



MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis are intended to serve as an introduction to the basic financial statements of *Pierce County*. The financial statements provide an overview of county financial activities for the fiscal year ended December 31, 2002. The discussion and analysis should be read in conjunction with the preceding letter of transmittal and the accompanying financial statements.

The county implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments (GASB 34) in 2002. The GASB establishes reporting standards for state and local governments whereas the county budget is the responsibility of county elected officials. GASB 34 dramatically impacted the form and content of the county financial statements, but did not change the underlying legal requirements related to the county budget. Because 2002 is the first year financial data has been presented in accordance with the new reporting requirements, this discussion and analysis provides limited comparisons with the previous year. Future reports will include more comparisons.

OVERVIEW OF THE FINANCIAL STATEMENTS

The report is comprised of three components; Government-Wide Financial Statements, Fund Financial Statements, and Notes to the Financial Statements. Notes to the Financial Statements provide additional information that is essential to a full understanding of the data presented in the Government-Wide and Fund Financial Statements. Combining statements for certain nonmajor governmental funds and *Internal Service Funds* are presented immediately following the notes to the financial statements. The report also includes other supplementary information designed to enable the reader to gain maximum understanding of county financial activities.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Government-wide statements are designed to provide readers with a broad overview of *Pierce County* finances in a manner similar to that of a private-sector business.

The statement of net assets presents information on all of the county assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the county is improving or deteriorating.

The statement of activities presents information showing changes in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will actually result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This is intended to summarize and simplify the reader's analysis of the revenues and costs of various county activities and the degree to which activities are subsidized by general revenues.

Both government-wide financial statements distinguish between functions of *Pierce County* principally supported by taxes and intergovernmental revenues (governmental activities) and other functions that are intended to recover all or a significant portion of operating costs through user fees and charges (business-type activities). The governmental activities of the county include general government, public safety, physical environment, legal, judicial, economic environment, transportation, health and human services, and culture and recreation. Business-type activities include water and sewer utilities, solid waste management and the associated landfill reserve, airport, ferry services, and golf course.

FUND FINANCIAL STATEMENTS

The accounts of *Pierce County* are organized and operated on the basis of individual funds and fund accounting. Each fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses. Fund accounting segregates county resources and spending activities based upon the purposes for which resources are allocated. Fund accounting also provides management with information to control spending activities and demonstrates compliance with finance-related legal and contractual provisions. All funds of *Pierce County* can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Essentially the same functions reported as governmental activities in the government-wide financial statements are reported in governmental fund financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation to provide comparison between governmental funds and governmental activities as reported in the government-wide statements.

The county maintains 54 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *General Fund*, the *Human Services Fund*, and the *Roads Fund*, all of which are considered to be major funds. Data from the other 51 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Budgetary comparison statements are presented for the *General Fund*, *Human Services Fund* and the *Roads Fund* to demonstrate the flow of resources in relation to the legally adopted budget.

PROPRIETARY FUNDS

Pierce County maintains two types of proprietary funds; *Enterprise Funds* and *Internal Service Funds*. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Water and sewer utilities, solid waste management, landfill reserve, airport, ferry services, and the golf course are accounted for in *Enterprise Funds*. *Internal Service Funds* are a fund type used to accumulate and allocate costs internally among the various county functions. *Pierce County* uses *Internal Service Funds* to account for equipment and fleet services, information services, facilities management, radio communications, general services, self-insurance, and workers compensation activities. Because these services predominantly benefit governmental rather than business-type functions, *Internal Service Funds* have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statement, only in more detail. The proprietary fund financial statements provide separate information for the *Sewer Utility* and for the *Landfill Reserve*, both of which are considered to be major funds of the county. Data from the other five *Enterprise Funds* and all eight *Internal Service Funds* are combined into individual, aggregated presentations. Individual fund data for each of these nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

FIDUCIARY FUNDS

Resources held for the benefit of parties outside the government are accounted for in fiduciary funds. Because the resources of those funds are not available to support county programs, fiduciary funds are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STATEMENT OF ACTIVITIES

Shown below is a condensed version of the statement of activities for both the governmental and business-type operations:

