

# Management's Discussion and Analysis

## Introduction

The County's management discussion and analysis presents an overview of the County's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the letter of transmittal, beginning on page 1, and the County's financial statements beginning on page 28.

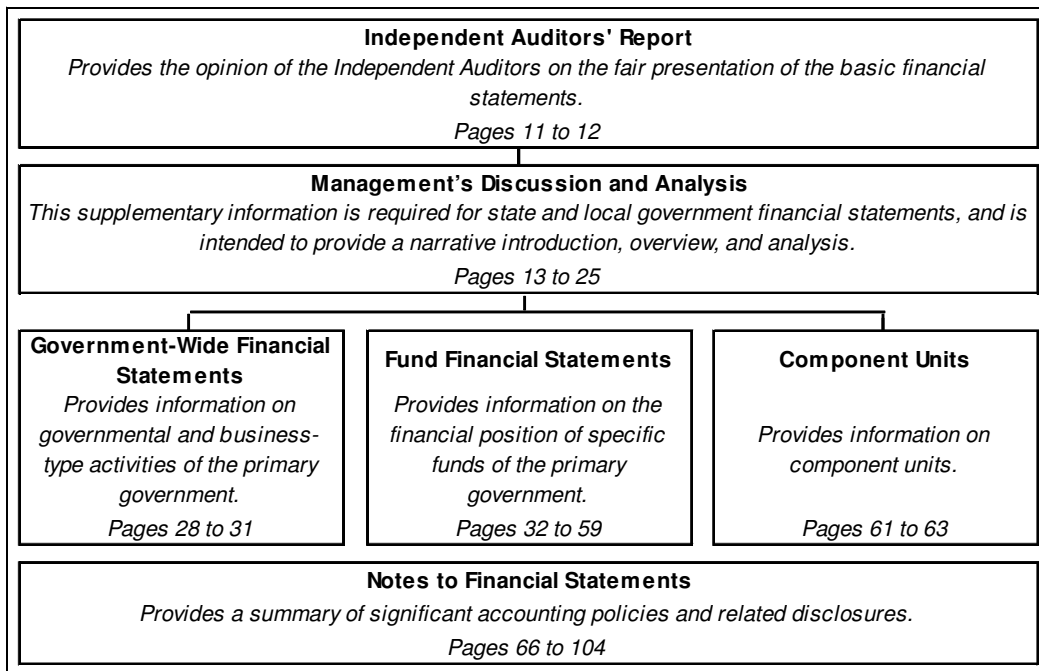
## Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2011 by \$987,556,216 (*net assets*). Of this amount, \$149,616,305 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- At September 30, 2011, the County's governmental funds reported combined ending fund balances of \$281,137,238, a decrease of \$36,406,495.
- At September 30, 2011, spendable fund balance, which includes restricted, assigned, and unassigned components, for the General Fund was \$52,260,098, a decrease of 19.9 percent from the prior fiscal year.
- Governmental funds revenues decreased \$43,652,663 or 11.0 percent less than the prior fiscal year.
- The County's outstanding notes payable and bonded debt decreased by \$15,322,604 or 5.1 percent during fiscal year 2011. The principal retirements of its notes payable and bonded debt totaling \$40,846,430 offset an increase in its notes payable in the amount of \$25,523,826.

## 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.

## Organization and Flow of Financial Section Information



### **Government-wide financial statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. They consist of the *statement of net assets* and the *statement of activities*. 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 2011. 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).

The government-wide 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, public safety, physical environment, transportation, economic environment, health and social services, culture/recreation, and other community services. The business-type activities of the County include refuse disposal, airport operations, mass transit, water and sewer utilities, parking garage operations, and garbage collection.

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, Volusia County Law Library, and Emergency Medical Foundation, Inc. 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 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 reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

The County reports on 45 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, federal and state grants, county transportation trust fund, and Volusia Forever, which are considered to be major funds. Data from the other 40 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, 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 32-46 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, except in more detail. The County uses enterprise funds to account for activities of a government that provide goods or services to the public at large primarily on a consumer charge basis. The proprietary fund financial statements provide separate information for the refuse disposal, Daytona Beach International Airport, Volusia Transportation Authority, water and sewer utilities, parking garage, and garbage collection funds. *Internal service funds* are an accounting device used to accumulate and internally allocate costs to the County's various functions. The County uses internal service funds to account for its computer replacement, vehicle maintenance, self-insurance and risk management, and employee group insurance programs. Because the services of these funds predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

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 48-57 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 58-59 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 66-104 of this report.

### **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* related to the County's volunteer firefighters pension funding and Other Post Employment Benefit (OPEB) obligations. Required supplementary information can be found on pages 106-107 of this report.

The combining statements referred to earlier in connection with nonmajor governmental, debt service, capital projects, internal service, and agency funds are presented in the supplementary information section of this report. Combining and individual fund statements and schedules can be found on pages 112-189 of this report.

