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REPORT OF INDEPENDENT ACCOUNTANTS

To the Honorable County Council Members
County of Volusia, Florida

We have audited the accompanying basic financial statements of the County of Volusia, Florida (the "County") as of and for the year ended September 30, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the County, as of September 30, 2001, and the results of its operations and the cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as October 1, 2000. In addition, as described in Note 2, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues* as of October 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2002 on our consideration of County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information other than management's discussion and analysis, on pages 15 – 26 and 99 - 100, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of



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inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information identified in the table of contents as combining financial statement and supplemental information is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the County. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Harris, Cotherman, O'Keefe & Associates

February 28, 2002
Winter Park, Florida

Management's Discussion and Analysis

The County's management discussion and analysis presents an overview of the County's financial activities for the fiscal year ended September 30, 2001. Please read it in conjunction with the Letter of Transmittal, beginning on page 1, and the County's financial statements beginning on page 28.

Financial Highlights

- C The assets of the County exceeded its liabilities at the close of fiscal year 2001 by \$328,621,801 (*net assets*). Of this amount, \$112,032,191 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- C At September 30, 2001, the County's governmental funds reported combined ending fund balances of \$114,981,521 a decrease of \$18,174,439 in comparison with the prior year.
- C At September 30, 2001, unreserved fund balance for the General Fund was \$21,795,115 or 20.2 percent of total general fund expenditures.
- C Governmental funds revenues increased \$7,508,063 or 2.9 percent over the prior fiscal year.
- C The County's outstanding notes payable and bonded debt decreased by \$6,352,481 or 2.7% during fiscal year 2001. The key factor in this decrease was the scheduled principal retirements of its notes payable and bonded debt.

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 consists 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 2001. 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 taxes 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, health and social services, culture/recreation, and other community services. The business-type activities of the County include garbage collection, refuse disposal, airport operations, mass transit, and water and sewer utilities.

The government-wide financial statements include not only the County itself (known as the *primary government*), but also the following legally separate component units: Clerk of the Circuit Court, Emergency Medical Foundation, Inc., and Volusia Law Library. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 28-31 of this report.

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 thirty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, municipal service district, and federal and state grant funds, which are considered to be major funds. Data from the other thirty-three 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 supplementary information section of this report.

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

The basic governmental fund financial statements can be found on pages 32-42 of this report.

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 garbage collection, refuse disposal, airport operations, mass transit, 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 internal service funds to account for its reproduction services, computer replacement, vehicle maintenance, self-insurance and risk management programs, and employee group insurance. 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 Garbage Collection, Refuse Disposal, Daytona Beach International Airport, Volusia Transportation Authority, and Water and Sewer Utilities funds, which are considered to be major funds of the County. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* in the supplementary information section of this report.

The basic proprietary fund financial statements can be found on pages 44-53 of this report.

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 basic fiduciary fund financial statements can be found on pages 54-55 of this report.

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 on pages 61-97 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's progress in funding its obligation to provide pension benefits to its volunteer firefighters. Required supplementary information can be found on page 100 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented in the supplementary information section of this report. Combining and individual fund schedules can be found on pages 104-163 of this report.

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 \$328,621,801 at the close of the fiscal year ended September 30, 2001.

At the end of fiscal year 2001, 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.

County of Volusia, Florida Net Assets

	Governmental Activities	Business-type Activities	Total
	2001	2001	2001
Current and Other Assets	\$ 148,911,140	\$ 41,177,075	\$ 190,088,215
Capital Assets	<u>279,664,862</u>	<u>163,238,152</u>	<u>442,903,014</u>
Total Assets	<u>428,576,002</u>	<u>204,415,227</u>	<u>632,991,229</u>
Long-term Liabilities Outstanding	183,947,496	82,518,160	266,465,656
Other Liabilities	<u>28,713,468</u>	<u>9,190,304</u>	<u>37,903,772</u>
Total Liabilities	<u>212,660,964</u>	<u>91,708,464</u>	<u>304,369,428</u>
Net Assets:			
Invested in Capital Assets.			
Net of Related Debt	96,388,501	96,105,513	192,494,014
Restricted	16,397,996	7,697,600	24,095,596
Unrestricted	<u>103,128,541</u>	<u>8,903,650</u>	<u>112,032,191</u>
Total Net Assets	<u>\$ 215,915,038</u>	<u>\$ 112,706,763</u>	<u>\$ 328,621,801</u>

The largest portion of the County's net assets (58.6 percent) 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.