Condensed Statement Of Activities (in thousands)				
Governmental Activities	Expenses	Program Revenues		Net (Expenses) Or Revenues
		Charges For Services	Grants And Contributions	
Public Safety	\$ 102,676	\$ 1,310	\$ 26,819	\$ (74,547)
Legal and Judicial	54,775	8,073	8,068	(38,634)
Transportation	39,751	126	21,406	(18,219)
Health and Human Services	100,330	1,505	97,965	(860)
All Other Programs	72,636	35,391	23,647	(13,598)
	<u>\$ 370,168</u>	<u>\$ 46,405</u>	<u>\$ 177,905</u>	<u>(145,858)</u>
			General Revenues:	
			Property Taxes	124,731
			Sales Taxes	44,319
			Excise/Other Taxes	15,913
			Other Revenue/Transfers	17,818
			Total General Revenues	<u>202,781</u>
			Change in Net Assets	<u>\$ 56,923</u>
Business-Type				
Activities	Expenses	Program Revenues		Net (Expenses) Or Revenues
		Charges For Services	Grants And Contributions	
Sewer Utility	\$ 25,596	\$ 22,043	\$ 8,185	\$ 4,632
Solid Waste Management	2,929	2,231	673	(25)
Ferry Services	2,495	2,118	200	(177)
All Other Programs	1,659	1,284	2,533	2,158
	<u>\$ 32,679</u>	<u>\$ 27,676</u>	<u>\$ 11,591</u>	6,588
			General Revenues	<u>2,560</u>
			Change in Net Assets	<u>\$ 9,148</u>
All Activities	Expenses	Program Revenues		Net (Expenses) Or Revenues
	<u>\$ 402,847</u>	<u>\$ 74,081</u>	<u>\$ 189,496</u>	\$ (139,270)
			General Revenues	<u>205,341</u>
			Total Change in Net Assets	<u>\$ 66,071</u>

Entitywide Summary Of Activities
(in thousands)

	Governmental Activities	Business-Type Activities	Total
Beginning Net Assets	\$ 633,327	\$ 406,848	\$ 1,040,175
2002 Change in Net Assets	56,923	9,148	66,071
Change In Accounting Principle	873	-	873
Ending Net Assets	<u>\$ 691,123</u>	<u>\$ 415,996</u>	<u>\$ 1,107,119</u>

Financial Highlights

- ✦ Expenses for 2002 totaled approximately \$402,847,000, consisting of \$370,168,000 (92%) from governmental activities and \$32,679,000 (8%) from business-type activities.
- ✦ Total program revenues for all activities were \$263,576,982 and funded approximately 66% of the total expenses for *Pierce County*. The remaining expenses were financed through General Revenues.
- ✦ Governmental activities were funded by program revenues of approximately \$224,310,000 (61%), with general revenues (principally taxes) financing the remaining 39% of governmental activities expenses.
- ✦ Business-type activities generated program revenues of approximately \$39,266,000, which exceeded related expenses by \$6,588,000. Much of this positive margin occurred in the *Sewer Utility*.
- ✦ Program revenues plus general revenues equaled \$468,917,789 while expenses totaled \$402,346,368. The result was in a positive change in net assets of \$66,571,419 in fiscal 2002, representing a 6.3% increase in total net assets to \$1,107,119,857 at year-end.
- ✦ With regard to the governmental activities expenses and related program revenues, the activities which needed the greatest support from general revenues were Public Safety (\$74,547,856) and Legal and Judicial programs (\$38,633,390).
- ✦ The \$56.9 million increase in governmental activities net assets primarily resulted from: a) increased construction and land acquisition for road improvements, surface water management projects, parks and recreation facility enhancements, and other capital projects; and b) positive net revenue in the *Internal Service Funds*.

STATEMENT OF NET ASSETS

The following is a summary of the statement of net assets presented in detail in the financial section of this report:

Condensed Statement of Net Assets
(in thousands)

	Governmental Activities	Business-Type Activities	Total
Current Assets	\$ 239,666	\$ 28,421	\$ 268,087
Restricted Assets/Joint Ventures	638	70,018	70,656
Capital Assets	<u>570,827</u>	<u>367,970</u>	<u>938,797</u>
Total Assets	<u>811,131</u>	<u>466,409</u>	<u>1,277,540</u>
Current Liabilities	52,642	8,912	61,554
Noncurrent Liabilities	<u>67,366</u>	<u>41,500</u>	<u>108,866</u>
Total Liabilities	<u>120,008</u>	<u>50,412</u>	<u>170,420</u>
Total Net Assets	<u>\$ 691,123</u>	<u>\$ 415,997</u>	<u>\$ 1,107,120</u>

Financial Highlights

- ✦ Approximately \$691 million (62%) of total net assets are related to governmental activities, while \$416 million (38%) are related to business-type activities.
- ✦ Capital assets account for approximately 73% of total assets, and 85% of total net assets.
- ✦ Net assets can be further delineated as follows:

Summary of Net Assets (in thousands)

	Governmental Activities	Business-Type Activities	Total
Capital Assets (Net of Related Debt)	\$ 513,792	\$ 332,823	\$ 846,615
Restricted Net Assets	107,320	60,590	167,910
Unrestricted Net Assets	70,011	22,584	92,595
Total Net Assets	<u>\$ 691,123</u>	<u>\$ 415,997</u>	<u>\$ 1,107,120</u>

- ✦ Only 10% of governmental activities net assets are unrestricted, while only 5% of the business-type activities net assets are unrestricted.

