

SEMINOLE COUNTY, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2003

The County's Management Discussion and Analysis (the "MD&A") presents an overview of the County's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the Letter of Transmittal, in the Introductory Section, and the County's financial statements following the MD&A.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2003 by \$1,096,712,161 (net assets). Of this amount, \$153,606,573 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At September 30, 2003, the County's governmental funds reported combined ending fund balances of \$350,059,195 an **increase** of \$26.2 million in comparison with the prior year.
- At September 30, 2003, unreserved fund balance for the General Fund was \$43,020,906 or 2039% of total General Fund expenditures and transfers out.
- Governmental funds revenues **increased** \$21.7 million or 7.9% over the prior fiscal year. The primary reason was a growing property tax base a full 12 months collection of the Infrastructure tax compared to 9 months collections in fiscal year 2002.
- The County's outstanding long-term debt **decreased** by \$5.3 million or 2.1% during fiscal year 2003. The key factor in this increase was annual debt maturities and the refinancing of the Tourist Development , Series 1992 bonds with a local bank.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements*, which consist of the following two statements, are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the County's 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 how the government's net assets changed during fiscal year 2003. 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 only result in cash flows in future fiscal periods (e.g., uncollected and earned, but unused vacation leave).

Both of these financial statements distinguish functions of the 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 governmental activities of the County include general government, physical environment, public safety, transportation, economic environment, human services, culture/recreation, and court related activities. The business-type activities of the County include solid waste disposal and water and sewer utilities. The government-wide financial statements can be found immediately following the MD&A.

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. 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

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide 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 reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the **County Transportation Trust, Infrastructure Surtax, and Transportation Impact Fees Special Revenue Funds**, 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* in the other supplemental information section of this report.

The County adopts an annual appropriated budget for its general, special revenue, and debt service funds and project-length budgets for the capital projects funds. Budgetary comparison schedules have been provided for these funds to demonstrate budgetary compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

Proprietary funds

The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the fiscal activities relating to solid waste disposal, and water and sewer utilities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses the internal service fund to account for its self-insurance and risk management program. Because these services predominantly benefit governmental rather than business-type functions, they 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 statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Solid Waste funds, which are considered to be major funds of the County.

The basic proprietary fund financial statements follow the governmental fund financial statements.

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 September 30, 2003

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County's own programs. The accounting used for fiduciary funds is similar to proprietary funds. The County only has agency funds.

The basic fiduciary fund financial statements can be after the component unit financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after the fiduciary fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, *required supplementary information* is included which presents budgetary comparison schedules for the County's General Fund and other major governmental funds. Required supplementary information can be found following the notes to the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds and fiduciary funds are presented in the other supplemental information section of this report. Combining and individual fund schedules can be found after the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$1,069,712,161 at the close of the fiscal year ended September 30, 2003.

At the end of fiscal year 2003, the County is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Seminole County, Florida
Net Assets
(In Thousands)

	Governmental Activities		Business-type		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 410,356	\$ 425,548	\$ 127,812	\$ 136,809	\$ 538,168	\$ 562,357
Capital Assets (Net)	616,285	488,449	229,607	215,756	845,892	704,205
Total Assets	<u>1,026,641</u>	<u>913,997</u>	<u>357,419</u>	<u>352,565</u>	<u>1,384,060</u>	<u>1,266,562</u>
Current and other liabilities	56,332	45,525	7,320	9,864	63,652	55,389
Long-term Liabilities	144,935	149,742	105,761	106,295	250,696	256,037
Total Liabilities	<u>201,267</u>	<u>195,267</u>	<u>113,081</u>	<u>116,159</u>	<u>314,348</u>	<u>311,426</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	474,824	341,293	140,747	134,483	615,571	475,776
Restricted	279,482	289,660	41,660	36,094	321,142	325,754
Unrestricted	71,068	87,777	61,931	65,829	132,999	153,606
Total Net Assets	<u>\$ 825,374</u>	<u>\$ 718,730</u>	<u>\$ 244,338</u>	<u>\$ 236,406</u>	<u>\$ 1,069,712</u>	<u>\$ 955,136</u>

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The largest portion of the County's net assets (57.5%) reflects its investment in capital assets (e.g., land, buildings, and equipment); less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The County has *restricted net assets* (\$321,142,433) for debt service, capital projects, and special revenues. The remaining balance of *unrestricted net assets* (\$132,999,180) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a **net increase** of \$7,932,165 in net assets reported in connection with the County's business-type activities. This increase represents 12.8% of total unrestricted net assets for business-type activities at year end.

