



## 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, 2003. The discussion and analysis should be read in conjunction with the preceding letter of transmittal and the accompanying financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of *Pierce County* using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments. 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

Fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The county, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities as reported in the government-wide statements.

The county maintains a general fund and several other individual governmental funds organized according to their type (special revenue, debt service, and capital projects). 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 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

Shown below are condensed versions of the government-wide statements of activities and net assets for both governmental and business-type operations. The government-wide statements are presented in detail in the financial section of this report.

### STATEMENT OF ACTIVITIES

The following is a summary of the changes in net assets from the statement of activities:

#### Condensed Summary of Changes in Net Assets (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002 (Restated)	2003	2002	2003	2002 (Restated)
Program Revenues:						
Charges for Services	\$ 50,122	\$ 46,405	\$ 28,084	\$ 27,676	\$ 78,206	\$ 74,081
Grants and Contributions	190,137	189,565	7,836	11,591	197,973	201,156
General Revenues:						
Taxes	200,531	184,963	173	155	200,704	185,118
Interest and Investment Earnings	5,869	9,535	830	3,383	6,699	12,918
Other General Revenue	450	537	(189)	(1,875)	261	(1,338)
Total Revenues	<u>447,109</u>	<u>431,005</u>	<u>36,734</u>	<u>40,930</u>	<u>483,843</u>	<u>471,935</u>
Expenses:						
General Government	29,878	29,448	–	–	29,878	29,448
Public Safety	110,194	102,676	–	–	110,194	102,676
Physical Environment	22,168	23,939	–	–	22,168	23,939
Transportation	39,622	39,751	–	–	39,622	39,751
Legal and Judicial	55,218	54,775	–	–	55,218	54,775
Economic Environment	16,176	16,273	–	–	16,176	16,273
Health and Human Services	98,065	100,330	–	–	98,065	100,330
Culture and Recreation	8,740	2,703	–	–	8,740	2,703
Interest on Long-Term Debt	2,898	3,290	–	–	2,898	3,290
Sewer Utility	–	–	26,113	25,596	26,113	25,596
Solid Waste Landfill Reserve	–	–	114	61	114	61
Solid Waste Management	–	–	2,881	2,930	2,881	2,930
Airport	–	–	528	432	528	432
Ferry Services	–	–	2,074	2,495	2,074	2,495
Golf Course	–	–	1,014	1,088	1,014	1,088
Water Utility	–	–	18	77	18	77
Total Expenses	<u>382,959</u>	<u>373,185</u>	<u>32,742</u>	<u>32,679</u>	<u>415,701</u>	<u>405,864</u>
Change in Net Assets before Transfers and Extraordinary Items	64,150	57,820	3,992	8,251	68,142	66,071
Transfers	(289)	(897)	289	897	–	–
Extraordinary Items	4,241	–	(2,471)	–	1,770	–
Beginning Net Assets (Restated)	<u>694,258</u>	<u>637,335</u>	<u>415,996</u>	<u>406,848</u>	<u>1,110,254</u>	<u>1,044,183</u>
Ending Net Assets	<u>\$ 762,360</u>	<u>\$ 694,258</u>	<u>\$ 417,806</u>	<u>\$ 415,996</u>	<u>\$ 1,180,166</u>	<u>\$ 1,110,254</u>

### Financial Highlights

- ✦ Expenses for 2003 totaled approximately \$415,701,000, consisting of \$382,959,000 (92%) from governmental activities and \$32,742,000 (8%) from business-type activities.
- ✦ Total program revenues for all activities were \$276,179,000 and funded approximately 66% of the total expenses for *Pierce County*. The remaining expenses were financed through general revenues (principally taxes).

