

**SEMINOLE COUNTY, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2004

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The County's Management Discussion and Analysis (the "MD&A") presents an overview of Seminole County, Florida's (the "County") financial activities for the fiscal year ended September 30, 2004. 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 2004 by \$854 million (net assets). Of this amount, \$51 million (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At September 30, 2004, the County's governmental funds reported combined ending fund balances of \$309 million, a decrease of \$41 million in comparison with the prior year. This decrease was due primarily to transportation capital expenditures and expenditures incurred due to hurricane damages.
- At September 30, 2004, unreserved fund balance for the General Fund was \$33 million or 18% of total General Fund expenditures and transfers out.
- Governmental funds revenues increased \$9 million or 3% over the prior fiscal year.
- The County's outstanding long-term debt decreased by \$17 million or 7% during fiscal year 2004. The key factor in this decrease was the advance refunding of Solid Waste Fund bonds using a portion of County resources.

### **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 County's net assets changed during fiscal year 2004. 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 but earned revenue, and 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 the County'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 County'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*.

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, Transportation Impact Fees, and Fire Protection 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 fund, special revenue funds, debt service funds and capital projects funds. Project-length budgets for the capital projects funds are also prepared as a management tool. 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.

***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 found after the basic proprietary fund 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 special revenue 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 \$1.1 billion at the close of the fiscal year ended September 30, 2004.

At the end of fiscal year 2004, 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.

<b>Net Assets (In Thousands)</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>Assets:</b>					
Current and other assets	\$ 403,438	\$ 410,356	\$ 121,117	\$ 127,812	\$ 524,555	\$ 538,168
Capital Assets (Net)	676,743	616,285	241,707	229,607	918,450	845,892
Total Assets	<u>1,080,181</u>	<u>1,026,641</u>	<u>362,824</u>	<u>357,419</u>	<u>1,443,005</u>	<u>1,384,060</u>
<b>Liabilities:</b>						
Current and other liabilities	79,684	56,332	11,793	7,320	91,477	63,652
Long-term Liabilities	146,260	144,935	94,496	105,761	240,756	250,696
Total Liabilities	<u>225,944</u>	<u>201,267</u>	<u>106,289</u>	<u>113,081</u>	<u>332,233</u>	<u>314,348</u>
<b>Net Assets:</b>						
Invested in Capital Assets,						
Net of Related Debt	553,816	474,824	164,876	140,747	718,692	615,571
Restricted	249,799	279,482	18,285	41,660	268,084	321,142
Unrestricted	50,622	71,068	73,374	61,931	123,996	132,999
Total Net Assets	<u>\$ 854,237</u>	<u>\$ 825,374</u>	<u>\$ 256,535</u>	<u>\$ 244,338</u>	<u>\$ 1,110,772</u>	<u>\$ 1,069,712</u>

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The largest portion of the County's net assets (65%) 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* (\$268 million) for debt service, capital projects, and special revenues. The remaining balance of *unrestricted net assets* (\$124 million) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a net increase of \$12 million in net assets reported in connection with the County's business-type activities. This increase represents 16% of total unrestricted net assets for business-type activities at year end.

Governmental activities increased the County's net assets by \$29 million, thereby accounting for 71% percent of the total growth in the net assets of the County.

<b>Changes in Net Assets (In Thousands)</b>						
	<b>Governmental</b>		<b>Business-type</b>		<b>Totals</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 54,540	\$ 51,427	\$ 44,024	\$ 39,275	\$ 98,564	\$ 90,702
Operating Grants and Contributions	26,974	16,802	4,761	138	31,735	16,939
Capital Grants and Contributions	9,227	16,335	9,589	7,738	18,816	24,074
General Revenues:						
Property Taxes	130,967	116,483	-	-	130,967	116,483
Sales & Gas Taxes	34,391	32,144	-	-	34,391	32,144
State Revenue Sharing & Other	58,501	68,492	2,072	3,096	60,573	71,588
<b>Total Revenues</b>	<b>314,600</b>	<b>301,683</b>	<b>60,446</b>	<b>50,248</b>	<b>375,046</b>	<b>351,930</b>
<b>Expenses</b>						
General Government	62,311	61,070	-	-	62,311	61,070
Court-Related	10,929	12,843	-	-	10,929	12,843
Public Safety	113,050	100,362	-	-	113,050	100,362
Physical Environment	20,341	14,113	-	-	20,341	14,113
Transportation	47,187	29,926	-	-	47,187	29,926
Economic Development	8,511	8,036	-	-	8,511	8,036
Human Services	7,935	7,601	-	-	7,935	7,601
Culture/Recreation	9,883	9,271	-	-	9,883	9,271
Interest on Long-term Debt	5,590	6,167	-	-	5,590	6,146
Water and Sewer	-	-	31,617	29,281	31,617	29,281
Solid Waste	-	-	16,633	13,035	16,633	13,035
<b>Total Expenses</b>	<b>285,737</b>	<b>249,389</b>	<b>48,250</b>	<b>42,316</b>	<b>333,987</b>	<b>291,684</b>
Change in Net Assets	28,863	52,293	12,196	7,932	41,059	60,246
Net Assets - Beginning	825,374	773,081	244,338	236,406	1,069,712	1,009,487
<b>Net Assets - Ending</b>	<b>\$ 854,237</b>	<b>\$ 825,374</b>	<b>\$ 256,534</b>	<b>\$ 244,338</b>	<b>\$ 1,110,771</b>	<b>\$ 1,069,733</b>