## **Financial Analysis of County Of Volusia, Florida: Government-Wide Financial Analysis**

The County's net assets increased from a year ago – growing from \$964,051,747 to \$987,556,216. The increase of \$23,504,469 is less than last year's change of \$43,856,440. Looking at the net assets of the governmental and business-type activities separately, the business-type activities experienced an increase in its change in net assets when compared to the previous year – from \$5,094,198 reported in 2010 to \$14,525,301 in 2011. The analysis that follows focuses on the changes in net assets of the County's governmental and business-type activities.

**County of Volusia, Florida  
 Net Assets**

|   | Governmental Activities |                       | Business-type Activities |                       | Total                 |                       |
|---|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
|   | 2011                    | 2010                  | 2011                     | 2010                  | 2011                  | 2010                  |
| Current and other assets                        | \$ 381,271,206          | \$ 419,980,041        | \$ 64,219,697            | \$ 64,336,481         | \$ 445,490,903        | \$ 484,316,522        |
| Capital assets                                  | 703,249,091             | 675,313,426           | 233,176,892              | 219,784,143           | 936,425,983           | 895,097,569           |
| Total assets                                    | <u>1,084,520,297</u>    | <u>1,095,293,467</u>  | <u>297,396,589</u>       | <u>284,120,624</u>    | <u>1,381,916,886</u>  | <u>1,379,414,091</u>  |
| Long-term liabilities outstanding               | 275,684,709             | 287,361,486           | 86,587,238               | 88,806,072            | 362,271,947           | 376,167,558           |
| Other liabilities                               | 25,109,848              | 33,185,409            | 6,978,875                | 6,009,377             | 32,088,723            | 39,194,786            |
| Total liabilities                               | <u>300,794,557</u>      | <u>320,546,895</u>    | <u>93,566,113</u>        | <u>94,815,449</u>     | <u>394,360,670</u>    | <u>415,362,344</u>    |
| Net Assets:                                     |                         |                       |                          |                       |                       |                       |
| Invested in capital assets, net of related debt | 509,847,280             | 463,237,238           | 172,389,706              | 158,488,441           | 682,236,986           | 621,725,679           |
| Restricted                                      | 147,979,424             | 142,883,607           | 7,723,501                | 7,763,483             | 155,702,925           | 150,647,090           |
| Unrestricted                                    | 125,899,036             | 168,625,727           | 23,717,269               | 23,053,251            | 149,616,305           | 191,678,978           |
| Total net assets                                | <u>\$ 783,725,740</u>   | <u>\$ 774,746,572</u> | <u>\$ 203,830,476</u>    | <u>\$ 189,305,175</u> | <u>\$ 987,556,216</u> | <u>\$ 964,051,747</u> |

The net assets of the County's governmental activities increased by 1.2 percent (\$783,725,740 compared to \$774,746,572). Unrestricted net assets – the part used to finance day-to-day operations and meet the ongoing obligation to citizens and creditors without constraints by debt covenants, enabling legislation, or other legal requirements – changed from \$168,625,727 to \$125,899,036. The net assets of the business-type activities increased by 7.7 percent over last year's amount (\$203,830,476 compared to \$189,305,175). Unrestricted net assets changed from \$23,053,251 to \$23,717,269.

The largest portion of the County's net assets (69.1 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 its 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 (15.8 percent) represents resources that are subject to external restrictions on how they may be used. These restrictions include debt covenants, enabling legislation, and other legal requirements. For governmental activities, restricted assets increased \$5,095,817 over last year primarily because a review of the funds determined that change was needed between the restricted and unrestricted classifications—all part of the overall implementation of Governmental Accounting Standards Board Statement No. 54 (*Fund Balance Reporting and Governmental Fund Type Definitions*) which changed the reporting requirements at the governmental fund level. The restricted net assets of the County's business-type activities decreased by \$39,982 due to a nearly \$130,000 increase in the debt service funding for the Daytona Beach International Airport's bonds and the Water and Sewer Utilities notes payable which were offset by a decrease of approximately \$170,000 in the airport's bond-required operating and maintenance reserves. The remaining balance of *unrestricted net assets* (\$149,616,305) for both governmental and business-type activities may be used to finance its day-to-day operations.