An additional portion of the County's net assets (7.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$112,032,191) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a net increase of \$22,013 in restricted net assets reported in connection with the County's business-type activities. This resulted from an increase in amounts restricted for land purchases and a decrease in maintenance and operations.

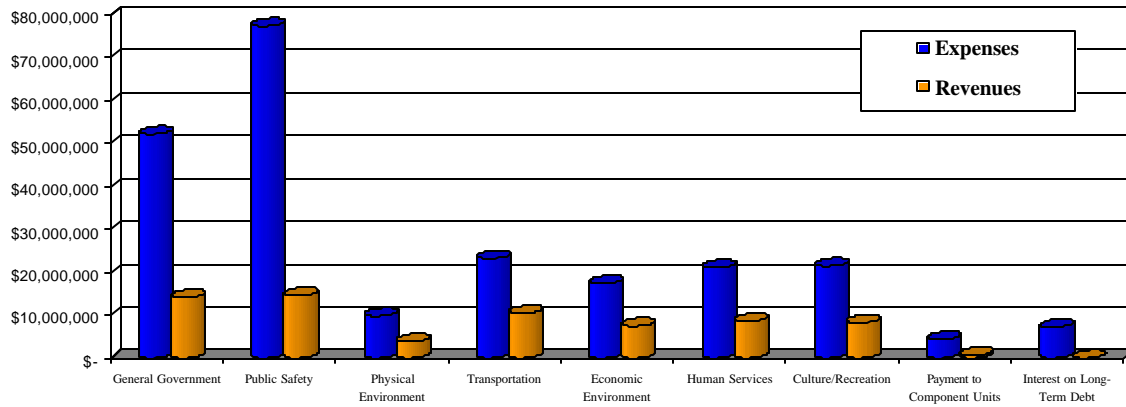
Governmental activities

Governmental activities increased the County's net assets by \$26,804,350, thereby accounting for 90.2 percent of the total growth in the net assets of the County.

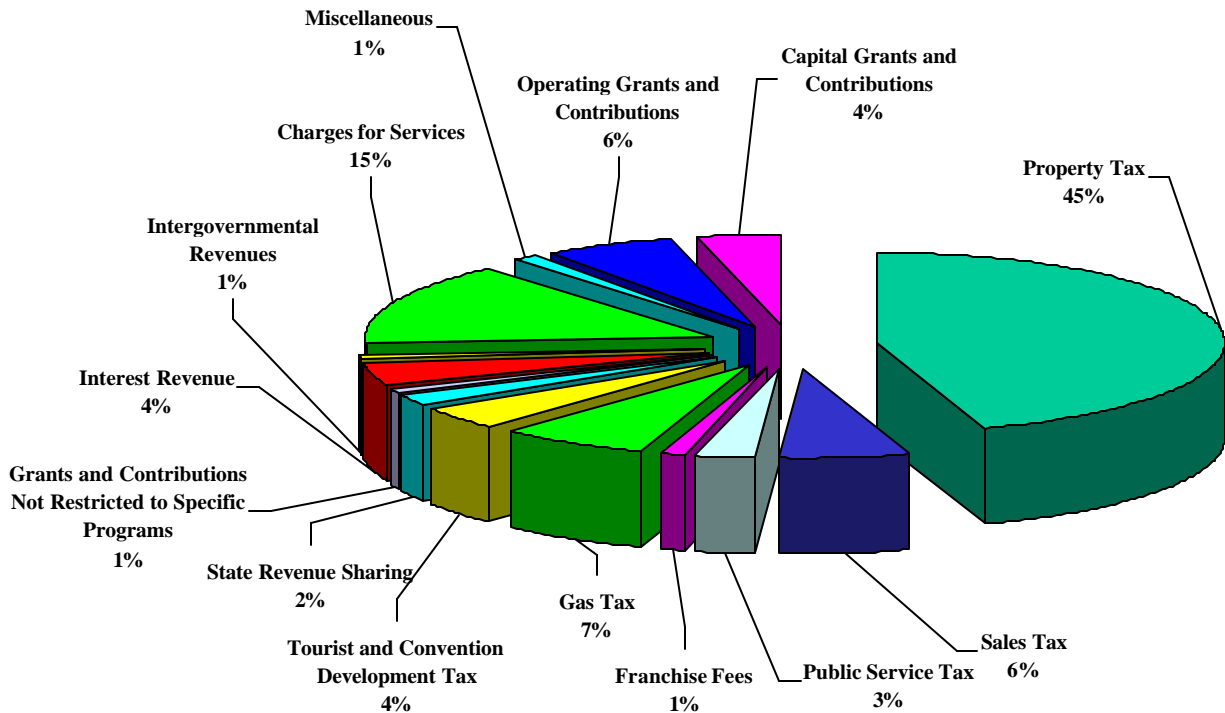
**County of Volusia, Florida
Changes in Net Assets**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	<u>2001</u>	<u>2001</u>	<u>2001</u>
Revenues:			
Program Revenues:			
Charges for Services	\$ 41,286,376	\$ 37,549,512	\$ 78,835,888
Operating Grants and Contributions	16,072,031	5,887,755	21,959,786
Capital Grants and Contributions	10,382,434	9,840,130	20,222,564
General Revenues:			
Property Taxes	118,831,788	20,026	118,851,814
Other Taxes	56,005,217	1,050,000	57,055,217
Grants and Contributions not Restricted to Specific Programs	641,222	-	641,222
