated transfer and recordation taxes of \$174.3 million. This amount exceeded the revised budget and the fiscal year 2004 total by \$61.6 million and \$46.9 million, respectively.
- In addition to transfer and recordation taxes, other taxes exceeded the revised budget by approximately \$29.7 million. These included income (\$17.3 million) and property (\$8.6 million) taxes.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005



Capital Projects Fund expenditures totaled \$125.7 million for fiscal year 2005 compared to \$129.9 million in fiscal year 2004. The increase of \$11.2 million in spending on board of education projects was offset by decreases in other areas, including construction delays related to the November 30, 2004 Courthouse fire (expenditures decreased \$7.5 million from 2004.) There were no bond proceeds in fiscal year 2005, compared to \$195.5 million in fiscal year 2004. These factors led to a total decrease in fund balance of \$66.0 million during the fiscal year.

Expenditures in the Federal and State Aided Programs Fund increased by approximately \$.7 million over fiscal year 2004. Major changes in grant funding during fiscal year 2005 include:

- Increases in expenditures for Violent Crime Control grant (approximately \$5.1 million) and various new homeland security grants (approximately \$1.0 million.)
- Decrease in expenditures for the Ryan White grants (approximately 3.3 million.)

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

Proprietary Funds

Proprietary fund statements provide more detail for the County's business-type activities than the government-wide financial statements.

**Enterprise Funds.** At June 30, 2005, total net assets amounted to \$164.1 million for enterprise funds as compared to \$157.5 million at June 30, 2004. Unrestricted net assets of the Solid Waste Fund at the end of the year amounted to \$32.0 million, and those for the Stormwater Management Fund amounted to \$ 15.1 million. Total net assets decreased by \$.8 million in the Solid Waste Fund and increased by \$7.4 million in the Stormwater Management Fund.

Other factors concerning the finances of these two funds have already been addressed in the discussion of the County's business-type activities.

**BUDGETARY HIGHLIGHTS**

The County's final General Fund revenue budget exceeded the original budget by \$37.5 million. The County used the additional funding to cover costs of the inclimate weather, increase funding for retiree health insurance, and to provide additional resources to fund education and health care. Details for these costs include:

- Increase in compensation for public safety employees (\$18.1 million appropriation increase) due to overtime and increase in personnel.
- Transfer of \$11.0 million dollars to the Capital Projects fund for pay-go funding.
- Contribution of \$3.8 million to the Redevelopment Authority for a land purchase and to fund various capital projects.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The County's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$2.0 billion (net of accumulated depreciation.) This investment in capital assets includes land, buildings and improvements, equipment and vehicles, road networks, bridges, landfill property in service, and stormwater property in service. The total increase in the County's investment in capital assets for the current fiscal year was 3.7 percent (4.3

Major capital asset events during the year include the following:

- The Oxon Hill Branch Library, South County Branch Library, Mitchellville Road III, and Ammendale & Virginia Manor Road projects were completed in 2005 resulting in a transfer of approximately \$38.6 million to the County's inventory.
- A \$12.8 million loss (\$6.1 million buildings and \$6.7 million construction in process) due to Courthouse fire on November 30, 2004.
- Road and bridge project costs, including Largo Metro Development (\$4.0 million), Ammendale & Virginia Manor Road III (\$3.4 million), and Contee Road (\$1.7 million), increased construction in progress by \$ 18.8 million.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

The County's capital assets, net of accumulated depreciation is presented in the following table as of June 30, 2005 and 2004:

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
	Land	\$ 71,549,056	68,746,042	12,516,407	12,516,407	84,065,463
Buildings and improvements	215,530,235	211,520,432	2,383,412	2,645,414	217,913,647	214,165,846
Equipment	29,050,070	26,120,179	7,856,603	7,849,348	36,906,673	33,969,527
Infrastructure	1,342,217,903	1,262,497,310	-	-	1,342,217,903	1,262,497,310
Landfill property in service	-	-	18,796,732	16,320,827	18,796,732	16,320,827
Stormwater property in service	-	-	61,005,838	63,261,821	61,005,838	63,261,821
Construction in progress	99,658,248	117,433,702	96,475,331	98,943,314	196,133,579	216,377,016
Total	\$ 1,758,005,512	1,686,317,665	199,034,323	201,537,131	1,957,039,835	1,887,854,796

Additional information on Prince George's County's capital assets is located on pages 52 to 56 of this report.