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

|  | Governmental Activities |                    | Business-type Activities |                   | Total              |                    |
|--|-------------------------|--------------------|--------------------------|-------------------|--------------------|--------------------|
|  | 2011                    | 2010               | 2011                     | 2010              | 2011               | 2010               |
| <b>Revenues:</b>                                   |                         |                    |                          |                   |                    |                    |
| Program Revenues:                                  |                         |                    |                          |                   |                    |                    |
| Charges for services                               | \$ 48,592,960           | \$ 48,225,939      | \$ 49,133,664            | \$ 48,976,427     | \$ 97,726,624      | \$ 97,202,366      |
| Operating grants and contributions                 | 26,978,909              | 30,108,237         | 10,363,546               | 9,469,186         | 37,342,455         | 39,577,423         |
| Capital grants and contributions                   | 12,840,617              | 16,535,782         | 19,814,949               | 11,217,672        | 32,655,566         | 27,753,454         |
| General Revenues:                                  |                         |                    |                          |                   |                    |                    |
| Property taxes                                     | 197,901,152             | 228,686,586        | -                        | -                 | 197,901,152        | 228,686,586        |
| Other taxes  | 55,186,176              | 55,882,829         | -                        | -                 | 55,186,176         | 55,882,829         |
| Other  | 13,454,840              | 15,122,485         | 364,042                  | 894,627           | 13,818,882         | 16,017,112         |
| <b>Total revenues</b>                              | <b>354,954,654</b>      | <b>394,561,858</b> | <b>79,676,201</b>        | <b>70,557,912</b> | <b>434,630,855</b> | <b>465,119,770</b> |
| <b>Expenses:</b>                                   |                         |                    |                          |                   |                    |                    |
| General government                                 | 59,471,178              | 68,474,891         | -                        | -                 | 59,471,178         | 68,474,891         |
| Public safety                                      | 138,420,443             | 138,711,417        | -                        | -                 | 138,420,443        | 138,711,417        |
| Physical environment                               | 4,755,602               | 6,623,263          | -                        | -                 | 4,755,602          | 6,623,263          |
| Transportation                                     | 34,966,084              | 28,992,740         | -                        | -                 | 34,966,084         | 28,992,740         |
| Economic environment                               | 17,121,483              | 20,469,936         | -                        | -                 | 17,121,483         | 20,469,936         |
| Human services                                     | 22,262,198              | 22,913,545         | -                        | -                 | 22,262,198         | 22,913,545         |
| Culture/recreation                                 | 46,672,687              | 51,613,063         | -                        | -                 | 46,672,687         | 51,613,063         |
| Interest on long-term debt                         | 9,293,008               | 9,653,950          | -                        | -                 | 9,293,008          | 9,653,950          |
| Refuse disposal                                    | -                       | -                  | 14,301,386               | 15,382,143        | 14,301,386         | 15,382,143         |
| Daytona Beach International Airport                | -                       | -                  | 14,870,531               | 15,298,781        | 14,870,531         | 15,298,781         |
| Volusia Transportation Authority                   | -                       | -                  | 27,520,764               | 21,936,449        | 27,520,764         | 21,936,449         |
| Water and sewer utilities                          | -                       | -                  | 12,324,243               | 12,035,452        | 12,324,243         | 12,035,452         |
| Parking garage                                     | -                       | -                  | 2,112,649                | 2,115,123         | 2,112,649          | 2,115,123          |
| Garbage collection                                 | -                       | -                  | 7,034,130                | 7,042,577         | 7,034,130          | 7,042,577          |
| <b>Total expenses</b>                              | <b>332,962,683</b>      | <b>347,452,805</b> | <b>78,163,703</b>        | <b>73,810,525</b> | <b>411,126,386</b> | <b>421,263,330</b> |
| Increase (decrease) in net assets before transfers | 21,991,971              | 47,109,053         | 1,512,498                | (3,252,613)       | 23,504,469         | 43,856,440         |
| Transfers in (out)                                 | (13,012,803)            | (8,346,811)        | 13,012,803               | 8,346,811         | -                  | -                  |
| Increase (decrease) in net assets                  | 8,979,168               | 38,762,242         | 14,525,301               | 5,094,198         | 23,504,469         | 43,856,440         |
| Net assets - beginning of year                     | 774,746,572             | 735,984,330        | 189,305,175              | 184,210,977       | 964,051,747        | 920,195,307        |
| Net assets - end of year                           | \$ 783,725,740          | \$ 774,746,572     | \$ 203,830,476           | \$ 189,305,175    | \$ 987,556,216     | \$ 964,051,747     |

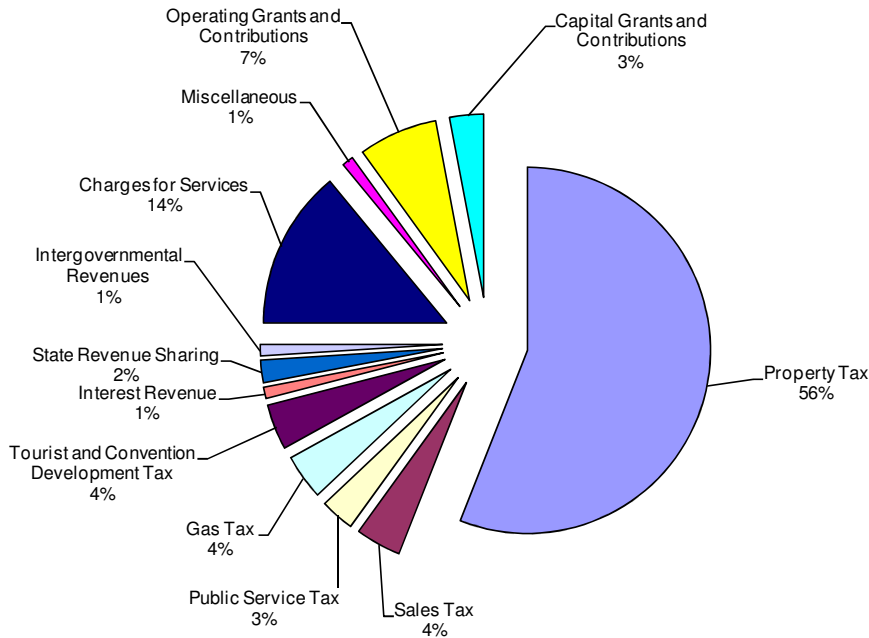
The combined revenues of both the county's governmental and business-type activities decreased by 6.6 percent (\$30,488,915). The total cost of all programs and services decreased by approximately 2.4 percent (\$10,136,944) when compared to last year. While these decreases did not contribute to a reduction in net assets, they do explain why the change in net assets for 2011 did not grow at the same rate when compared to last year. The following analysis separately considers the operations of governmental and business-type activities.