Other	21,943,676	2,222,245	24,165,921
Total Revenues	<u>265,162,744</u>	<u>56,569,668</u>	<u>321,732,412</u>
Expenses:			
General Government	52,171,824	-	52,171,824
Public Safety	77,422,805	-	77,422,805
Physical Environment	9,801,374	-	9,801,374
Transportation	23,179,764	-	23,179,764
Economic Development	17,399,940	-	17,399,940
Human Services	21,031,458	-	21,031,458
Culture/Recreation	21,411,162	-	21,411,162
Payments to Component Units	4,389,873	-	4,389,873
Interest on Long-Term Debt	7,213,638	-	7,213,638
Garbage Collection	-	4,683,167	4,683,167
Refuse Disposal	-	16,942,940	16,942,940
Daytona Beach International Airport	-	13,288,380	13,288,380
Volusia Transportation Authority	-	14,603,991	14,603,991
Water and Sewer Utilities	-	8,482,207	8,482,207
Total Expenses	<u>234,021,838</u>	<u>58,000,685</u>	<u>292,022,523</u>
Increase in Net Assets Before Transfers	31,140,906	(1,431,017)	29,709,889
Transfers	<u>(4,336,556)</u>	<u>4,336,556</u>	<u>-</u>
Increase in Net Assets	26,804,350	2,905,539	29,709,889
Net Assets - 9/30/00	<u>189,110,688</u>	<u>109,801,224</u>	<u>298,911,912</u>
Net Assets - 9/30/01	<u>\$ 215,915,038</u>	<u>\$ 112,706,763</u>	<u>\$ 328,621,801</u>