FINANCIAL ANALYSIS OF THE MAJOR COUNTY FUNDS

GENERAL FUND

Revenues. The *General Fund* receives unrestricted county revenue which is used to finance activities including the sheriff's department, county detention facilities, the judicial system, planning and regulation of development, general governmental services, parks and recreation programs, and various human and health services. Revenue and all other financing sources for the *General Fund* totaled \$219,001,728 in fiscal 2002, representing a 3.3% increase from the prior year. Revenue categories, with the changes from last fiscal year, are summarized on the following page:

Summary of General Fund Revenues and Other Financing Sources (in thousands)

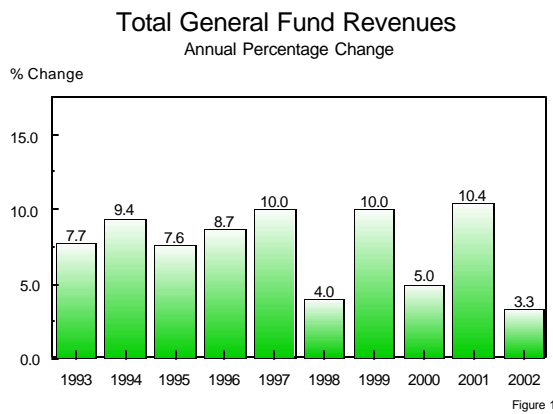
Category	Amount		Increase (Decrease)	
	2002	2001	Amount	Percent
Revenue:				
Property and Other Taxes	\$ 89,292	\$ 84,475	\$ 4,817	5.7 %
Sales Tax	40,453	38,029	2,424	6.4 %
Licenses & Permits	5,932	5,472	460	8.4 %
Intergovernmental	38,974	38,507	467	1.2 %
Charges for Services	27,854	26,841	1,013	3.8 %
Fines and Forfeits	5,398	4,603	795	17.3 %
Interest	8,508	11,674	(3,166)	(27.1) %
Miscellaneous Revenue	1,658	1,598	60	3.8 %
Total Revenue	<u>218,069</u>	<u>211,199</u>	<u>6,870</u>	<u>3.3 %</u>
Other Financing Sources	<u>932</u>	<u>870</u>	<u>62</u>	<u>7.1 %</u>
Total Funding Sources	<u>\$ 219,001</u>	<u>\$ 212,069</u>	<u>\$ 6,932</u>	<u>3.3 %</u>

A more detailed discussion of the major changes from the prior year follows:

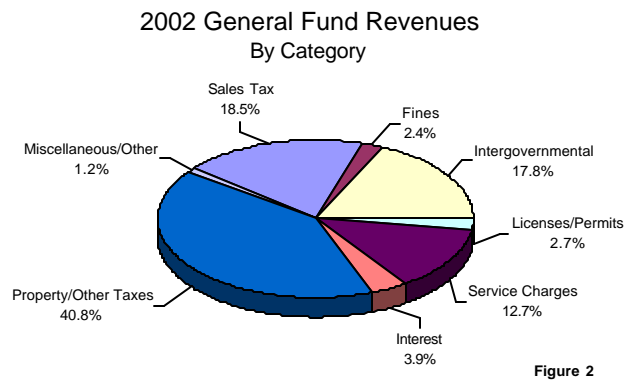
- ✦ **Property and Other Taxes.** The relatively healthy growth reflected new construction activity in the county.

- ✦ **Sales Taxes.** Even though the state and national economies were relatively weak during 2002, that weakness did not register as dramatically in *Pierce County*. The growth rate of 6.4% was well above that experienced in neighboring jurisdictions, reflecting a much more stable economic base.
- ✦ **Licenses and Permits.** The 8.4% increase was *due* primarily to the continued strong growth in local development activity.
- ✦ **Fines and Forfeits.** This category grew significantly last year as a result of increased filings by the State Patrol and a much more aggressive collection effort.
- ✦ **Interest Revenues.** The dramatic decline in short term interest rates resulted in a significant drop in interest revenues.

Even with the local economy remaining relatively strong, the 3.3% increase in 2002 total *General Fund* financing sources was the smallest in the last ten years (see the following figure). This is due to a recent state law which limits the growth in property tax revenues from existing property to 1%, and, in part, to the sharp decline in interest revenues discussed above.