- ✦ Only modest changes occurred in expenses, program revenues, and general revenues in 2003 versus 2002.
- ✦ Governmental activities were funded by program revenues of approximately \$240,259,000 (63%), with general revenues financing the remaining 37% of governmental activities expenses. This represents a slight increase in the percentage of expenses paid by program revenues.
- ✦ Business-type activities generated program revenues of approximately \$35,920,000, which exceeded related expenses by \$3,178,000. Much of this positive margin occurred in the *Sewer Utility*.
- ✦ Total government-wide program revenues plus general revenues equaled \$483,843,000 and exceeded total government-wide expenses of \$415,701,000. The result was government-wide net assets increased \$68,142,000 before extraordinary items during fiscal 2003, which is similar to the increase in net assets for the prior year.
- ✦ Almost all of the increase in government-wide net assets occurred in governmental activities. The increase was due primarily to capital asset acquisitions, including investments in and financing of land, buildings, infrastructure, right-of-way, equipment, and construction in progress. A portion of the increase also resulted from positive net revenue in the Human Services department due in part to proceeds received from a one-time lawsuit settlement.

The following table directly compares governmental and business-type activities with associated program revenues:

**Comparative Statement of Activities**  
(in thousands)

<u>Governmental Activities</u>	<u>2003</u>			<u>2002</u>
	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Revenues (Expenses)</u>	<u>Net Revenues (Expenses)</u> (Restated)
Public Safety	\$ 110,194	\$ 32,976	\$ (77,218)	\$ (72,383)
Legal and Judicial	55,218	16,800	(38,418)	(38,634)
Transportation	39,622	30,956	(8,666)	(8,725)
Health and Human Services	98,065	100,795	2,730	(860)
All Other Programs	79,860	58,732	(21,128)	(16,614)
	<u>\$ 382,959</u>	<u>\$ 240,259</u>	(142,700)	(137,216)
General Revenues			210,803	194,139
Change in Net Assets			<u>\$ 68,103</u>	<u>\$ 56,923</u>

<u>Business-Type Activities</u>	<u>2003</u>			<u>2002</u>
	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net Revenues (Expenses)</u>	<u>Net Revenues (Expenses)</u>
Sewer Utility	\$ 26,113	\$ 30,003	\$ 3,890	\$ 4,632
Solid Waste Management	2,881	2,911	30	(25)
Ferry Services	2,074	1,633	(441)	(177)
All Other Programs	1,674	1,373	(301)	2,158
	<u>\$ 32,742</u>	<u>\$ 35,920</u>	3,178	6,588
General Revenues			(1,369)	2,560
Change in Net Assets			<u>\$ 1,809</u>	<u>\$ 9,148</u>

## Financial Highlights

- ✦ As would be expected in governmental activities, the programs which needed the greatest general revenue support were Public Safety, and the Legal and Judicial system (total \$115,636,000).
- ✦ The gap between total governmental activities expenses and related program revenues increased from \$137,216,000 in 2002 to \$142,701,000 in 2003.
- ✦ However, the county generated a \$68,103,000 increase in governmental activities net assets (compared to \$56,923,000 in 2002), primarily due to increased general revenues (as opposed to either increased program revenues or reduced expenses).
- ✦ Business-type activities reported a \$1,809,000 increase in net assets, which is considerably less than the 2002 figure of \$9,148,000. The decline was due to a reduction in revenue from grants and contributions; and a negative amount for general revenues primarily due to a one-time write-off of mineral rights value in the *Sewer Utility Fund*.
- ✦ The *Sewer Utility*, by far the largest business-type activity, continues to generate positive operating results and far overshadows any “deficits” in the other much smaller business-type activities.

## STATEMENT OF NET ASSETS

The following is a summary of the government-wide 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	
	2003	2002 (Restated)	2003	2002	2003	2002
Current Assets	\$ 253,553	\$ 239,666	\$ 30,123	\$ 28,421	\$ 283,676	\$ 268,087
Restricted Assets/Joint Ventures	599	639	53,182	70,018	53,781	70,657
Capital Assets	625,641	573,961	381,470	367,970	1,007,111	941,931
Total Assets	879,793	814,266	464,775	466,409	1,344,568	1,280,675
Current Liabilities	51,600	52,642	4,290	8,105	55,890	60,747
Noncurrent Liabilities	65,833	67,366	42,679	42,308	108,512	109,674
Total Liabilities	117,433	120,008	46,969	50,413	164,402	170,421
Total Net Assets	\$ 762,360	\$ 694,258	\$ 417,806	\$ 415,996	\$ 1,180,166	\$ 1,110,254

## Financial Highlights

- ✦ Approximately \$762 million (65%) of total net assets are related to governmental activities, while \$418 million (35%) are related to business-type activities.
- ✦ As indicated earlier, net assets increased by \$70 million in 2003, most of which was generated by governmental activities.
- ✦ The largest change was in capital assets (\$65 million) which includes \$24 million (5.5%) increase in infrastructure assets, \$22 million (12.1%) increase in construction in progress, \$14 million (12.3%) increase in land, and \$5 million (2.5%) increase in buildings and other assets.
- ✦ Capital assets account for approximately 75% of total assets, and 85% of total net assets. The 2002 percentages were similar.