Expenses and Program Revenues – Governmental Activities



Revenue by Source – Governmental Activities

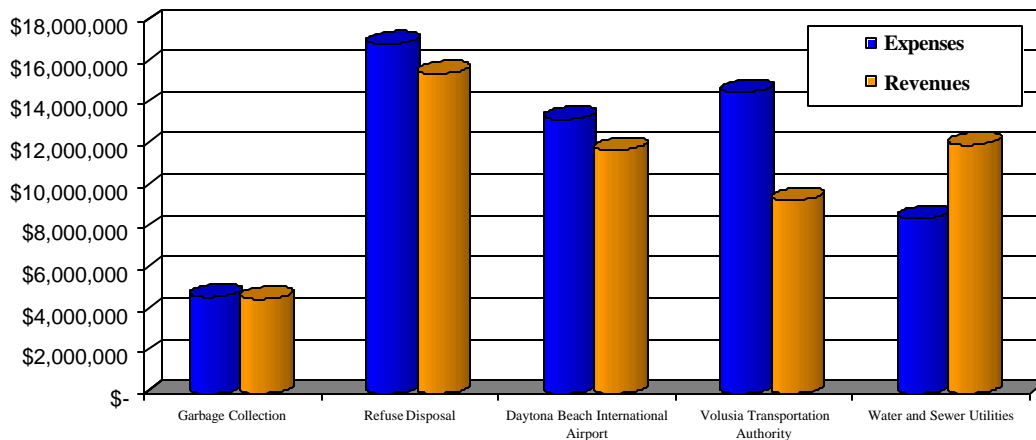


Business-type activities

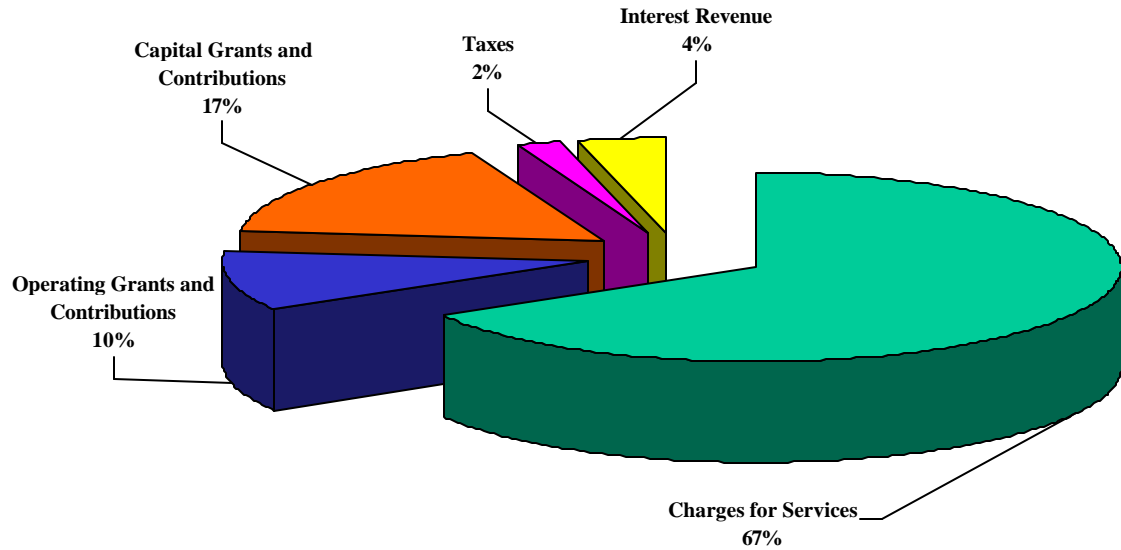
Business-type activities increased the County's net assets by \$2,905,539, accounting for 9.8 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- C The Daytona Beach International Airport began operating the Airport restaurant facility. During 2001, the airport generated an additional \$523,000 in revenues from this activity.
- C The Volusia Transportation Authority applied all state grant revenues and the majority of federal grant revenues to operations during this fiscal year, resulting in an increase of operating grants of over \$836,000.
- C The Volusia Transportation Authority's transfer from the General Fund increased 16 percent, an increase of \$541,164 to \$4,086,556, to offset the increase in operating expenses.
- C The Water and Sewer Utilities Fund generated an additional \$826,402 in capital contributions (connection/CIAC fees) during the current fiscal year. The increase was due to an increase in construction activity. These contributions must be used for capital purposes.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



A comparative analysis of government-wide data will be presented in future years when the information is available.

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 2001, the County's governmental funds reported combined ending fund balances of \$114,981,521, a decrease of \$18,174,439 in comparison with the prior year. *Unreserved fund balance* is \$77,897,898 and is available for spending at the County's discretion. 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 (\$18,661,539), 2) for inventories (\$1,267,667), 3) for advances due from other funds (\$156,642), 4) to pay debt service (\$16,671,496), and 5) for employee receivables (\$326,279). The general, municipal service district and federal and state grants funds are reported as major funds.

The general fund is the chief operating fund of the County. At the end of fiscal year 2001, unreserved fund balance of the general fund was \$21,795,115, while total fund balance reached \$24,422,078. 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 20.2 percent of the total general fund expenditures, while total fund balance represents 22.7 percent of that same amount.

The fund balance of the County's general fund increased by \$3,195,517 during the current fiscal year. Key factors in this growth are as follows:

- C An increase in revenues of \$8,714,639 over fiscal year 2000, specifically, taxes and interest.
- C Expenditure increases in general government and public safety.

The municipal service district fund has a total fund balance of \$9,475,640. The net increase in fund balance during the fiscal year in the municipal service district fund was \$102,425.

The federal and state grants fund has a total fund balance of \$3,828,513. The net increase in fund balance during the fiscal year in the federal and state grants fund was \$1,436,101. This 60 percent increase is partially attributed to a reduction of \$659,010 in grant revenues transferred to capital project funds and a \$484,060 reduction of the difference between the excess of revenues under expenditures from fiscal year 2000.

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:

<u>FUND</u>	2001 Unrestricted Net Assets
Garbage Collection	\$ 345,195
Refuse Disposal	(4,872,609)
Daytona Beach International Airport	4,412,243
Volusia Transportation Authority	2,259,582
Water and Sewer Utilities	<u>6,446,373</u>
Totals	<u><u>\$ 8,590,784</u></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

Differences between the general fund's original budget and final amended budget was \$4,799,060 and can be briefly summarized as follows:

- C Increase in general governmental activities of \$3,414,869.
- C Increase in public safety activities of \$693,004.
- C Increase in physical environment activities of \$138,218.
- C Increase in economic environment activities of \$450,854.
- C Increase in human services and culture/recreation activities of \$102,115.