**Governmental activities**

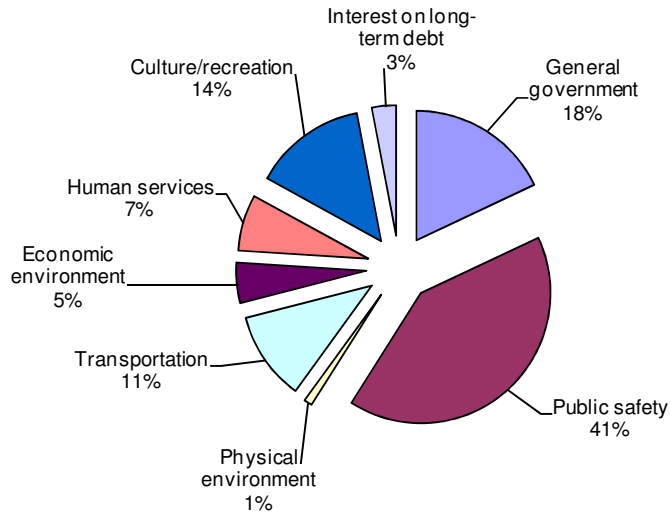
Revenues and expenses for the governmental activities decreased by \$39,607,204 (10.0 percent) and \$14,490,122 (4.2 percent), respectively. Property tax revenues declined by nearly \$30.8 million largely due to the decrease in property values upon which they are based. In addition, operating and capital grants and contributions were lower by \$6.8 million because of the completion of \$3.9 million road improvement and \$3.0 million neighborhood stabilization projects that were substantially completed in 2010 and funded by one-time grants that were not repeated in 2011. Charges for services remained stable and increased by almost \$370,000. The leveling off of the decline in the economy resulted in improvements in sales, resort, and gas tax receipts – an overall increase of nearly \$700,000 when compared to the previous year. Investment interest rates dropped from an average of 1.21 percent a year ago to an average of 1.05 percent causing a \$1.7 million drop in interest revenue when compared to last year.

The cost of all governmental activities this year was \$332,962,683 compared to \$347,452,805 last year. However, as shown in the Statement of Activities on pages 30-31, \$88,412,486 was financed either through user fees by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. The statement presents the cost of each of the County's seven largest programs – general government, public safety, physical environment, transportation, economic environment, human services, and culture/recreation – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the amount needed to be financed by taxes or other sources. As a result, the remaining amount of \$244,550,197 was covered by taxes and other general revenues such as interest.

**Revenue By Source – Governmental Activities**



### Expenses By Function/Program – Governmental Activities



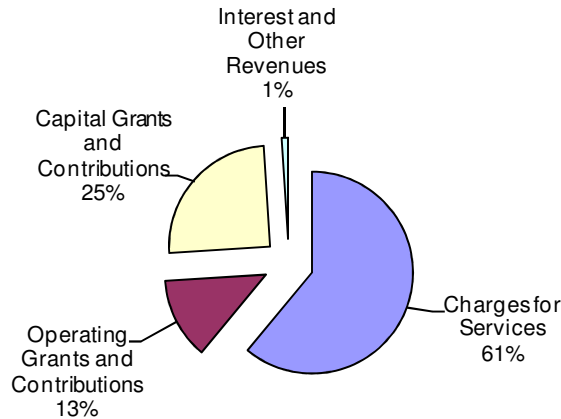
### Business-type activities

Revenues for the County's business-type activities increased by \$9,118,289 or 12.9 percent when compared to last year. This overall increase is comprised of the following: a \$.1 million increase in charges for services; a \$9.5 million increase in operating and capital grants, and a \$.5 million decrease in other revenues.