✦ Net assets can be further delineated as follows:

**Summary of Net Assets**  
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
	(Restated)					
Capital Assets (Net of Related Debt)	\$ 572,715	\$ 513,292	\$ 348,531	\$ 332,823	\$ 921,246	\$ 846,115
Restricted Net Assets	111,355	107,320	44,037	60,590	155,392	167,910
Unrestricted Net Assets	78,290	70,511	25,238	22,584	103,528	93,095
Total Net Assets	<u>\$ 762,360</u>	<u>\$ 691,123</u>	<u>\$ 417,806</u>	<u>\$ 415,997</u>	<u>\$ 1,180,166</u>	<u>\$ 1,107,120</u>

✦ Only 10% of governmental activities net assets are unrestricted, while only 6% of the business-type activities net assets are unrestricted.

## FINANCIAL ANALYSIS OF 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 \$230,221,666 in fiscal 2003, representing a 5.1% increase from the prior year. Revenue categories, with the changes from last fiscal year, are summarized as follows:

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

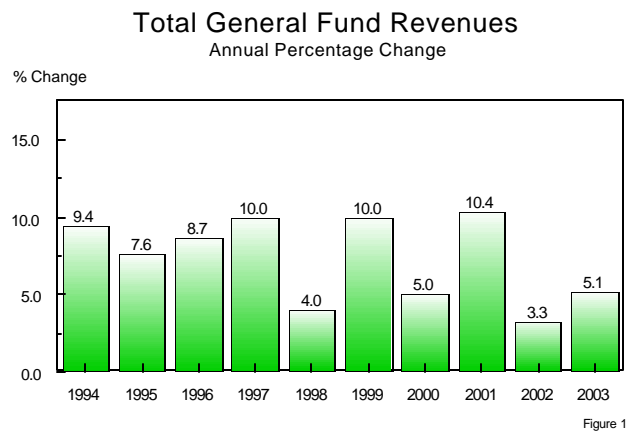
Category	Amount		Increase (Decrease)	
	2003	2002	Amount	Percent
Revenue:				
Property and Other Taxes	\$ 96,829	\$ 89,292	\$ 7,537	8.4 %
Sales Tax	43,695	40,453	3,242	8.0 %
Licenses & Permits	6,586	5,932	654	11.0 %
Intergovernmental	37,205	38,974	(1,769)	(4.5) %
Charges for Services	31,203	27,854	3,349	12.0 %
Fines and Forfeits	5,202	5,398	(196)	(3.6) %
Interest	5,567	8,508	(2,941)	(34.6) %
Miscellaneous Revenue	1,878	1,658	220	13.3 %
Total Revenue	228,165	218,069	10,096	4.6 %
Other Financing Sources	2,057	932	1,125	120.7 %
Total Funding Sources	<u>\$ 230,222</u>	<u>\$ 219,001</u>	<u>\$ 11,221</u>	5.1 %

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

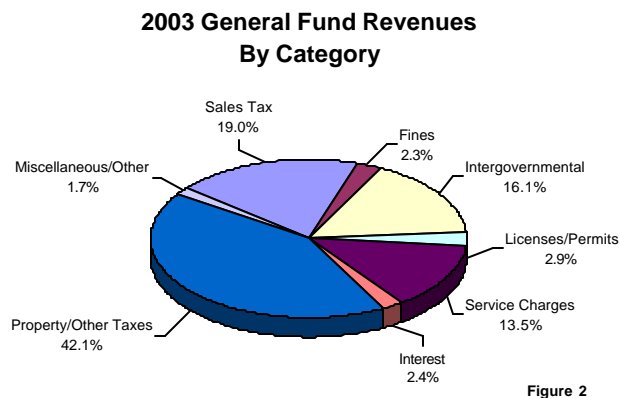
- ✦ **Property and Other Taxes.** The relatively healthy growth reflected new construction activity in the county, and the settlement of a large outstanding tax case.
- ✦ **Sales Taxes.** Even though the state and national economies were relatively weak during 2003, that weakness did not register as dramatically in *Pierce County*. The growth rate of 8.0% was well above that experienced in neighboring jurisdictions, and reflects a growing economic base.
- ✦ **Licenses and Permits.** The 11.0% increase was due primarily to the continued strong growth in local development activity.

