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**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

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PRINCE GEORGE'S COUNTY, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004

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, 2004. 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 exceed its liabilities at June 30, 2004 by \$1.3 billion (net assets). The primary government has a negative unrestricted net asset balance of \$327.9 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 \$63.7 million from the previous year. Net assets of governmental activities increased \$62.7 million, while the net assets of business-type activities increased \$1.0 million.
- At June 30, 2004, Prince George's County's governmental funds report combined ending fund balances of \$383.8 million, an increase of \$146.3 million in comparison to the previous fiscal year. Of this amount, \$196.1 million remains in various funds of the County as unreserved.
- At the end of the fiscal year, unreserved fund balance for the general fund is \$122.1 million, or 11.6% of total general fund expenditures.

**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 III-1 and III-2 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2004. 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 showing 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.

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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 III-3 to III-8, 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 VII-1 to VII-4 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 III-9 to III-13 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 VIII-1 to VIII-5 in this report.

**Fiduciary funds** – Prince George's County uses fiduciary funds to account for resources held for the benefit of parties outside 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 III-14 and III-15 of this report.

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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 IV-1 to IV-47 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 V-1 and V-2.

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 VI-1 to XI-5.

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, 2004 were \$1.3 billion. Investment in capital assets such as land, roads, bridges, buildings, machinery and equipment accounts for \$1.4 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.

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**Schedules of Net Assets**  
**June 30, 2004 and 2003**  
(in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 642,591	480,787	138,929	126,554	781,520	607,341
Capital assets	1,686,318	1,598,510	201,537	204,483	1,887,855	1,802,993
<b>Total assets</b>	<b>2,328,909</b>	<b>2,079,297</b>	<b>340,466</b>	<b>331,037</b>	<b>2,669,375</b>	<b>2,410,334</b>
Long-term liabilities	929,453	753,902	162,848	155,524	1,092,301	909,426
Other liabilities	272,346	261,002	22,584	21,444	294,930	282,446
<b>Total liabilities</b>	<b>1,201,799</b>	<b>1,014,904</b>	<b>185,432</b>	<b>176,968</b>	<b>1,387,231</b>	<b>1,191,872</b>
Net assets						
Invested in capital assets, net of related debt	1,279,249	1,229,044	93,120	94,872	1,372,369	1,323,916
Restricted	218,256	127,467	19,379	19,987	237,635	147,454
Unrestricted (deficit)	(370,395)	(292,118)	42,535	39,210	(327,860)	(252,908)
<b>Total net assets</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>

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Proprietary Funds

Proprietary fund statements provide greater detail than the government-wide financial statements.

**Enterprise Funds.** At June 30, 2004, total net assets amounted to \$157.5 million for enterprise funds as compared to \$154.7 million at June 30, 2003. Unrestricted net assets of the Solid Waste Fund at the end of the year amounted to \$34.0 million, and those for the Stormwater Management Fund amounted to \$ 11.0 million. Total net assets decreased by 4.2 million in the Solid Waste Fund and increased by \$7.0 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 \$27.9 million. The County used the additional funding to cover costs of the incimate weather, increase funding for retiree health insurance, and to provide additional resources to fund education and health care. Details for these costs include:

- The costs related to Hurricane Isabel during the fiscal year increased the County's cost in the Department of Public Works & Transportation (\$1.8 million appropriation increase) and various pubic safety departments.
- Due to increase in retiree health insurance associated with the provision for prescriptions, the County contributed an additional \$3.0 million to retiree life and heath benefits.
- Proceeds from the telecommunications tax are used to fund public education. The County increased its appropriation to the Board of Education by \$11.3 million, because the actual collections for the fiscal year 2003 (\$34.6 million) exceeded the final budget for fiscal year 2003 (\$23.3 million.)
- The County paid \$5.0 million to Dimension Health Corporation to assist in the funding of Price George's Hospital Center. This grant was not in the County's original budget.

**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, 2004, amounts to \$1.9 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 4.7 percent (5.5 percent increase for governmental activities and a 1.4 percent decrease in business-type activities).

Major capital asset events during the year include the following:

- Solid waste projects totaling \$2.6 million were placed into service. Construction in progress for business-type activities increased \$6.4 million.
- The Bunker Hill Fire Station and Ardwick Ardmore Road projects were completed in 2004 resulting in a transfer of approximately \$14.1 million to the County's inventory.