In the refuse disposal fund, continual declines in the construction industry and resident populations were contributing factors to a decline of a little over \$800,000 in refuse disposal service revenue collected at the County's landfill. However, this decline is less than last year's and 2009's decline, which saw reductions of \$2.0 million in each year. At the Daytona Beach International Airport, higher passenger traffic generated an additional \$800,000 in revenues in comparison to last year. Also, the airport received an additional \$14.4 million in capital grants and \$570,000 in operating grants when compared to last year. The capital grants were used to fund a runway rehabilitation and improvement project. Volusia Transportation Authority (VOTRAN) experienced a modest increase of approximately \$65,000 in charges for services revenues due to increased ridership on its buses. In addition, receipt of capital grants were down by \$5.8 million when compared to last year because the American Recovery and Reinvestment Act grant funds used to purchase hybrid and diesel buses in 2010 was not repeated in 2011. At water and sewer utilities, though the customer base decreased by approximately 400 households, water and sewer sales revenue increased over \$45,000. The parking garage's revenues remained fairly consistent with last year's collections and modestly increased by approximately \$37,000. Similar to the parking garage, the garbage collection fund realized little growth in its revenues when compared to last year. Lower interest revenues were realized across all business-type activities' funds and were the contributing factor to the \$530,000 decrease in other revenues.

Operating expenses increased by \$4,353,178 or 5.9 percent, when compared to last year. The main factor of this increase was the payment by VOTRAN of \$5,621,000 to the Florida Department of Transportation for SunRail. Most of the business-type activities lowered their operations spending based upon prior year's results and in anticipation of potential reductions in operating revenues and grants. The refuse disposal fund experienced the greatest reduction in expenses. This reduction is made up of the following: the personal services were lower by approximately \$130,000 because of five open, unfunded positions; the contracted services for leachate hauling was replaced by the leachate pre-treatment system, reducing costs by approximately \$800,000; and payment in lieu of taxes were lower by \$255,000.

### Revenues by Source – Business-type Activities



### 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.

As of the end of fiscal year 2011, the county's governmental funds reported combined ending fund balances of \$281,137,238, a decrease of \$36,406,495 from the prior year. The general, municipal service district, federal and state grants, county transportation trust fund, and Volusia Forever funds are reported as major funds in the basic financial statements.

The general fund is the chief operating fund of the County. At the end of the fiscal year, the unassigned fund balance of the general fund was \$5,867,773. The general fund's total fund balance was \$64,432,276, with spendable fund balance restricted for human services in the amount of \$789,387 and \$45,602,938 assigned for the upcoming 2012 budget. The remaining fund balance of \$12,172,178 is considered non-spendable.

The fund balance of the general fund is down \$7,163,895 from the prior fiscal year. A major factor contributing to this reduction is the decline in revenues of \$25,923,547. Property tax values have declined and, in addition, the general fund property tax millage rate dropped from 5.636829 to 5.3005 resulting in \$22,079,058 less in property tax revenues.

Expenditures were reduced in most all activities except for economic environment. Expenditures for economic environment increased by \$2,386,226 in fiscal year 2011 for the initial year for the incubator program in conjunction with the University of Central Florida located in an unused terminal at the Daytona Beach International Airport. The program is designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services including physical space, coaching, and networking connections. In addition, the amount required from the general fund to fund capital projects and debt service was reduced from fiscal year 2010. As a result, transfers out were reduced from \$34,156,586 in fiscal year 2010 to \$23,960,812 in fiscal year 2011.

The municipal services district fund accounts for the fiscal activity of the resources generated by any municipal-type service rendered to the citizens and taxpayers of the County's unincorporated areas. The fund's expenditures of \$39,398,901 exceeded its revenues of \$36,967,149 by \$2,431,752. The fund was able to increase its transfer out to the county transportation trust fund by \$1,600,000 for a total of \$3,100,000 to aid in funding road maintenance for the unincorporated areas. As a result, the district's fund balance decreased by \$3,656,659 to the amount of \$2,837,684 at the end of the fiscal year.



The municipal service district fund revenues decreased \$1,964,867 from the previous year primarily due to the decrease of taxes collected including property, public service, and communications tax, intergovernmental revenues, and interest earned. Total expenditures increased \$145,787, or .4 percent, over the previous year. The areas of public safety, physical environment, and transportation contributed to the slight overall rise in expenditures in the amount of \$759,594 offsetting the decrease in general government, animal control, and parks, recreation, and culture expenditures.

The federal and state grants fund balance of \$2,625,566 represents an increase of \$176,168, or 7.2 percent. Overall, revenues were down \$7,244,247 (or 27.3 percent) and expenditures were down \$7,416,142 (or 27.2 percent). The Transportation Regional Incentive Program (TRIP) grant fund for road construction (in the amount of \$2,573,264) was completed in fiscal year 2010. Additionally, in fiscal year 2010, ARRA grants were available for the Neighborhood Stabilization Program (Recovery Act Funded) in the amount of \$3,518,386. Both of these grants were no longer available in 2011.

The county transportation trust fund accounts for the fiscal activity relating to road and bridge maintenance and construction. The fund balance increased \$2,013,280 during the fiscal year. This increase is attributed to an additional transfer in of \$1,600,000 from the municipal service district, as mentioned above, and also from intergovernmental revenues received in the amount of \$1,269,950 from joint participation agreements for completion of a major thoroughfare.