- ✦ **Charges for Services.** Significant revenue increases were generated from recording fees, various court charges, and development activity fees.
- ✦ **Interest Revenues.** The dramatic decline in short term interest rates resulted in a significant drop in interest revenues.
- ✦ **Other Financing Sources.** The large increase resulted from a newly instituted transfer of monies from the Road fund for traffic enforcement activities undertaken by the sheriff's department.

The strength in the local economy resulted in a revenue increase above that experienced in fiscal 2002, but below the average for the last decade (see below). The major reason why revenue increases from 2002 forward will generally be less than preceding years lies in the fact that a recent voter initiative now limits the growth in property tax revenues from **existing** property to 1%.



The chart below presents the percentage of 2003 revenue by category for the *General Fund*. The chart illustrates our continued dependence on property and sales taxes (a combined 61.1%) 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 from contract services provided to the new cities.



**Expenditures.** Fiscal 2003 *General Fund* expenditures and transfers out totaled \$227,377,688, representing an increase of \$6,112,344 (2.8%) from 2002. All transfers are classified into related functional areas and are included in the comparison of expenditures.

Comparisons of expenditures for the last two years are presented below:

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

Functional Area	Amount		Increase (Decrease)	
	2003	2002	Amount	Percent
General Government	\$ 32,792	\$ 34,661	\$ (1,869)	(5.4) %
Public Safety	113,163	106,426	6,737	6.3 %
Physical Environment	13,868	12,869	999	7.8 %
Legal and Judicial	55,557	55,162	395	0.7 %
Mental and Physical Health	3,319	3,323	(4)	(0.1) %
Culture and Recreation	7,248	7,149	99	1.4 %
Economic Environment	1,430	1,675	(245)	(14.6) %
Total Expenditures and Transfer Outs	<u>\$ 227,377</u>	<u>\$ 221,265</u>	<u>\$ 6,112</u>	2.8 %

The major changes in functional areas are explained below:

- ✦ **General Government.** The majority of this decrease was due to a one-time \$3.6 million allocation for a new computerized property appraisal and tax distribution system **in 2002**.
- ✦ **Public Safety.** Most of the growth in this category resulted from the expense increase associated with the operation of our new jail.
- ✦ **Physical Environment.** The large increase reflects a 2003 allocation for computer system upgrades.

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 74% of total *General Fund* expenditures. The combined percentage for these two major functions would easily exceed 77% 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.

2003 General Fund Expenditures  
By Category

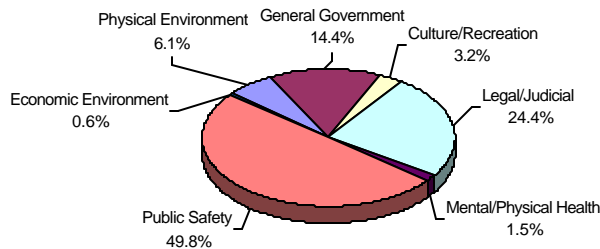
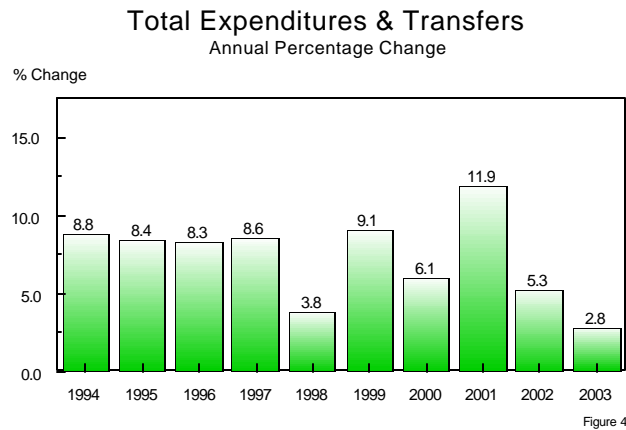


Figure 3

As previously indicated, total 2003 expenditures and transfers increased 2.8% from 2002 levels. The 2003 percentage increase was the lowest in the last ten years, reflecting the downward trend in revenues discussed earlier.