Governmental activities **increased** the County's net assets (as restated) by \$52,293,262, thereby accounting for 86.8% percent of the total growth in the net assets of the County.

Seminole County, Florida
Changes in Net Assets (In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 51,427	\$ 36,930	\$ 39,275	\$ 38,106	\$ 90,702	\$ 75,036
Operating Grants and Contributions	16,802	7,635	138	85	16,939	7,720
Capital Grants and Contributions	16,335	13,243	7,738	11,037	24,074	24,280
General Revenues:						
Property Taxes	116,483	107,375	-	-	116,483	107,375
Other Taxes	32,144	31,769	-	-	32,144	31,769
Other	<u>68,492</u>	<u>79,932</u>	<u>3,096</u>	<u>3,739</u>	<u>71,588</u>	<u>83,671</u>
	<u>301,683</u>	<u>276,882</u>	<u>50,248</u>	<u>52,968</u>	<u>351,930</u>	<u>329,850</u>
EXPENSES						
General Government	61,070	57,660	-	-	61,070	57,660
Court-Related	12,843	16,734	-	-	12,843	16,734
Public Safety	100,362	91,190	-	-	100,362	91,190
Physical Environment	14,113	13,656	-	-	14,113	13,656
Transportation	29,926	27,866	-	-	29,926	27,866
Economic Development	8,036	7,808	-	-	8,036	7,808
Human Services	7,601	6,853	-	-	7,601	6,853
Culture/Recreation	9,271	9,206	-	-	9,271	9,206
Interest on Long-term Debt	6,167	5,622	-	-	6,167	5,622
Water and Sewer	-	-	29,281	26,304	29,281	26,304
Solid Waste	-	-	13,035	11,275	13,035	11,275
	<u>249,389</u>	<u>236,595</u>	<u>42,316</u>	<u>37,579</u>	<u>291,705</u>	<u>274,174</u>
Change in Net Assets	52,293	40,288	7,932	15,388	60,225	55,676
Net Assets - Beginning	<u>773,081</u>	<u>678,442</u>	<u>236,406</u>	<u>221,018</u>	<u>1,009,487</u>	<u>899,460</u>
Net Assets - Ending	\$ 825,374	\$ 718,730	\$ 244,338	\$ 236,406	\$ 1,069,712	\$ 955,136

Expenses and Program Revenues – Governmental Activities

Functions/Programs	Expenses	% of Total	Program Revenues	% of Total	Net (Expense) Revenue
General Government	\$ 61,070,016	24.5%	\$ 9,919,468	11.7%	\$ (51,150,548)
Court-Related	12,842,724	5.1%	14,832,835	17.5%	1,990,111
Public Safety	100,361,929	40.2%	17,110,458	20.2%	(83,251,471)
Physical Environment	14,113,451	5.7%	899,614	1.1%	(13,213,837)
Transportation	29,926,364	12.0%	22,377,224	26.5%	(7,549,140)
Economic Development	8,035,673	3.2%	10,538,951	12.5%	2,503,278
Human Services	7,600,885	3.0%	5,617,000	6.6%	(1,983,885)
Culture/Recreation	9,271,429	3.7%	1,442,623	1.7%	(7,828,806)
Interest on Long-term Debt	6,166,922	2.5%	1,825,668	2.2%	(4,341,254)
	<u>\$ 249,389,393</u>	<u>100.0%</u>	<u>\$ 84,563,841</u>	<u>100.0%</u>	<u>\$ (164,825,552)</u>