The Volusia Forever fund accounts for the fiscal activities relating to the management and improvement of environmentally sensitive lands acquired through the use of ad valorem taxes. During fiscal year 2011, the County purchased over 4,800 acres of property zoned as prime agriculture, forestry resource, and resource corridor within the environmental core overlay for \$28,832,000. By utilizing prior fund balance and an advance from the general fund, Volusia Forever's portion of the purchase was \$19,612,532. The advance of \$10,873,252 from the general fund will be repaid over the next ten years.

**Proprietary funds**

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of proprietary funds at the end of the year amounted to:

| <b>Proprietary Funds</b>                 |                      |                      |
|--|----------------------|----------------------|
| <b>Unrestricted Net Assets (deficit)</b> |                      |                      |
| <b>Proprietary Fund</b>                  | <b>2011</b>          | <b>2010</b>          |
| <b>Enterprise Funds</b>                  |                      |                      |
| Refuse disposal                          | \$ 135,626           | \$ (2,469,920)       |
| Daytona Beach International Airport      | 7,588,993            | 6,383,130            |
| Volusia Transportation Authority         | 3,325,695            | 3,554,026            |
| Water and sewer utilities                | 8,149,482            | 11,037,958           |
| Parking garage                           | (206)                | (174,378)            |
| Garbage collection                       | 452,801              | 638,977              |
| <b>Total</b>                             | <b>\$ 19,652,391</b> | <b>\$ 18,969,793</b> |
| <b>Internal Service Funds</b>            | <b>\$ 38,655,719</b> | <b>\$ 40,104,541</b> |

The increase in unrestricted net assets of the enterprise funds is mainly due to the increases in revenues and the reduction in expenses as previously addressed in the discussion of business-type activities.

In comparison to last year, unrestricted net assets of the internal service funds decreased by \$1,448,822. This decrease was primarily due to an increase in the claims expense relating to loss reserve estimates for the Insurance Fund. This increase was offset by cost savings in the Group Insurance Fund.

## General Fund Budgetary Highlights

During the year, the County Council authorized amendments to the original general fund budget for supplemental appropriations whose values were unknown during the initial budget process. The original 2011 budget was increased \$2,146,073 by these amendments. The original budget was also increased for end of the prior fiscal year encumbrances in the amount of \$5,009,663.

The variance between the final budget and actual expenditures for the general fund for the year was \$40,287,506. The largest portion of this variance pertains to the general government non-departmental expenditures which were \$22,152,404 less than budgeted. One of the main components of non-departmental expenditures are reserves which are either designated for specific expenditures that are anticipated in the future or for unanticipated expenditures that may arise during the year. For this purpose, \$15,616,023 was budgeted as an emergency reserve and was not expended during the year.

Economic development actual expenditures were \$5,295,652 less than budgeted. This variance includes \$1,286,439 of unspent funding for the future development of the economic development corporate park at the Daytona Beach International Airport as well as \$3,525,589 unspent on economic development programming including grants-in-aid for business development and business recruitment activities.

Elections actual expenditures were \$2,687,887 less than budgeted due to delays in the purchase of replacement voting equipment. Central services had a variance of \$1,889,247 for fiscal year 2011 from operating costs savings and the delay in certain capital projects not being completed. The Sheriff's office actual expenditures were \$1,235,040 less than budgeted due to unfilled positions during the year, delayed equipment maintenance, and fewer prisoner transports.

## 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, 2011 amounts to \$936,425,983 (net of accumulated depreciation). This investment in capital assets includes land, easements, buildings, improvements other than buildings, leasehold improvements, equipment, infrastructure, intangibles, and construction in progress. The net increase in the County's investment in capital assets for the current fiscal year was 4.6 percent (a 4.1 percent increase for governmental activities and a 6.1 percent increase for business-type activities).

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

- The County is replacing the current telephone system, purchased in 1985, with a Voice over Internet Protocol (VoIP) telephone system. To date, the County has invested \$1.37 million in software, equipment, and peripherals for the new system and has converted 27 percent of existing users to the new system as of September 30, 2011. The conversion is due to be completed by September 30, 2012.
- The County purchased land with Volusia Forever funds in the amount of \$24.1 million. The majority of the funds were expended on approximately 4,806 acres of land known as the Deep Creek Reserve. This purchase was made in conjunction with the water and sewer utilities fund, which provided \$5M of the \$28.8M purchase price, along with a loan of \$11.6 million from the general fund to be paid back over ten years. This parcel of land was on the Forever "A list" and a portion of this land has potential for future water supply development. This purchase utilized a majority, if not all, of Volusia Forever's future anticipated revenues.
- In 2011, the County began a project to construct a new Consolidated Dispatch/Emergency Operations Center. The new facility will replace the existing 5,000 square foot Emergency Operations Center (EOC) built in 1976. The new facility will combine the dispatch center and the EOC and will be approximately 40,000 square feet.
- Infrastructure assets increased by \$36,894,619 due to the completion of the following road projects: Williamson Boulevard from US92 to Dunn Avenue, Airport Road Pioneer Trail Fly In, and Tymber Creek Road from SR40 to Airport Road in Daytona Beach; Howland Boulevard from Elkcam Boulevard to Newmark Drive in Deltona; and Rhode Island extension in Orange City.