Corresponding percentage increases from prior years are presented below:

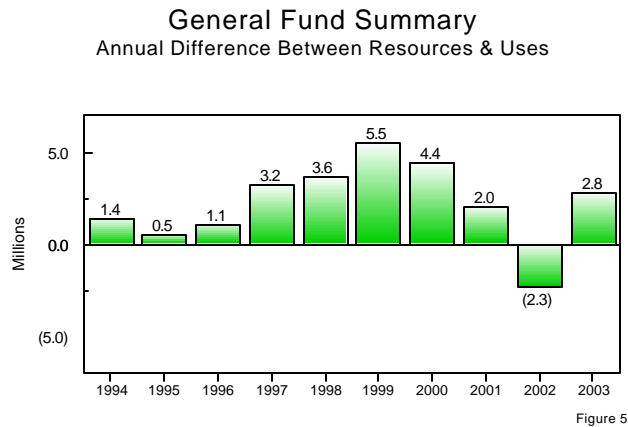


The 2003 "bottom-line" fiscal result for *General Fund* was slightly positive, generating a "surplus" of \$2.8 million summarized as follows:

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

Revenues	\$ 228,165	
Expenditures	<u>214,519</u>	
Excess of Revenues Over Expenditures		\$ 13,646
Total Other Financing Sources (Uses), Net		<u>(10,802)</u>
Net Change in Fund Balance		<u>\$ 2,844</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* budget passed by the County Council totaled \$223,001,670. During the year the budget was increased by \$5,640,396 for the following reasons:

- ✦ An increase of \$2,460,000 in Miscellaneous Current Expense for the purchase of a building for emergency management services and other county departments.
- ✦ A \$410,000 allocation for various community projects as specified by the County Council.
- ✦ A \$103,000 allocation for additional nursing staff in Corrections, and \$75,000 for an economic development study.
- ✦ Increases totaling \$2,592,396 reflecting various grants, service contracts, and election cost reimbursements which are essentially self-funding.

The above budget increases were financed as follows:

Use of Fund Balance	\$ 2,460,000
Additional Sales Tax Revenues	588,000
Grants, Service Contracts, and Election Cost Reimbursement	<u>2,592,396</u>
Total Budget Increase Financing	<u>\$ 5,640,396</u>

There were no significant variances between the final approved expenditure budget of \$228,642,066 and the actual expenditures of \$227,377,688. The resulting \$1,264,378 positive gap equals only 0.6% of the budget; and there were no major individual department variances.

**General Fund Balance.** The unreserved fund balance for the *General Fund* was approximately \$25.5 million at December 31, 2003, reflecting a slight decrease of approximately \$.2 million from 2002. The decrease is a result of the aforementioned operating “surplus” of \$2.8 million, and an increase in Reserves for Advances to Other Funds of \$3.0 million.

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

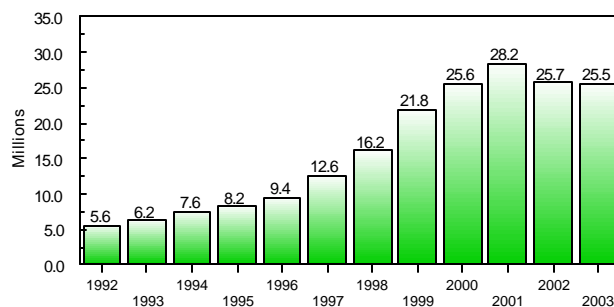
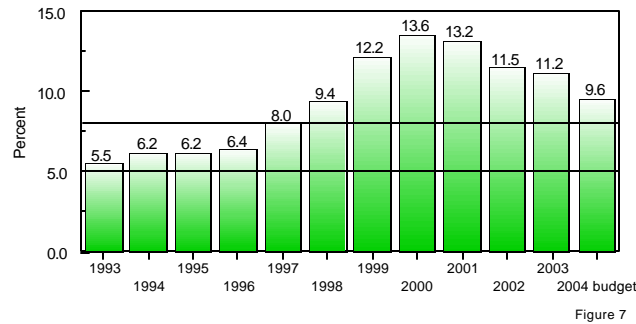