The chart below presents the percentage of 2002 revenue by category for the *General Fund*. The chart illustrates our continued dependence on property and sales taxes (a combined 59.3%) as the major revenue sources. During the last ten years the percentage of revenues from such taxes has declined slightly as service charges and intergovernmental revenue percentages have grown. Incorporation of new cities has shifted funding sources from taxes to intergovernmental revenues and service charges.



Expenditures. 2002 *General Fund* expenditures and transfers out totaled \$221,265,344, representing an increase of \$11,235,227 (5.3%) from 2001. All transfers are classified into related functional areas and are included in the comparison of expenditures for the last two years presented below:

Summary of General Fund Expenditures and Transfers Out
(in thousands)

Functional Area	Amount		Increase (Decrease)	
	2002	2001	Amount	Percent
General Government	\$ 34,661	\$ 30,285	\$ 4,376	14.4 %
Public Safety	106,426	101,139	5,287	5.2 %
Physical Environment	12,869	12,956	(87)	(0.7) %
Legal and Judicial	55,162	53,736	1,426	2.7 %
Mental and Physical Health	3,323	3,724	(401)	(10.8) %
Culture and Recreation	7,149	6,800	349	5.1 %
Economic Environment	1,675	1,390	285	20.5 %
Total Expenditures and Transfer Outs	<u>\$ 221,265</u>	<u>\$ 210,030</u>	<u>\$ 11,235</u>	5.3 %

The major changes in functional areas are explained below:

- ✦ **General Government.** The majority of this increase was attributable to a \$3.6 million allocation for a new computerized property appraisal and tax distribution system.
- ✦ **Public Safety.** Most of the growth in this category resulted from the “build-up” expenses associated with our new jail operation.
- ✦ **Mental and Physical Health.** This decrease was caused by a reduction in the budget allocation to the Health Department, which in turn relied upon fund balances to keep ongoing programs in place.
- ✦ **Economic Environment.** This large percentage increase was primarily caused by a new allocation to the University of Washington Tacoma technology center.

The chart below graphically illustrates relative budget allocations to the various county functional areas. Combined expenditures for Public Safety, and Legal and Judicial functions make up 73% of total *General Fund* expenditures. The combined percentage for these two major functions would easily exceed 75% if the related General Government support costs were all allocated to each department. Similarly, on a combined basis over 80% of the increase in total *General Fund* expenditures over the last ten years occurred in these two major functional areas. The trend is expected to continue over the next few years with increased demand for sheriff services, growing court caseloads, and full operation of the new jail facility.

2002 General Fund Expenditures
By Category

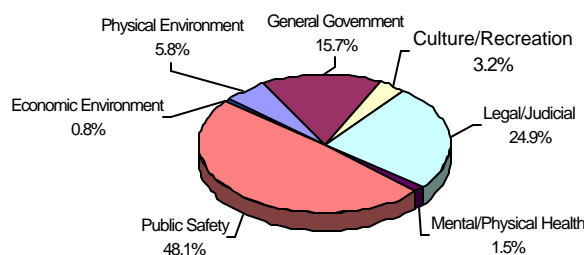
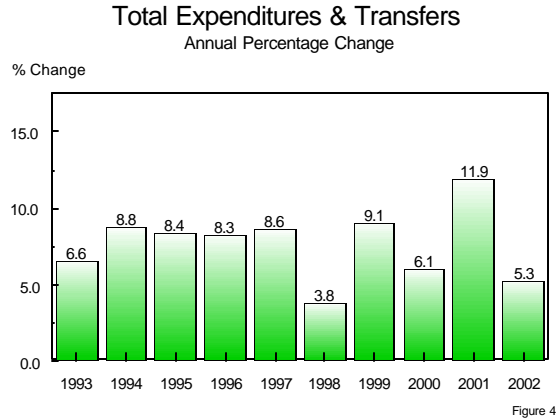


Figure 3

As previously indicated total 2002 expenditures and transfers increased 5.3% from 2001 levels. Corresponding percentage increases from prior years are presented below. The 2002 percentage increase was the second lowest in the last ten years, reflecting the small growth in revenues discussed earlier.