- The Daytona Beach International Airport completed the runway 7L-25R rehabilitation project. The project included the pavement, electrical system upgrade, and a parallel construction of a new Category I instrument landing system (ILS). The ILS provides an upgraded instrument approach capability during low visibility conditions. The total cost was \$17,288,364 with the Federal Aviation Administration and Florida Department of Transportation paying 97.5 percent and the Airport responsible for the remaining 2.5 percent.

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

|   | <b>Governmental Activities</b> |                       | <b>Business-type Activities</b> |                       | <b>Total</b>          |                       |
|---|--------------------------------|-----------------------|---------------------------------|-----------------------|-----------------------|-----------------------|
|   | <b>2011</b>                    | <b>2010</b>           | <b>2011</b>                     | <b>2010</b>           | <b>2011</b>           | <b>2010</b>           |
| Land                                      | \$ 152,737,304                 | \$ 126,734,221        | \$ 53,184,334                   | \$ 48,177,834         | \$ 205,921,638        | \$ 174,912,055        |
| Land - infrastructure                     | 49,289,932                     | 47,013,505            | -                               | -                     | 49,289,932            | 47,013,505            |
| Easements                                 | 1,176,233                      | 1,176,233             | -                               | -                     | 1,176,233             | 1,176,233             |
| Intangibles                               | 24,664,304                     | 22,598,701            | 2,136,619                       | 2,136,619             | 26,800,923            | 24,735,320            |
| Buildings                                 | 209,241,310                    | 215,580,836           | 18,915,949                      | 19,996,345            | 228,157,259           | 235,577,181           |
| Improvements other than buildings         | 18,043,690                     | 19,233,289            | 132,130,213                     | 121,186,102           | 150,173,903           | 140,419,391           |
| Leasehold improvements                    | 46,164                         | 56,987                | -                               | -                     | 46,164                | 56,987                |
| Equipment                                 | 47,549,121                     | 47,868,342            | 19,503,406                      | 22,607,061            | 67,052,527            | 70,475,403            |
| Infrastructure                            | 172,884,124                    | 141,614,761           | -                               | -                     | 172,884,124           | 141,614,761           |
| Construction in progress                  | 10,723,204                     | 7,240,725             | 7,306,371                       | 5,680,182             | 18,029,575            | 12,920,907            |
| Construction in progress - infrastructure | 16,893,705                     | 46,195,826            | -                               | -                     | 16,893,705            | 46,195,826            |
| <b>Total</b>                              | <b>\$ 703,249,091</b>          | <b>\$ 675,313,426</b> | <b>\$ 233,176,892</b>           | <b>\$ 219,784,143</b> | <b>\$ 936,425,983</b> | <b>\$ 895,097,569</b> |

Additional information on the County's capital assets can be found in Note 6 on pages 83-85 of this report.

**Long-term bonded debt and note payable**

At the end of fiscal year 2011, the County's total long-term debt outstanding amounted to \$290,583,438. This amount represents bonds secured by specified revenue sources (i.e., revenue bonds) and bonds secured by a property tax levy of 0.20 mills on all taxable property in the County (general obligation bonds).

**County of Volusia, Florida  
 Outstanding Debt  
 Revenue and General Obligation Bonds and Notes Payable**

|                          | <b>Governmental Activities</b> |                       | <b>Business-type Activities</b> |                      | <b>Total</b>          |                       |
|--------------------------|--------------------------------|-----------------------|---------------------------------|----------------------|-----------------------|-----------------------|
|                          | <b>2011</b>                    | <b>2010</b>           | <b>2011</b>                     | <b>2010</b>          | <b>2011</b>           | <b>2010</b>           |
| Revenue bonds            | \$ 177,757,000                 | \$ 186,405,000        | \$ 44,725,000                   | \$ 47,630,000        | \$ 222,482,000        | \$ 234,035,000        |
| General obligation bonds | 29,985,000                     | 32,145,000            | -                               | -                    | 29,985,000            | 32,145,000            |
| Notes payable            | 22,010,000                     | 25,230,000            | 16,106,438                      | 15,078,801           | 38,116,438            | 40,308,801            |
| <b>Total</b>             | <b>\$ 229,752,000</b>          | <b>\$ 243,780,000</b> | <b>\$ 60,831,438</b>            | <b>\$ 62,708,801</b> | <b>\$ 290,583,438</b> | <b>\$ 306,488,801</b> |

The County issued no new bonded debt for fiscal year 2011. Overall, the County's outstanding bonded debt decreased by \$13,713,000 or 5.2 percent, during fiscal year 2011. The factors in this decrease were scheduled principal retirements, including the final payment on the Subordinate Lien Sales Tax Improvement Refunding Revenue Bonds, Series 2001B.