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- \$12.5 million in Courthouse renovations and \$4.1 million in Detention Center renovations contributed to the additions to construction in progress.
- Road and bridge project costs, including Columbia Park Bridge (\$4.9 million), Amendale Virginia Manor Road (\$4.7 million), and Ritchie Road Section II (\$3.0 million), increased construction in progress by \$ 21.3 million.

The County's capital assets, net of accumulated depreciation is presented in the following table as of June 30, 2004 and 2003:

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 68,746,042	65,580,956	12,516,407	12,064,902	81,262,449	77,645,858
Buildings and improvements	211,520,432	202,440,800	2,645,414	2,907,416	214,165,846	205,348,216
Equipment	26,120,179	28,598,686	7,849,348	8,049,458	33,969,527	36,648,144
Infrastructure	1,262,497,310	1,204,523,093	-	-	1,262,497,310	1,204,523,093
Landfill property in service	-	-	16,320,827	23,339,444	16,320,827	23,339,444
Stormwater property in service	-	-	63,261,821	65,517,803	63,261,821	65,517,803
Construction in progress	117,433,702	97,366,460	98,943,314	92,603,707	216,377,016	189,970,167
Total	\$ <u>1,686,317,665</u>	<u>1,598,509,995</u>	<u>201,537,131</u>	<u>204,482,730</u>	<u>1,887,854,796</u>	<u>1,802,992,725</u>

Additional information on Prince George's County's capital assets is located on pages IV-14 to IV-18 of this report.

**Long-term debt.** At the end of the current fiscal year, the County had total bonded debt outstanding of \$910.1 million. Of this amount, \$876.4 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).

**Outstanding Debt**

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 800,483,759	652,473,759	75,890,000	67,530,000	876,373,759	720,003,759
State participation bonds	-	812,025	-	24,155	-	836,180
Revenue bonds	-	-	33,761,193	40,360,581	33,761,193	40,360,581
Total	\$ <u>800,483,759</u>	<u>653,285,784</u>	<u>109,651,193</u>	<u>107,914,736</u>	<u>910,134,952</u>	<u>761,200,520</u>

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Total bonded debt of Prince George's County Government increased by \$148.9 million (19.6%) from the previous fiscal year. The key factors in the increase are a bond sale of \$100.1 million in July, a \$90.6 million refunding in July, a \$32.0 million refunding of Solid Waste System Revenue Bonds in December, a \$107.7 million bond sale in June, and the retirement of \$181.3 million of General Obligation and Revenue bonds.

In July, the County issued \$90.6 million of general obligation bonds to refund \$94.9 million of certain previously outstanding general obligation bonds. As a result of the refunding, the County will reduce its overall debt service obligations by \$7.4 million. The present value of debt service savings is \$6.6 million.

In December, the County issued \$32.0 million of Solid Waste System Revenue Bonds to refund \$34.7 million of certain previously outstanding Solid Waste System Revenue Bonds. As a result of the refunding, the County will reduce its overall debt service obligations by \$5.4 million. The present value of debt service savings is \$4.7 million.

The underlying ratings of the County's general obligation bonds as of June 20, 2004, 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

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The County's Stormwater Management general obligation underlying bond ratings, as of June 30, 2004, 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, 2004, 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 IV-30 of this report.

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

Factors considered in preparing Prince George's County's budget for fiscal year 2005 included:

- The unemployment rate in the County decreased from 4.6% in January of 2003 to 4.5% in January of 2004. The percentage is lower than both the State and national averages.
- The occupancy rate in the County declined from its peak in the second quarter of calendar year 2003. The performance is in line with other jurisdictions in the region.
- Median housing prices are growing at double-digit rates in 2004 compared to the same period in 2003. The median average sales price in January 2004 was \$190,000.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$44.6 million to a total of \$122.1 million. One factor impacting the increase were tax revenues which exceeded the budget by approximately \$47.8 million in fiscal year 2004. General fund reserves increased \$2.6 million mainly due to the increase in the contingency reserve. The County has appropriated \$31.2 million of the unreserved fund balance for the fiscal year 2004 budget with the majority (\$26.2 million) due to the Board of Education for fiscal year 2004 telecommunications taxes (\$11.2 million) and school construction (\$15.0 million.)

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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).

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