**Expenses and Program Revenues  
 Governmental Activities (In Thousands)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of</u>		<u>Program Revenues</u>	<u>Net</u>	
		<u>Total</u>	<u>Total</u>		<u>(Expense)</u>	<u>Revenue</u>
General Government	\$ 62,311	21.8%	\$ 6,233	6.9%	\$ (56,078)	
Court-Related	10,929	3.8%	15,039	16.6%	4,110	
Public Safety	113,050	39.6%	20,852	23.0%	(92,198)	
Physical Environment	20,341	7.1%	14,573	16.1%	(5,768)	
Transportation	47,187	16.5%	24,942	27.5%	(22,245)	
Economic Development	8,511	3.0%	8,146	9.0%	(365)	
Human Services	7,935	2.8%	221	0.2%	(7,714)	
Culture/Recreation	9,883	3.5%	735	0.8%	(9,148)	
Interest on Long-term Debt	5,590	2.0%	-	0.0%	(5,590)	
	<u>\$ 285,737</u>	<u>100.0%</u>	<u>\$ 90,741</u>	<u>100.0%</u>	<u>\$ (194,996)</u>	

**Revenue by Source  
 Governmental Activities (In Thousands)**

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for Services	\$ 54,540	17.3%
Operating Grants and Contributions	26,974	8.6%
Capital Grants and Contributions	9,227	2.9%
Property Tax	130,967	41.6%
Sales Tax	24,862	7.9%
Gas Tax	9,529	3.0%
State Revenue Sharing	30,587	9.7%
Public Service Taxes	13,282	4.2%
Interest Revenue	7,745	2.5%
Miscellaneous	6,887	2.2%
	<u>\$ 314,600</u>	<u>100.0%</u>

**Business-type activities**

Business-type activities increased the County's net assets by \$12 million, accounting for 29% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Capital contributions were \$10 million.
- Revenues increased by \$10 million, due primarily to revenue recognized for FEMA reimbursements to defray costs incurred by three hurricanes that hit the County during the current fiscal year.
- Water and sewer operating expenses increased by \$3 million. This increase was due to increase system usage resulting from new customers.
- Solid waste operating expenses increased by \$4 million. This increase includes additional costs incurred from hurricane clean-up operations.

**Expenses and Program Revenues  
 Business-type Activities (In Thousands)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Program</u>		<u>Net</u>
			<u>Revenues</u>	<u>% of Total</u>	<u>(Expense) Revenue</u>
Water and Sewer	\$ 31,617	65.5%	\$ 39,756	68.1%	\$ 8,139
Solid Waste	16,633	34.5%	18,618	31.9%	1,985
	<u>\$ 48,250</u>	<u>100.0%</u>	<u>\$ 58,374</u>	<u>100.0%</u>	<u>\$ 10,124</u>

**Revenues by Source  
 Business-type Activities (In Thousands)**

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for Services	\$ 44,024	72.8%
Operating Grants and Contributions	4,761	7.9%
Capital Grants and Contributions	9,589	15.9%
Interest Revenue	1,862	3.1%
Miscellaneous	210	0.3%
	<u>\$ 60,446</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 2004, the County's governmental funds reported combined ending fund balances of \$309 million, a decrease of \$41 million in comparison with the prior year. *Unreserved fund balance* is \$282 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 million), 2) for inventories (\$1 million), 3) for prepaid items (\$47 thousand), and 4) to pay debt service (\$1 million).

The General Fund is the chief operating fund of the County. At the end of fiscal year 2004, unreserved fund balance of the General Fund was \$33 million, while total fund balance reached \$38 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 18% of the total general fund expenditures and transfers out, while total fund balance represents 21% of that same amount.

The fund balance of the County's General Fund decreased by \$959 thousand during the current fiscal year. The primary reason for this decrease was the unexpected hurricane costs absorbed in the General Fund operations during the current fiscal year.