**Long-term debt.** At the end of the current fiscal year, the County had total bonded debt outstanding of \$855.5 million. Of this amount, \$825.7 comprises debt backed by the full faith and credit of the government. The remainder of the County's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

<b>Outstanding Debt</b>						
	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
	General obligation bonds	\$ 753,818,759	800,483,759	71,921,748	75,890,000	825,740,507
Revenue bonds	-	-	29,722,552	33,761,193	29,722,552	33,761,193
Total	\$ 753,818,759	800,483,759	101,644,300	109,651,193	855,463,059	910,134,952

Total bonded debt of Prince George's County Government decreased by \$54.7 million (6.0%) from the previous fiscal year. The key factors in the increase are a \$141.1 million refunding in December, and the retirement of \$196.1 million of General Obligation and Revenue bonds.

In December, the County issued \$141.1 million of general obligation bonds to refund \$141.2 million of certain previously outstanding general obligation bonds. As a result of the refunding, the County will reduce its overall debt service obligations. The present value of debt service savings is \$3.9 million.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

The underlying ratings of the County's general obligation bonds as of June 20, 2005, are as follows:

	<u>Current Rating</u>
Fitch Ratings	
Limited tax bonds	AA+
Unlimited tax bonds	AA+
Standard & Poor's	AA
Moody's Investors Service, Inc.:	
(both for limited tax bonds and unlimited tax bonds)	Aa2

The County's Stormwater Management general obligation underlying bond ratings, as of June 30, 2005, are as follows:

	<u>Current Rating</u>
Fitch Ratings	AA+
Standard & Poor's	AA
Moody's Investors Service, Inc.	Aa2

The underlying ratings of the County's Solid Waste Management Refunding Revenue Bonds, series 2003 as of June 30, 2005, are as follows:

	<u>Current Rating</u>
Fitch Ratings	AA-
Standard & Poor's	AA-
Moody's Investors Service, Inc.	Aa3

Additional information on the County's long-term debt is located in note 12 starting on page 68 of this report.

PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2005

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Factors considered in preparing Prince George's County's budget for fiscal year 2006 included:

- The unemployment rate in the County decreased from 5.0% in January of 2004 to 4.7% in January of 2005. The percentage is lower than the national average and slightly higher than the State unemployment rate.
- The office vacancy rate in the County declined slightly from the same period of last year. The performance is in line with other jurisdictions in the region.
- Housing prices continue to grow at double-digit rates in 2005 compared to the same period in 2004. The median sales price for existing homes in January 2005 was \$255,000, 27% higher than a year ago. But the number of units sold started to decrease slightly compared to a year ago, reflecting a regional trend.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$99.9 million to a total of \$222.0 million. One factor impacting the increase were tax revenues that exceeded the budget by approximately \$91.3 million in fiscal year 2005. General fund reserves increased \$11.8 million mainly due to the increase in the contingency reserve. The County has appropriated \$61.5 million of the unreserved fund balance for the fiscal year 2005.

Requests for Information

This financial report is designed to provide a general overview of Prince George's County, Maryland for those individuals with an interest in our government's finances. Address questions concerning any of the information provided in this report or requests for additional information to the Office of Finance, Accounting Division, Attention: Assistant Director, 14741 Governor Oden Bowie Drive, Suite 3151, Upper Marlboro, MD 20772. You can also reach us by fax at 301.952.3043 or send an email to: [cmcurtis@co.pg.md.us](mailto:cmcurtis@co.pg.md.us).