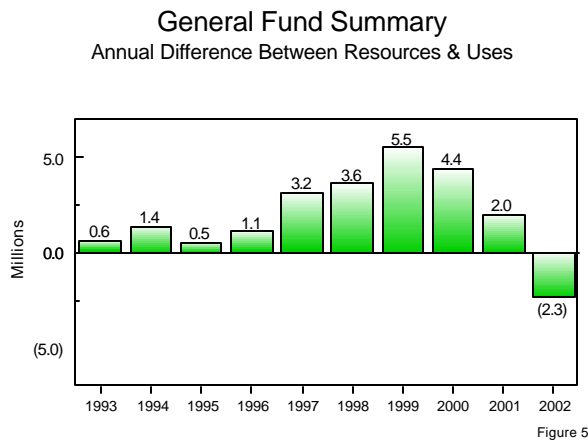


The 2002 "bottom-line" fiscal result for *General Fund* was slightly negative, generating a "deficit" of \$2.3 million summarized as follows:

Summary of General Fund Changes in Fund Balance
(in thousands)

Revenues	\$ 218,069	
Expenditures	<u>205,550</u>	
Excess of Revenue Over Expenditures		\$ 12,519
Total Other Financing Sources (Uses), Net		<u>(14,783)</u>
Net Change in Fund Balance		<u><u>\$ (2,264)</u></u>

The following graph illustrates the relationship between resources (including all revenues and transfers in) and uses (including all expenditures and transfers out) for the past ten years. The trend has been very positive; with resources exceeding uses every year except 2002. Most of the "deficit" in 2002 was attributable to one-time allocations for the new computerized appraisal and tax system, and building remodel expenses.



Budget Comparisons. The original *General Fund* expenditures budget passed by the County Council totaled \$214,504,440. During the year the budget was increased by \$8,058,256 for the following reasons:

- ✦ An increase of \$3,368,000 to Special Projects for a new computerized property appraisal and tax distribution system.
- ✦ A \$400,000 allocation for the Breaking the Cycle program in Superior Court.
- ✦ A \$475,000 allocation for additional felony defense costs in the Assigned Counsel department.
- ✦ Increases totaling \$3,815,256 for various grants, service contracts, and election cost reimbursement (primarily Auditor, Prosecutor, Juvenile, and Sheriff) which are “self supporting”.

The above budget increases were financed as follows:

Financing of General Fund Budget Increases

Use of Fund Balance	\$	3,937,000
Sales Tax		250,000
Grants, Service Contracts, and Election Cost Reimbursement (see above)		3,815,256
Miscellaneous Revenue		56,000
Total Budget Increase Financing	\$	8,058,256

There were no significant variances between the final approved expenditure budget of \$222,562,696 and the actual expenditures of \$221,265,344. The \$1,297,352 positive gap equates to only 0.6% of the budget; and there were no major individual department variances.

Actual *General Fund* revenues exceeded the final budget by \$2,724,032 (1.2% of budget). Most of the additional revenues came from property taxes (interest from delinquent accounts) and from sales tax growth exceeding our more pessimistic projections.

General Fund Balance. The unreserved fund balance for the *General Fund* was approximately \$26 million at December 31, 2002, reflecting a decrease of nearly \$2.5 million from 2001. The decrease is a result of the aforementioned operating “deficit” from 2002, plus a slight increase in reserves.

Fund balance serves several purposes for the county. Fund balance provides working capital until the receipt of first half property tax payments at the end of April. During the first four months of each year the *General Fund* expends approximately \$25 million more for payroll and services than is received in revenues. Fund balance provides the necessary cash cushion to allow financing of normal activities without excessive borrowing. Fund balance also provides a reserve for unanticipated emergency expenditures, and can be used to balance subsequent budgets, should such an allocation be required to finance necessary programs.

The graph below illustrates the trend in the unreserved fund balance over the past decade. The trend has been mostly positive, providing a fund balance “cushion” to meet the needs referenced above.

Unreserved General Fund Balance

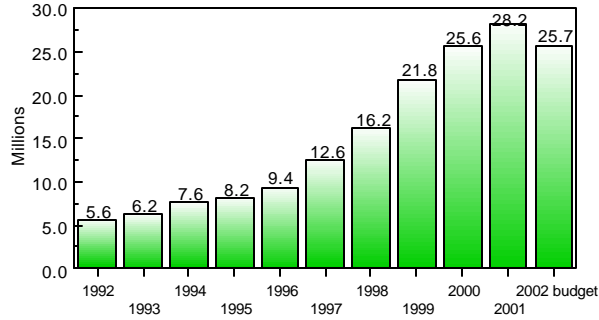


Figure 6

The figure below illustrates the trend in unreserved fund balance as a percent of budget. The county goal is to maintain an unreserved fund balance of between 5% and 8% of current *General Fund* budget. At the end of 2002 unreserved fund balance represented 11.6% of the 2002 budget. Approximately \$2.8 million of this fund balance has been budgeted to support the 2003 budget (primarily for one-time items). Should 2003 actual revenues and expenditures occur as budgeted; the unreserved percentage will be reduced to an estimated 10.3% at the end of 2003.