In 2011, seven installment purchase agreements whose total remaining principal balance equaled \$17,750,000 were refinanced with a new note which carried a more favorable interest rate of 3.02 percent. This new, 15-year note pledged non-ad valorem revenues and refinanced the following projects: debt service for the Ocean Center expansion

(\$9,875,000), improvements for Capri Drive and West Highlands Special Assessment Districts (\$1,790,000), acquisition and construction of trails (\$4,724,000), and land acquisition at the Daytona Beach International Airport (\$1,361,000). During fiscal year 2011, two installment purchase agreements with Florida Association of Counties for the purchase of computer equipment for the criminal justice information system in the amount of \$8,012,000 were paid in full.

In fiscal year 2010, the County entered into a loan agreement with the State of Florida to finance the expansion of the Southwest Regional Water Reclamation Facility. The total loan authorized by the State of Florida for the water and sewer expansion project is \$9,849,963. As of September 30, 2011, the County has requested and received \$8,804,726 of the total amount authorized.

The County has been a partner of the Central Florida Commuter Rail Commission since 2007. As a commission partner, the County entered into a loan agreement with the Florida Department of Transportation (FDOT) to finance an assigned portion of the acquisition and construction of a commuter rail system. The total loan authorized is \$10,200,000. As of September 30, 2011, the County has received \$5,621,000 of the total amount authorized.

Additional information on the County's debt can be found in Note 7 on pages 86-90 of this report.

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

The County's elected and appointed officials considered many factors when establishing its 2011-12 budget and tax rates. One of these factors is the state of the economy. Key economic indicators have shown little to no improvement from 2010 to 2011. The unemployment rate at fiscal year-end fell from 12.0 percent a year ago to 10.3 percent. This is higher than the national average of 9.0 percent and slightly less than state average of 10.6 percent for the same time period. For the third year in a row, population decreased; from the prior fiscal year of 508,913 to the current year of 496,042. Retail sales and building permit activity experienced mixed results. In 2011, 4,908 permits were issued compared to 5,096 in 2010. However, taxable sales for 2011 were slightly up—from approximately \$5.6 billion for the prior year to \$5.7 billion.

As anticipated, the County's property tax base continues to experience declines while waiting for the housing market to recover. The County's tax base fell 8.0 percent from \$26.1 billion in fiscal year 2011 to \$24.0 billion in fiscal year 2012. The most significant reduction occurred in the net reassessment of real estate, falling by \$2.2 billion due to declining values. The fiscal year 2012 adopted countywide (general and library funds) millage rate of 6.379100 is lower than the rollback rate of 6.4357 and slightly higher than last year's millage of 5.9025. Property tax revenues are expected to decrease for all property tax supported funds in fiscal year 2012 by \$3.3 million, a reduction of 1.7 percent over last year, largely due to the overall decrease in the County's tax base.

Though property values upon which the property tax is based have not yet recovered, the County expects slight growth or a leveling off of other tax revenues. Gas tax collections in 2012 (an estimated \$14.5 million) are expected to be slightly lower than fiscal year 2011 (\$14.8 million). The collection of utility, resort, and communication taxes are expected to increase by a modest \$1.6 million over fiscal year 2011 amounts. However, in spite of modest improvements that have occurred in taxable sales last year, sales tax revenues for fiscal year 2012 are conservatively forecasted at \$15.4 million—an estimate that closely reflects actual collections in 2011.

The County continues to face budget challenges created by the slow recoveries of both the real estate market and the economy, as a whole. In fiscal year 2012, to benefit the county and its citizens as a whole, the County assumed the operations for emergency medical transport, formerly operated under the Emergency Medical Foundation, Inc., a component unit. In addition, the County took over the operations of telecommunication dispatch services previously operated by various cities. As a result, 252 personnel positions were added and operating costs increased. Together, these two programs increase the fiscal year operating budget by \$17.0 million, which is funded by emergency transport charge for service revenue of \$14.0 million and a \$3.0 million reduction in personal service costs, primarily due to changes in the Florida Retirement System contributions. However, the remaining county operations reduced their overall operating budgets by \$9.3 million. To achieve these reductions, the County, once again, reduced its existing workforce. Forty-nine full-time positions of those individuals slated to retire in 2012 or 2013 fiscal years will remain unfunded upon the individual's retirement. A total of 516 positions have either been eliminated or unfunded since fiscal year 2007.

Of the \$52,260,098 in spendable fund balance of the general fund, \$45,602,938 has been appropriated to fund specific projects and programs for fiscal year 2012. As a general rule, to ensure the County does not become reliant on spendable and unrestricted fund balance to fund on-going operating costs, these excess funds are used for one-time capital purchases or to increase reserves. Though it appears we are at the bottom of the economic cycle, the County will continue to closely monitor its revenue streams and adjust expenditures, as necessary.

## **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 32720-4602. Additional financial information can be found on our web-site <http://www.volusia.org/finance>.