



CHIEF FINANCIAL OFFICER
STATE OF FLORIDA

TOM GALLAGHER

January 30, 2004

The Honorable Jeb Bush, Governor
President of the Senate
Speaker of the House of Representatives
Citizens of the State of Florida

As required by Section 216.102(3), Florida Statutes, I am pleased to submit the State of Florida Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2003.

INTRODUCTION TO THE REPORT

This report is prepared in conformance with generally accepted accounting principles (GAAP) for state and local governments. The financial statements contained within this report present the financial condition of the State at June 30, 2003 and the results of operations for the fiscal year ended June 30, 2003. The CAFR is presented in three sections: introduction, financial, and statistical and economic data.

Responsibility

As the State's Chief Financial Officer (CFO), I am responsible for preparing and publishing the CAFR. State agencies and other organizations included in the State's financial reporting entity are responsible for the financial information contained in the CAFR.

Basic Financial Statements

Basic financial statements presented in the financial section of the CAFR include government-wide financial statements, fund financial statements, and notes to the financial statements. Notes to the financial statements disclose additional information such as the State's significant accounting policies, deposits and investments, tax revenue, capital assets, pensions and other post-employment benefits, long-term liabilities, risk management, contingencies, and litigation. Notes to the financial statements are an integral part of the basic financial statements and should be viewed as such. The Management's Discussion and Analysis (MD&A), which precedes the basic financial statements, presents financial highlights, overall financial analysis, and economic outlook of the State. The various financial statements presented in the CAFR are discussed in more detail in the MD&A and Note 1 to the financial statements.

Independent Auditor

The basic financial statements have been audited by the Auditor General, and his opinion is included in the CAFR. The Auditor General also conducts a Statewide Federal Awards Audit as required by the U.S. Office of Management and Budget (OMB). This report is issued separately.

PROFILE OF THE STATE

Governmental Structure

Florida's constitution divides the governmental structure of the State into three separate independent branches. The Legislative Branch has exclusive law-making power for the State. The Executive Branch, with the Governor as its chief, administers the laws made by the Legislature. The Cabinet shares some executive power and responsibilities with the Governor. The Judicial Branch interprets the law and applies the Constitution. Refer to the organizational chart dated June 30, 2003 following this letter for more detail.

Financial Reporting Entity

Because accounting and financial reporting emphasize economic substance over legal form, the financial reporting entity presented in the CAFR includes organizations in addition to the State's primary government. These organizations are defined as component units. Refer to Note 1 to the financial statements for more information.

FINANCIAL INFORMATION

Accounting System

The Florida Financial Management Information System Act requires the design and implementation of a unified management information system, which contains five subsystems. One of the five subsystems designated by the Legislature is the Florida Accounting Information Resource (FLAIR) Subsystem. The Department of Financial Services is responsible for the design, implementation, and operation of FLAIR. FLAIR is a computer-based, double entry general ledger accounting system. Internal accounting controls are in place to provide reasonable assurance regarding the safeguarding of assets and reliability of financial records for the preparation of financial statements and maintaining accountability.

Budgetary Control

While the departmental component of FLAIR provides agency management with a budgetary check mechanism, the central component (also a part of FLAIR) maintains a separate accounting system on the cash basis for the control of budget by line item of the appropriations act. Florida law strictly prohibits overspending. Refer to the Other Required Supplementary Information Section within the CAFR for a detailed discussion of the State's budget process.

Cash Management and Investment

All moneys received by any state agency must be deposited in the State Treasury, unless specifically exempted. Receipts in any fund may be by direct deposit or by transfer from another fund. The Chief Financial Officer approves disbursements from the State Treasury upon request of the agency authorized to make the expenditure. Moneys being held in the State Treasury are invested in various security instruments, as discussed in Note 2 to the financial statements.

The State Board of Administration has the investing responsibility for members of the Florida Retirement System and state and local governments. Refer to Note 2 to the financial statements for more information about the State's investments.

State Funds

Section 215.32(1), Florida Statutes, created the following state funds to account for moneys received by the State. These funds differ from external reporting funds that are required to be used in the financial statements by the Governmental Accounting Standards Board (GASB).

General Revenue Fund

The General Revenue Fund consists of all moneys received by the State from every source, except moneys deposited into trust funds, the Working Capital Fund, and the Budget Stabilization Fund. About 42 percent of all taxes, licenses, fees, and other operating receipts are credited to the General Revenue Fund.

Trust Funds

Trust funds consist of receipts that are earmarked for a specific purpose, either by general law, the Constitution, or a trust agreement. Each receipt is credited to the accounts that make up the trust funds.

Working Capital Fund

The Working Capital Fund consists of funds available in the General Revenue Fund, which are not needed for appropriations. The Working Capital Fund serves as a reserve fund to offset unanticipated expenditures, such as spending on emergencies. Refer to the Statistical and Economic Data Section of the CAFR for the operating history of the Working Capital Fund.

Budget Stabilization Fund

The Budget Stabilization Fund must be maintained at not less than 5 percent of the previous year's General Revenue net collections. Moneys in the fund may only be used to cover revenue shortfalls in the General Revenue Fund and for emergencies as defined by law. Expenditures from the fund must be restored in equal installments in each of the five succeeding fiscal years unless other repayment schedules are established by the Legislature. Refer to the Statistical and Economic Data Section of the CAFR for the operating history of the Budget Stabilization Fund.

Debt Administration

Florida maintains a high bond rating from Moody's Investors Services (Aa2), Standard and Poor's Corporation (AA+), and Fitch, Inc. (AA) on all state general obligation bonds. Bonds are issued to finance capital outlay for education projects of state universities, community colleges, and local school districts; environmental protection; and highway construction. Refer to the MD&A and Note 8 to the financial statements for more information about the State's outstanding bonds.

Tax Revenue

The largest revenue source for the State is taxes. Sales and use tax represents approximately 59 percent of all the state taxes collected. Florida's law provides that each sale, admission charge, storage, or rental is taxable unless the transaction is specifically exempt. Refer to Note 4 to the financial statements for more information about the State's tax revenue.

Tobacco Litigation Settlement

Florida's 1997 tobacco settlement is expected to total approximately \$13 billion over the initial 25-year period. As of June 30, 2003, the State has received approximately \$3.8 billion from the settlement. The settlement anticipates that the State will use the funds for children's health care coverage and other health-related services and for mandated improvements in state enforcement efforts regarding the reduction of sales of tobacco products to minors.

ACKNOWLEDGEMENTS

The preparation of the CAFR requires the cooperation of fiscal and accounting personnel throughout the State. We sincerely appreciate all those that have contributed to this effort including all state agencies and the Auditor General's Office.

Sincerely,

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Tom Gallagher

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