Unreserved General Fund Balance as a Percent of the General Fund Budget

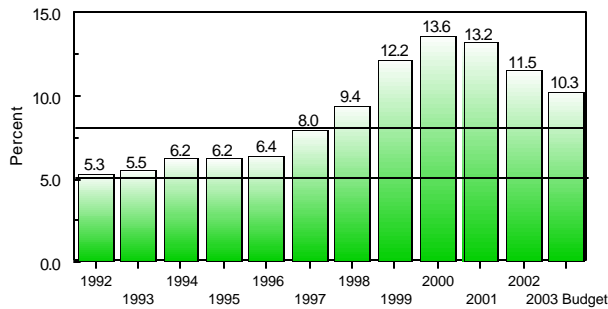


Figure 7

ROADS FUND

The county *Roads Fund* finances the road maintenance, traffic control, general engineering, and general administrative activities related to all county roads and bridges. This fund also allocates significant monies (\$9.7 million in fiscal 2002) to support major road construction and reconstruction projects. These activities totaled \$45.2 million in fiscal 2002. The major funding sources for these activities are property taxes (\$33.1 million), and gasoline tax revenues from the state (\$9.2 million).

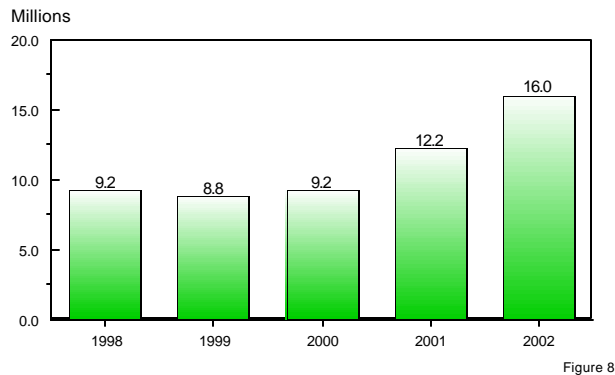
A summary for the last five years of all revenues and other financing sources versus expenditures and other uses follows:

Five Year Summary of Road Fund Revenues and Expenditures
(in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenues/Sources	\$ 43,685	\$ 42,993	\$ 47,548	\$ 47,346	\$ 48,920
Expenditures/Uses	41,540	43,414	47,104	44,291	45,204
Revenues/Sources Over (Under) Expenditures/Uses	<u>\$ 2,145</u>	<u>\$ (421)</u>	<u>\$ 444</u>	<u>\$ 3,055</u>	<u>\$ 3,716</u>

Although the pattern varies from year to year, the general fiscal trend has been positive, especially in the last two years. The fund balances for the *Road Fund* over this time period are shown below. These balances will be used in subsequent years to maintain a solid road maintenance program, and to provide monies for capital construction projects.

Road Fund Balance

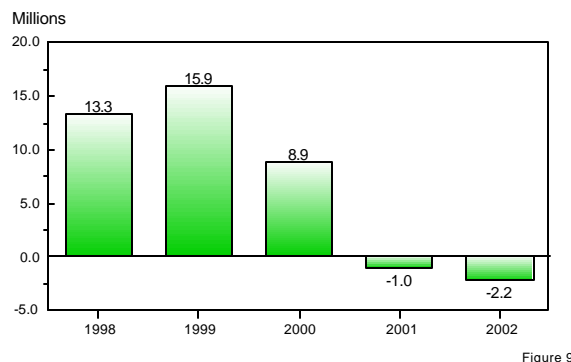


HUMAN SERVICES FUND

The *Human Services Fund* provides financing for the county programs dealing with Aging and Long Term Care, Mental Health, Chemical Dependency, and Developmental Disabilities. The vast majority of the financing is derived from state and federal grants.

As the figures below indicate, we have seen a significant deterioration in the fiscal status of this fund. This is primarily due to our attempting to maintain existing programs and services (as best we can) as federal and state funding levels were decreased.

Human Services Fund Balance



It should be noted that the county is currently in litigation with the state for several million dollars in previously disallowed claims, and feel that our chances of being at least partially successful are quite good. The above figures do **not** reflect any of these potential dollars. If we are successful, the deficit will probably be extinguished; but we will still need to monitor expenses carefully as future grant funding cutbacks are likely to occur.