Revenue by Source – Governmental Activities

Description	Revenues	% of Total
Charges for Services	\$ 51,427,114	17.0%
Operating Grants and Contributions	16,801,603	5.6%
Capital Grants and Contributions	16,335,124	5.4%
Property Tax	116,483,150	38.6%
Sales Tax	25,293,478	8.4%
Gas Tax	6,850,307	2.3%
State Revenue Sharing	30,263,194	10.0%
Franchise Fees	13,313,533	4.4%
Intergovernmental Revenues	7,721,320	2.6%
Interest Revenue	9,408,683	3.1%
Miscellaneous	7,785,149	2.6%
	<u>\$ 301,682,655</u>	<u>100.0%</u>

Business-type activities

Business-type activities **increased** the County's net assets by \$7.9 million, accounting for 13% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital contributions were \$7.7 million.
- Revenues **increased** by \$1.2 million, due to growth and other factors.
- Water and sewer operating expenses **increased** by \$1.7 million.
- Solid waste operating expenses **increased** by \$2.0 million.

Expenses and Program Revenues – Business-type Activities

Functions/Programs	Expenses	% of Total	Program Revenues	% of Total	Net (Expense) Revenue
Water and Sewer	\$ 29,281,043	69.2%	\$ 34,275,846	72.7%	\$ 4,994,803
Solid Waste	<u>13,034,510</u>	<u>30.8%</u>	<u>12,875,876</u>	<u>27.3%</u>	<u>(158,634)</u>
	<u>\$ 42,315,553</u>	<u>100.0%</u>	<u>\$ 47,151,722</u>	<u>100.0%</u>	<u>\$ 4,836,169</u>

Revenues by Source – Business-type Activities

Description	Revenues	% of Total
Charges for Services	39,275,452	78.2%
Operating Grants and Contributions	137,838	0.3%
Capital Grants and Contributions	7,738,432	15.4%
Interest Revenue	2,992,886	6.0%
Miscellaneous	<u>103,110</u>	<u>0.2%</u>
	<u>50,247,718</u>	<u>100.0%</u>

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2003, the County's governmental funds reported combined ending fund balances of \$350 million, a **decrease** of \$26.0 million in comparison with the prior year. *Unreserved fund balance* is \$320.5 million and is available for spending, subject to regulatory, Statutory, and budgetary restrictions. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior period (\$25.5 million), 2) for inventories (\$1.7 million), 3) for prepaid items (\$247,413), and 4) to pay debt service (\$1.9 million).

The General Fund is the chief operating fund of the County. At the end of fiscal year 2003, unreserved fund balance of the General Fund was \$43 million, while total fund balance reached \$49 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20.9% of the total general fund expenditures, while total fund balance represents 23.9% of that same amount.

The fund balance of the County's General Fund **decreased** by \$1.3 million during the current fiscal year. Key factors in this decrease were:

- Increased public safety and general government expenditures as a result of a merger with a municipality within the County.
- Increased capital expenditures to provide capital assets to serve the residents of the above municipality.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. All proprietary funds are reported as major funds.

Unrestricted net assets of proprietary funds at the end of the year amounted to:

Fund	Unrestricted Net Assets
Water and Sewer	\$ 38,192,388
Solid Waste	<u>27,738,649</u>
	<u>\$ 65,931,037</u>

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

General Fund Budgetary Highlights

The General Fund's final amended budget for expenditures and transfers out, **increased** by \$33.5 million for the year over the original budget. These increases were appropriated from additional revenue sources and by \$25.2 million in additional unreserved fund balance that was available once the actual ending fund balance was determined as of September 30, 2002. The changes within functions are briefly summarized as follows:

- Decrease in general government activities of \$748 thousand.
- Increase in court-related activities of \$3.1 million.
- Decrease in public safety activities of \$1.6 million.
- Increase in physical environment activities of \$551 thousand.
- Increase in economic development activities of \$4.6 million
- Increase in human resources activities of \$311 thousand.
- Increase in culture and recreation activities of \$121 thousand.
- Increase in debt service activities \$1.4 million.
- Increase in capital outlay \$25.0 million.