Figure 6

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 which is between 5% and 8% of current *General Fund* budget. At the end of 2003 the unreserved fund balance represented 11.2% of the 2003 budget. Approximately \$3.0 million of this fund balance has been budgeted to support the 2004 budget (primarily for one-time items). Should 2004 actual revenues and expenditures occur as budgeted; the unreserved percentage will be reduced to an estimated 9.6% at the end of 2004.

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



## 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 (\$11.1 million in fiscal 2003) to support major road construction and reconstruction projects. These activities totaled \$48.1 million in fiscal 2003. The major funding sources for these activities are property taxes (\$36.7 million), and gasoline tax revenues from the state (\$9.3 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)

	1999	2000	2001	2002	2003
Revenues/Sources	\$ 42,993	\$ 47,548	\$ 47,346	\$ 48,920	\$ 51,931
Expenditures/Uses	43,414	47,104	44,291	45,204	48,053
Revenues/Sources Over (Under) Expenditures/Uses	<u>\$ (421)</u>	<u>\$ 444</u>	<u>\$ 3,055</u>	<u>\$ 3,716</u>	<u>\$ 3,878</u>

Although the pattern varies from year to year, the general fiscal trend has been positive, especially in the last three 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 improvement projects.

## Road Fund Balance

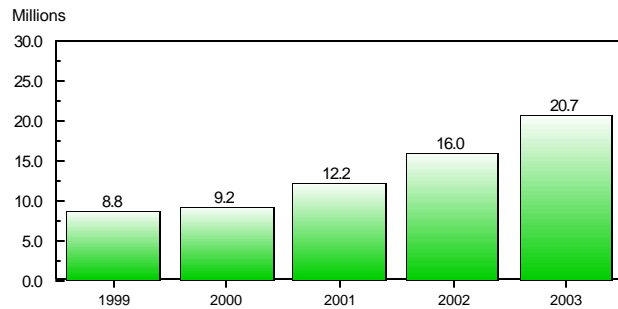


Figure 8

## 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 fluctuation in the fiscal status of this fund. This is primarily due to our attempting to maintain existing programs and services as federal and state funding levels were decreased (2000-2002), and the receipt of substantial monies in 2003 from successfully concluded litigation regarding claims previously disallowed by the state. It is likely that the fund balance will be stabilized at its present level for the next several years.

## Human Services Fund Balance

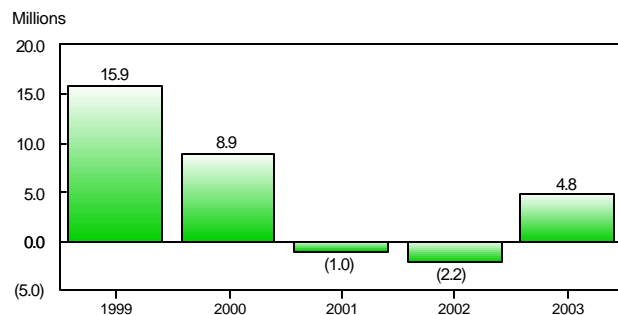


Figure 9

## SEWER UTILITY FUND

The *Sewer Utility* is by far the county's largest enterprise fund, with total customer accounts of approximately 44,000. The primary source of operating revenue is from service charges collected from residential and commercial customers using wastewater collection and treatment services. Residential customers are billed on a bimonthly basis and commercial customers on a monthly basis. Secondary sources of operating revenue are provided from permit and plan review fees, and from miscellaneous billings.