SEWER UTILITY FUND

The *Sewer Utility* is by far the county's largest fund, with total customer accounts of approximately 44,000. The financial results for fiscal 2002 and the preceding year are compared below:

Summary of Sewer Utilities Net Assets (in thousands)

	Amount		Increase (Decrease)	
	2002	2001	Amount	Percent
Current and Other Assets	\$ 77,158	\$ 83,710	\$ (6,552)	(7.8) %
Capital Assets	341,496	329,889	11,607	3.5 %
Total Assets	418,654	413,599	5,055	1.2 %
Long-Term Liabilities	30,970	33,203	(2,233)	(6.7) %
Other Liabilities	8,207	7,121	1,086	15.3 %
Total Liabilities	39,177	40,324	(1,147)	(2.8) %
Capital Assets (Net of Related Debt)	308,262	292,318	15,944	5.5 %
Restricted	57,456	61,977	(4,521)	(7.3) %
Unrestricted	13,759	18,980	(5,221)	(27.5) %
Total Net Assets	\$ 379,477	\$ 373,275	\$ 6,202	1.7 %

Summary of Sewer Utilities Revenues, Expenses, and Changes in Net Assets (in thousands)

	Amount		Increase (Decrease)	
	2002	2001	Amount	Percent
Operating Revenues	\$ 22,042	\$ 21,189	\$ 853	4.0 %
Nonoperating Revenues	3,670	4,721	(1,051)	(22.3) %
Total Revenues	25,712	25,910	(198)	(0.8) %
Operating Expenses	16,104	14,579	1,525	10.5 %
Depreciation	9,638	9,654	(16)	(0.2) %
Nonoperating Expenses	1,885	3,118	(1,233)	(39.5) %
Total Expenses	27,627	27,351	276	1.0 %
Income Before Capital Contributions	(1,915)	(1,441)	(474)	32.9 %
Transfers	312	—	312	100.0 %
Capital Contributions	7,805	29,990	(22,185)	(74.0) %
Change in Net Assets	6,202	28,549	(22,347)	(78.3) %
Beginning Net Assets	373,275	344,726	28,549	8.3 %
Ending Net Assets	\$ 379,477	\$ 373,275	\$ 6,202	1.7 %

Financial Highlights

- ✦ Total assets at year end of \$418.7 million exceeded liabilities of \$39.2 million yielding total net assets of \$379.5 million. Total net assets increased by \$6.2 million (1.66%) from last year. Of the total net assets, \$13.7 million was unrestricted and available to support short-term operations or fund capital improvement projects. Unrestricted net assets decreased by \$5.1 million as a result of operating expenses and depreciation in excess of operating revenues.
- ✦ The utility invested \$21.2 million in the acquisition of property, plant and equipment during 2002. Completed projects with a cost of \$30.3 million were transferred from construction work in progress during the year. This included completion of the new Environmental Services Office Building and a complete overall and upgrade of three digesters at the Chambers Creek Wastewater Treatment Plant.
- ✦ No new debt was issued by the utility during 2002. A total of \$2.2 million in debt was repaid during the year leaving a balance outstanding at year-end of \$33.3 million. Of this amount, \$12.2 million is due within the next five years.
- ✦ Operating revenues increased by \$854,000 or 4.0% to \$22.0 million. The increase for the year is comparable to previous years and was the result of growth in the utility's customer base.
- ✦ Operating expenses increased by \$1.5 million or 10.45% to \$16.1 million. The increase in operating expenses is higher than in previous years and is primarily the result of general inflationary increases, one-time purchases, an increase in the amount of repairs and maintenance on system infrastructure and a larger than normal write-off of preliminary studies and investigations during the year.
- ✦ Capital contributions decreased by \$22.2 million or 74% to \$7.8 million. In 2001, the *Sewer Utility* completed work on the Dupont/Northwest Landing Utility Local Improvement District which resulted in a capital contribution of \$22.3 million. When this one-time item is removed, capital contributions in 2002 were approximately the same as 2001.

LANDFILL RESERVE FUND

The *Landfill Reserve Fund* accounts for monies in trust which will finance expenses related to closure and post-closure of the solid waste landfills operated under a private contract. Such costs include judgments and settlements of claims by third parties for pollution, contamination or damage caused by chemical release from the landfills, and necessary post-closure monitoring operations.

Very little activity occurred in this fund during fiscal 2002. Interest income totaled \$62,763, which was slightly in excess of the \$60,993 in system service costs. This resulted in an increase in net assets of \$1,770.