Capital Asset and Debt Administration

Capital Assets

The County's investment in capital assets for its governmental and business-type activities as of September 30, 2003 amounts to \$846 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, leasehold improvements, equipment, infrastructure, and construction in progress. The total **increase** in the County's investment in restated capital assets for the current fiscal year was 11.5% (a 13.5% increase for governmental activities and 6.4% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

- The addition of \$89 million of infrastructure related to governmental activities accounted for the majority of the \$100 million governmental additions.
- In addition to the \$89 million of infrastructure additions, the beginning balance of infrastructure additions was restated to reflect additional infrastructure assets acquired in prior years as more fully explained in Notes 4 and 9 of this report.
- The Water and Sewer System had additions totaling \$14 million

Seminole County, Florida
Capital Assets

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 239,453,913	\$ 21,219,305	\$ 260,673,218
Buildings and Improvements	94,198,115	228,029,390	322,227,505
Machinery and Equipment	81,710,822	20,208,046	101,918,868
Infrastructure	222,512,378	-	222,512,378
Construction in Progress	<u>93,584,110</u>	<u>34,340,572</u>	<u>127,924,682</u>
	731,459,338	303,797,313	1,035,256,651
Less: Accumulated Depreciation	<u>(115,174,481)</u>	<u>(74,190,325)</u>	<u>(189,364,806)</u>
Capital Assets, net	<u>\$ 616,284,857</u>	<u>\$ 229,606,988</u>	<u>\$ 845,891,845</u>

Additional information on the County's capital assets can be found in Note 4 of this report.

Long-term debt

At the end of fiscal year 2003, the County had total bonded debt outstanding of \$215 million. Of this amount, \$29 million comprises debt backed by the full faith and credit of the government and \$186 million secured solely by specified revenue sources (i.e., revenue bonds). In addition, the County had outstanding \$11 million in notes payable and \$2 million in capital leases.

Seminole County, Florida
Outstanding Bonds, Notes Payable and Capital Leases
(In Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
General Obligation Bonds	\$ 28,705	\$ 30,970	\$ -	\$ -	\$ 28,705	\$ 30,970
Revenue Bonds	\$ 86,605	92,655	99,845	103,070	186,450	195,725
Notes Payable	10,665	9,057	-	-	10,665	9,057
Capital Leases	<u>2,264</u>	<u>2,147</u>	<u>-</u>	<u>-</u>	<u>2,264</u>	<u>2,147</u>
	<u>\$ 128,239</u>	<u>\$ 134,829</u>	<u>\$ 99,845</u>	<u>\$ 103,070</u>	<u>\$ 228,084</u>	<u>\$ 237,899</u>

The County's outstanding notes and bonded debt had a net decrease of \$9.9 million or 4.4% during fiscal year 2003. The majority of this increase was through scheduled principal amortization.

Additional information on the County's debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the rate for the County at September 30, 2003 was 4.9 percent. The national unemployment rate for the same period was 4.7 percent.
- The taxable value of commercial and residential property **increased** 12.3 percent and .5 percent, respectively, in the 2003 fiscal year.
- Building permit activity included 2,529 commercial units for 2003 compared to 2,108 in 2002 and 7,199 residential units for 2003 compared to 4,721 in 2002.
- Population **increased** approximately 1.9 percent from the prior fiscal year to 394,878 at September 30, 2003.

During the current fiscal year, unreserved fund balance in the General Fund **increased** to \$43 million. The County has appropriated \$32 million of this amount for spending in the 2004 fiscal year budget. The ad Valorem tax rate for the General Fund was not increased for the 2004 fiscal year budget.

Requests for Information

This financial report is designed to present users with a general overview of the County's finances and to demonstrate the County's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the County's Clerk of the Circuit Court, Finance Department, 1101 E. First Street, Sanford, Florida 32771.