### **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:

<b>Fund</b>	<b>Unrestricted Net Assets (In Thousands)</b>
Water and Sewer	\$ 55,941
Solid Waste	17,432
	<u>\$ 73,373</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 \$31 million for the year over the original budget. These increases were appropriated from additional revenue sources and by \$19 million in additional unreserved fund balance that was available once the actual ending fund balance was determined as of September 30, 2003. A summary of the significant budget amendments during the current fiscal year are as follows:

- Budgeted capital outlay expenditures were increased by \$17 million.
- Budgeted court-related costs were increased by \$3 million due to a legislative change.
- Budgeted public safety costs were increased by \$3 million due primarily to hurricane related costs.
- Budgeted economic development costs were increased by \$4 million from increases in intergovernmental revenues used to fund programs.
- Budgeted debt service expenditures were increased by \$1 million to payoff debt early.

## **Major Special Revenue Fund Budgetary Highlights**

The County Transportation Trust, Infrastructure Surtax, and Transportation Impact Fee major special revenue funds account for revenue legally restricted for transportation related projects. Once projects are approved by the Board of County Commissioners, available resources are appropriated. Transportation capital improvement projects appropriated from available resources during the current fiscal year totaled \$170 million. The Fire Protection major special revenue fund had a budget increase of \$4 million most of which related to capital outlay. This increase was funded through a \$4 million increase to the estimated beginning fund balance to the actual September 30, 2003 balance.

## **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, 2004 amounts to \$918 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 capital assets for the current fiscal year was 9% (a 10% increase for governmental activities and 5% increase for business-type activities). Major capital asset events during the current fiscal year included the following:

- The addition of \$50 million of infrastructure and \$16 million in land acquisitions accounted for the majority of the \$86 million governmental additions (which is net of \$52 million in completed project released from construction in progress).
- The Solid Waste System had additions totaling \$2 million (which is net of less than a million dollars in projects released from construction in progress).
- The Water and Sewer System had additions totaling \$21 million (which is net of \$25 million in projects released from construction in progress).

**Capital Assets (In Thousands)**

	Governmental					
	Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 255,039	\$ 239,454	\$ 21,219	\$ 21,219	\$ 276,258	\$ 260,673
Buildings and Improvements	99,405	94,198	261,978	228,029	361,383	322,227
Machinery and Equipment	76,202	81,711	20,833	20,208	97,035	101,919
Infrastructure	272,570	222,512	-	-	272,570	222,512
Construction in Progress	101,491	93,584	19,011	34,341	120,502	127,925
	804,707	731,459	323,041	303,797	1,127,748	1,035,256
Less: Accumulated Depreciation	(127,964)	(115,174)	(81,334)	(74,190)	(209,298)	(189,364)
Capital Assets, net	<u>\$ 676,743</u>	<u>\$ 616,285</u>	<u>\$ 241,707</u>	<u>\$ 229,607</u>	<u>\$ 918,450</u>	<u>\$ 845,892</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

**Long-term debt**

At the end of fiscal year 2004, the County had total bonded debt outstanding of \$123 million. Of this amount, \$26 million comprises debt backed by the full faith and credit of the government and \$85 million secured solely by specified revenue sources (i.e., revenue bonds). In addition, the County had outstanding \$9 million in notes payable and \$2 million in capital leases.

**Outstanding Bonds, Notes Payable and Capital Leases  
(In Thousands)**

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 26,355	\$ 28,705	\$ -	\$ -	\$ 26,355	\$ 28,705
Revenue Bonds	85,080	86,605	88,660	99,845	173,740	186,450
Notes Payable	8,840	10,665	-	-	8,840	10,665
Capital Leases	2,480	2,264	-	-	2,480	2,264
	<u>\$ 122,755</u>	<u>\$ 128,239</u>	<u>\$ 88,660</u>	<u>\$ 99,845</u>	<u>\$ 211,415</u>	<u>\$ 228,084</u>

The County's outstanding notes and bonded debt had a net decrease of \$17 million or 7% during fiscal year 2004. The majority of this decrease was through scheduled principal amortization and the advance refunding of a Solid Waste Fund revenue bond using proceeds from a refunding bond and County resources.

Additional information on the County's debt can be found in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

- The average unemployment rate for the County during 2004 was 4.1 percent. The average unemployment rate for Central Florida was 4.3 percent during 2004. The national unemployment rate for the same period was 5.4 percent.
- The taxable value of real and personal property increased 7% in the 2004 fiscal year.
- Population increased approximately 2% from the prior fiscal year to 403,361 thousand at September 30, 2004.

As of September 30, 2004 unreserved fund balance in the General Fund was \$33 million. The County has appropriated \$16 million of this amount for spending in the 2005 fiscal year budget. The ad Valorem tax rate for the General Fund was not increased for the 2005 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.