A summary of the *Landfill Reserve* net assets follows:

Summary of Landfill Reserve Net Assets

Assets	
Cash & Investment (Restricted)	\$ 9,177,060
Landfill Closure Receivables - Non Current	<u>2,809,804</u>
Total Assets	<u>11,986,864</u>
Liabilities	
Payables	40,420
Landfill Post Closure Obligations	<u>8,863,986</u>
Total Liabilities	<u>8,904,406</u>
Total Net Assets	<u>\$ 3,082,458</u>

CAPITAL ASSETS

The county's investment in capital assets for governmental and business-type activities amounted to \$939 million at December 31, 2002. This investment in capital assets includes land, infrastructure, buildings and other improvements, furnishings and equipment as well as construction in progress. Fiscal Year 2002 is the first year for the County to report infrastructure under the new requirements of GASB Statement No. 34. Additional information on *Pierce County* capital assets can be found in Note 5 to the financial statements. Total capital assets for the county increased by \$65 million in fiscal 2002 as follows:

Asset Category	Summary of Capital Asset Activity (in thousands)			
	Governmental Activities		Business-Type Activities	
	2002 Changes	Ending Asset Values	2002 Changes	Ending Asset Values
Land and Land Rights	\$ 7,773	\$ 67,783	\$ 1,574	\$ 49,937
Buildings & Systems	5,834	111,983	12,648	83,679
Improvements Other Than Buildings	318	2,084	5,952	9,741
Machinery and Equipment	867	53,656	11,650	36,699
Infrastructure	3,552	269,881	40	296,469
Construction in Progress	39,946	167,126	(9,772)	17,319
Avigation Rights	-	-	492	562
Accumulated Depreciation	<u>(7,001)</u>	<u>(101,686)</u>	<u>(8,491)</u>	<u>(126,436)</u>
Total Capital Assets, Net	<u>\$ 51,289</u>	<u>\$ 570,827</u>	<u>\$ 14,093</u>	<u>\$ 367,970</u>

Highlights

- ✦ Most of the changes in the governmental activities were concentrated in Construction in Progress, of which \$29.5 million was for roads infrastructure and \$15.2 million was for the new jail.
- ✦ Governmental capital assets acquisitions were \$58.3 million, significantly in excess of the capital asset depreciation figure of \$7.0 million.
- ✦ The \$22.6 million increase in business-type assets (excluding depreciation) was mainly for Sewer *Utility* system improvements.
- ✦ The gross increase in business-type activities assets (\$22.6 million) greatly exceeded the depreciation on assets (\$8.5 million).

BONDED DEBT ADMINISTRATION

The ratios of net direct tax supported bonded debt to assessed valuation and to population (per capita) present useful indicators of the relative county debt burden. The ratios at December 31, 2002 are as follows:

	Ratio of Debt To Assessed Valuation	Debt Per Capita
Net Direct Tax Supported Bonded Debt*	<u>0.0012</u>	<u>\$ 76.53</u>

* Defined as Limited and Unlimited General Obligation Bonds net of assets available in *Debt Service Funds* for payment of principal.

Comparable ratios based on assessed valuation and per capita from Standard and Poors Public Finance are .024 and \$521, respectively, for all other counties. This comparison dramatically illustrates the relatively low debt burden enjoyed by Pierce County residents.

A summary of outstanding bond debt is presented below:

**Summary of Outstanding Bond Debt
(in thousands)**

	<u>2001 Year-End</u>	<u>Debt Retired</u>	<u>2002 Year-End</u>
General Obligation Bonds	\$ 58,845	\$ 2,845	\$ 56,000
General Obligation Bonds - Sewers	2,490	1,215	1,275
Sewer Revenue Bonds	32,995	990	32,005
Special Assessment Bonds	<u>5</u>	<u>5</u>	<u>—</u>
Total Bond Debt	<u>\$ 94,335</u>	<u>\$ 5,055</u>	<u>\$ 89,280</u>

In the next five years, the county will retire 25% of the general obligation bond debt, and 34% of the sewer revenue bond debt. In the next ten years, the retirement percentages are 47% and 68%, respectively.

No new bonds were issued during 2002. At year-end, a \$7.595 million refunding of the callable portion of the 1994 Limited Tax General Obligation Bond was being evaluated and was completed in March 2003 with a net present value savings of \$523,000.

The county *Sewer Utility* is required to maintain a revenue bond debt service coverage ratio of 1.25 times the aggregate annual debt service of the utility's bonds outstanding. The revenue bond coverage ratio for 2002 was 4.39.

The Moody's Investor Service bond ratings are Aa-3 for *Pierce County's* limited tax general obligation bonds and A-1 for its sewer revenue bonds. The Standard & Poor's bond ratings are AA- for both *Pierce County* limited tax general obligation bonds and the sewer revenue bonds. These ratings are exceptionally high for a county and indicate to investors that *Pierce County* bonds are a good investment risk. Additional information on *Pierce County's* long-term debt can be found in Note 6 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide various interested parties with a general overview of the county's finances and to show the county's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Pierce County Budget & Finance, 615 South 9th Street, Tacoma, Washington, 98405.