The financial results for fiscal 2003 and the preceding year are compared below:

### Summary of Sewer Utilities Net Assets

	Amount		Increase (Decrease)	
	2003	2002 (Restated)	Amount	Percent
Current and Other Assets	\$ 61,549,983	\$ 77,157,378	\$ (15,607,395)	(20.23) %
Capital Assets	355,671,466	341,496,332	14,175,134	4.15 %
Total Assets	<u>417,221,449</u>	<u>418,653,710</u>	<u>(1,432,261)</u>	(0.34) %
Long-Term Liabilities	490,720	455,000	35,720	7.85 %
Other Liabilities	35,585,711	38,721,527	(3,135,816)	(8.10) %
Total Liabilities	<u>36,076,431</u>	<u>39,176,527</u>	<u>(3,100,096)</u>	(7.91) %
Net Assets Invested in Capital Assets - Net of Related Debt	324,676,784	308,261,746	16,415,038	5.33 %
Restricted	40,837,808	57,456,534	(16,618,726)	(28.92) %
Unrestricted	15,630,426	13,758,903	1,871,523	13.60 %
Total Net Assets	<u>\$ 381,145,018</u>	<u>\$ 379,477,183</u>	<u>\$ 1,667,835</u>	0.44 %

### Summary of Sewer Utilities Revenues, Expenses, and Changes in Net Assets

	Amount		Increase (Decrease)	
	2003	2002	Amount	Percent
Operating Revenues	\$ 22,790,885	\$ 22,042,618	\$ 748,267	3.39 %
Nonoperating Revenues	1,331,992	3,669,918	(2,337,926)	(63.71) %
Total Revenues	<u>24,122,877</u>	<u>25,712,536</u>	<u>(1,589,659)</u>	(6.18) %
Operating Expenses	15,880,896	16,103,995	(223,099)	(1.39) %
Depreciation	10,401,739	9,637,656	764,083	7.93 %
Nonoperating Expenses	674,124	1,885,394	(1,211,270)	(64.24) %
Total Expenses	<u>26,956,759</u>	<u>27,627,045</u>	<u>(670,286)</u>	(2.43) %
Loss before transfers, contributions and extraordinary item	(2,833,882)	(1,914,509)	(919,373)	(48.02) %
Transfers	(179,426)	311,785	(491,211)	(157.55) %
Capital Contributions	7,152,368	7,805,142	(652,774)	(8.36) %
Extraordinary Item	<u>(2,471,225)</u>	<u>-</u>	<u>(2,471,225)</u>	100.00 %
Change in Net Assets	1,667,835	6,202,418	(4,534,583)	(73.11) %
Beginning Net Assets	<u>379,477,183</u>	<u>373,274,765</u>	<u>6,202,418</u>	1.66 %
Ending Net Assets	<u>\$ 381,145,018</u>	<u>\$ 379,477,183</u>	<u>\$ 1,667,835</u>	0.44 %

### Financial Highlights

- ✦ Total assets at year end were \$417.2 million and exceeded liabilities of \$36 million, yielding total net assets of \$381.1 million. Total net assets increased by \$1.7 million or .44% from last year. Of the total net assets, \$15.6 million was unrestricted and available to support short-term operations or to fund capital improvement projects.
- ✦ The utility invested \$24.5 million in the acquisition of property, plant and equipment during the year.

- ✦ Completed projects with a cost of \$12.9 million were transferred from construction work in progress during the year. This included completion of the new Collections Maintenance Shop and an Ultra Violet Disinfection System at the Chambers Creek Wastewater Treatment Plant.
- ✦ No new debt was issued during the year. A total of \$2.3 million in debt was repaid during the year, leaving a balance outstanding at year-end of \$31 million. Of this amount, \$9.9 million is due within the next four years.
- ✦ Operating revenues increased by \$748,000 (3.4%) to \$22.8 million. The increase for the year is comparable to previous years and was the result of growth in the customer base. There were no utility rate increases in 2003 or 2002.
- ✦ Operating expenses (excluding depreciation) decreased by \$223,000 (1.4%) to \$15.9 million. Moderate increases in salaries and benefits were offset by a sharp drop in operational write-offs (\$45,000 in 2003 versus \$600,000 in 2002). In addition, 2003 and 2002 have demonstrated a higher level of costs for replacement, repairs and maintenance as utility plant and equipment increases in age.
- ✦ Capital contributions decreased by \$653,000 (8%) to \$7.2 million.
- ✦ Nonoperating activities related to mining were discontinued during 2003. Mineral rights related to mining activity on the Chambers Creek Properties were written off in the amount of \$2.5 million due to the termination of mining at the end of the year.