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, 2001 amounts to \$442,903,014 (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 9.7 percent (a 15.2 percent increase for governmental activities and a 1.5 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- C Construction continued on several of the County's capital projects including the Volusia County Courthouse. Construction in progress had reached \$46,046,664 as of the end of the fiscal year.
- C Completion of several of the County's road projects for expansion and new construction resulted in an increase to infrastructure capital assets of \$13,533,382 as of the close of the fiscal year.
- C Construction of the approximately \$9 million Southeast Regional Wastewater Treatment Plant was completed as of the close of the fiscal year. This addition along with other Water and Sewer Utility projects increased improvements other than buildings to \$94,730,250.

County of Volusia, Florida
Capital Assets
 (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 55,391,393	\$ 26,632,489	\$ 82,023,882
Buildings	101,850,489	13,372,292	115,222,781
Improvements Other than Buildings	8,674,479	94,730,250	103,404,729
Leasehold Improvements	275,318	-	275,318
Equipment	28,920,158	15,701,043	44,621,201
Infrastructure	13,533,382	-	13,533,382
Construction in Progress	46,046,664	12,802,078	58,848,742
Construction in Progress - Infrastructure	<u>24,972,979</u>	<u>-</u>	<u>24,972,979</u>
Total	<u>\$ 279,664,862</u>	<u>\$ 163,238,152</u>	<u>\$ 442,903,014</u>

Additional information on the County's capital assets can be found in Note 7 on pages 76-78 of this report.

Long-term debt

At the end of fiscal year 2001, the County had total bonded debt outstanding of \$199,375,000. Of this amount, \$4,620,000 comprises debt backed by the full faith and credit of the government and \$670,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the County's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

County of Volusia, Florida
Outstanding Debt

General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 4,620,000	\$ -	\$ 4,620,000
Special Assessment Debt with Governmental Commitment	670,000	-	670,000
Revenue Bonds	<u>140,150,000</u>	<u>53,935,000</u>	<u>194,085,000</u>
Total	<u>\$ 145,440,000</u>	<u>\$ 53,935,000</u>	<u>\$ 199,375,000</u>

The County's outstanding notes and bonded debt decreased by \$6,352,481 or 2.7% during fiscal year 2001. The key factor in this decrease was the scheduled principal retirements of \$10,053,112 of its bonded debt and \$4,917,891 of its notes payable. These decreases were offset by additions to its notes payable of \$7,613,522 and an increase of \$1,005,000 to its bonded debt stemming from the advance and current refundings that occurred in July. A portion (\$34,910,000) of its Sales Tax Improvement Revenue Bonds, Series 1994 and 1991A was refunded by issuing \$35,915,000 of new debt, the

Subordinate Lien Sales Tax Refunding Revenue Bonds, Series 2001A and 2001B. The new bonded debt, payable over the same time period as the old debt, was issued at lower interest rates and resulted in an economic gain or present value savings over the life of the bonds totaling \$2,233,701.

Additional information on the County's debt can be found in Note 8 on pages 79-88 of this report.

Economic Factors and Next Year's Budgets and Rates

- C The unemployment rate for the County at September 30, 2001 was 4.0 percent. This represents an increase of 1.0 percent from the prior year.
- C The taxable value of commercial and residential property increased 9.5 percent and 8.1 percent, respectively, in the 2001 fiscal year.
- C Building permit activity increased 17 percent for residential and 15 percent for commercial in the 2001 fiscal year.
- C Population increased approximately 2.0 percent from the prior fiscal year to 452,050 at September 30, 2001.

During the current fiscal year, unreserved fund balance in the general fund increased to \$21,795,115. The County has appropriated \$16,563,095 of this amount for spending in the 2002 fiscal year budget. Another \$3,061,207 is scheduled to be appropriated during the 2002 fiscal year as part of the mid-year budget adjustment. The ad valorem tax rate for the general fund was not increased for the 2002 fiscal year budget.

Rates for the County's water and sewer utilities were increased in April 2001, and in October 2001 for the annual CPI (consumer price index) adjustment. Rates will be reviewed during the 2002 fiscal year for any necessary adjustments.

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 Chief Financial Officer, 123 West Indiana Avenue, Room 300, DeLand, FL 32720. Additional financial information can be found on our web-site <http://www.volusia.org/finance>.