## 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 2003. Interest income totaled \$37,857, which was less than the \$113,768 in system service costs. This resulted in a decrease in net assets of \$75,911.

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

### Summary of Landfill Reserve Net Assets

Assets	
Cash & Investment (Restricted)	\$ 8,958,864
Landfill Closure Receivables - Non Current	<u>2,760,142</u>
Total Assets	<u>11,719,006</u>
Liabilities	
Payables	20,100
Landfill Post Closure Obligations	<u>8,692,359</u>
Total Liabilities	<u>8,712,459</u>
Total Net Assets	<u><u>\$ 3,006,547</u></u>

## CAPITAL ASSETS

The county's investment in capital assets for governmental and business-type activities amounted to \$1,007,112 million at December 31, 2003. This investment in capital assets includes land, infrastructure, buildings and other improvements, furnishings and equipment as well as construction in progress. 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 2003 as follows:

**Summary of Capital Asset Activity**  
(in thousands)

Asset Category	Governmental Activities		Business-Type Activities	
	2003 Changes	Ending Asset Values	2003 Changes	Ending Asset Values
Land and Land Rights	\$ 16,074	\$ 83,857	\$ (2,639)	\$ 47,299
Buildings and Systems	(5,561)	106,422	2,010	85,689
Improvements Other Than Buildings	1,755	3,839	1,720	11,462
Machinery and Equipment	5,002	58,658	4,712	41,410
Infrastructure	28,377	305,529	6,932	303,401
Construction In Progress	10,711	177,837	11,602	28,920
Avigation Rights	-	-	-	562
Accumulated Depreciation	(4,679)	(110,501)	(10,837)	(137,274)
Total Capital Assets, Net	<u>\$ 51,679</u>	<u>\$ 625,641</u>	<u>\$ 13,500</u>	<u>\$ 381,469</u>

**Highlights**

- ✦ More than half of the changes in the governmental activities were concentrated in Infrastructure, which consisted of *Roads* (\$20.2 million) and *Surface Water Management* (\$8.1 million) improvements.
- ✦ The decrease in building and systems assets used in governmental activities was due to removal of the county's temporary jail facility.
- ✦ Governmental capital asset acquisitions were \$6.4 million, significantly in excess of the capital asset depreciation figure of \$4.7 million.
- ✦ The \$13.5 million increase in business-type assets (excluding depreciation) was mainly for *Sewer Utility* system improvements.
- ✦ The gross increase in business-type activities assets (\$24.3 million) greatly exceeded the depreciation on assets (\$10.8 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, 2003 follow:

	Ratio of Debt To Assessed Valuation	Debt Per Capita
Net Direct Tax Supported Bonded Debt*	0.0011	\$ 72.38

\* 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 \$521.00, 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)

	December 31, 2002	Debt Issued	Debt Retired	December 31, 2003
General Obligation Bonds	\$ 56,000	\$ 8,318	\$ 10,786	\$ 53,532
General Obligation Bonds - Sewers	1,275	-	1,275	-
Sewer Revenue Bonds	32,005	-	990	31,015
Total Bond Debt	<u>\$ 89,280</u>	<u>\$ 8,318</u>	<u>\$ 13,051</u>	<u>\$ 84,547</u>

In the next five years, the county will retire 24% of the general obligation bond debt (\$13 million), and 39% of the sewer revenue bond debt (\$12 million). In the next ten years, the retirement amounts are 47%, or \$26 million, and 75%, or \$23 million, respectively.

In March 2003 the county issued \$8.3 million in limited tax general obligation refunding bonds to advance refund \$7.6 million of the 1994 Limited Tax General Obligation Bonds. The refunding will decrease future general fund aggregate debt service payments by \$641,551.

The *Sewer Utility Fund* 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, and for 2003 was 6.96.

The Moody's Investor Service bond ratings are Aa-3 for *Pierce County* 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 county 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 9<sup>th</sup> Street, Tacoma, Washington, 98405.