

February 20, 2002

The Honorable Mayor and
Members of the City Commission and
Citizens of the City of Sarasota, Florida

Ladies and Gentlemen:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Sarasota, Florida, for the fiscal year ending September 30, 2001. In addition to meeting legal requirements, the report continues to present the City's strong tradition of full financial disclosure. This philosophy is reflected by the informative financial analysis provided by the Finance Department and the exhibits and statistical tables included herein.

The CAFR's role is to assist in making economic, social and political decisions and to assist in assessing accountability to the citizenry by:

- comparing actual financial results with the legally adopted budget, where appropriate;
- assessing financial condition and results of operations;
- assisting in determining compliance with finance related laws, rules and regulations; and
- assisting in evaluating the efficiency and effectiveness of City operations.

Although the financial statements have been audited by the City's independent certified public accountants, CPA Associates, it is the responsibility of the City for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The CAFR is presented in four sections to facilitate understanding by the non-financially oriented user as well as to provide all necessary information for the most sophisticated financial observer. The introductory section is designed to introduce the reader to the City and summarize the financial story told in the financial statements, schedules, notes and statistical tables. The transmittal letter discusses significant aspects of financial operations for the year and capsulizes financial prospects for the future. The financial section includes the independent auditor's report, followed by the General Purpose Financial Statements (GPFS). The GPFS are the combined financial statements of the City. The related notes to the financial statements are an integral part of the GPFS. These basic combined financial statements and notes are designed to provide an overview of the City's financial position and results of operations. The remainder of this section presents the combining statements; individual fund statements and schedules focusing on each individual fund. The statistical section contains a number of tables and other data designed to depict historical, social, economic, and financial trends and gives an overall view of the financial capacity of the City. This information is presented on a multi-year basis. The single audit section is required under Government Auditing Standards, provisions of the Single Audit Act of 1996, the U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and Chapter 10.550 Rules of the Auditor General of Florida.

THE CITY

The City of Sarasota, Florida was incorporated in 1902. The current Charter was revised and approved by the voters of the City on September 3, 1996, and became effective November 1, 1996. The City has operated under the Commission - City Manager form of government since 1945. The City Commission consists of five elected citizens who are qualified voters in the City. The Commission appoints the City Manager who is the chief administrative officer of the City and directs the business of the City and its various departments. The Commission determines policy, adopts legislation, approves the City's budget, sets taxes and fees, appoints the City Auditor and Clerk and the City Attorney, as well as the members of all boards and committees.

The City provides a range of municipal services. The public safety operation includes police protection, as well as building, code enforcement and zoning. Recreational services include tennis courts, golf courses, neighborhood parks and facilities including a sports stadium. Public Works provides essential street and highway maintenance, signalization, landscape maintenance, as well as solid waste management. Water and Sewer Utilities provide water and sewer service and reuse water for irrigation. In addition, the City operates a mobile home park, a municipal auditorium, and the Van Wezel Performing Arts Hall. Other services provided include planning, redevelopment, engineering, community development, as well as general administrative services.

THE REPORTING ENTITY

The financial statements of this report include the funds and account groups of all the activities under the jurisdiction of the City Commission. This includes the Community Redevelopment Agency (CRA). The CRA was created to provide for the rehabilitation, conservation and redevelopment of the downtown area. The CRA operates under the guidance of the City Commission that meets separately as the governing body to approve the budget, the issuance of debt and the execution of contracts.

ECONOMIC CONDITIONS AND OUTLOOK

The City is located by the Gulf of Mexico on the southwest coast of Florida and covers an area of 24 square miles with a population of 52,715. The City is 55 miles south of Tampa and boasts of the more than 200 sunny days a year and the average year round temperature of 71⁰ F. The City, once the winter home of the Ringling Bros. and Barnum & Bailey Circus, is a mecca for those seeking a high quality of life. The City is a major resort area with miles of pristine white sand beaches that beckons to the hundreds of thousands of tourists that visit year round. The City is the winter home of the Cincinnati Reds major league baseball team and in the summer it hosts the Sarasota Red Sox. The City owns and operates the Van Wezel Performing Arts Hall, a premier showcase for the performing arts on the Florida west coast.

The City's functional (seasonal plus tourist) population swells to almost 100,000 on a daily basis. The provision for tourist accommodations, restaurants, entertainment and financial institutions constitutes a major source of employment, and contributes significantly to the stability of the local economy. Employment figures for the area have been favorable. Sarasota County had an unemployment rate of 3.0% in October 2001 as compared to the statewide and national rate of 5.0%. In December 2000, Money Magazine rated Sarasota as their "best small city", based on their focus on economically vibrant cities that are also successfully managing their growth and providing the highest quality of life around. Their emphasis included excellent schools, low crime, and job growth. They looked to areas that have avoided urban sprawl and overcrowding, where the city fathers have put a premium on green space, culture and having an accessible downtown.

Sarasota is committed to being a quality City, and to this end, the City Commission adopted the following five important goals to guide the City:

- *A Safe Place for People*
- *Healthy Neighborhoods*
- *Visual Appeal of City*
- *Responsible City Government*
- *Economic Vitality*

Nowhere is this more evident than in the downtown area, which is evolving into a vibrant area providing a variety of facilities, services, and pedestrian friendly walkways with old-fashioned street lighting, and landscaped areas. The downtown area has undergone years of careful renewal and renovation - from the Theater and Arts District with its variety of theaters, opera house and performing arts facilities, to the state of the art County Library, to the public art strategically located in various parks and boulevards, to the historic Burns Court area, a mixture of antique shops, a cinema complex, restaurants and shops, to Gulf Stream Avenue lined with upscale condominiums which grace the picturesque Sarasota Bay, to the quaint antique shops and restaurants of Palm Avenue, and to the many pocket parks that dot the downtown area. The City of Sarasota gives you the feeling that you're in a city that has the quality of life you seek and a city that knows how to provide public facilities and amenities for everyone to use, enjoy and appreciate.

Another bright side of the City's growth lies in the development of properties such as the new Ritz Carlton Hotel and 80-condominium tower, the Sarasota Bay Club, the Renaissance of Sarasota and the Marina Towers Condominiums. All these upscale buildings are built on the fringe of the downtown area and along the bay, adding significantly to the taxable value of the City. Net assessed value in the City increased 7.47% for 2001 following an 8.24% increase for 2000 and a 5.5% increase for 1999.

MAJOR INITIATIVES

For the Year

The City, after months of negotiations, purchased the Sarasota Federal Building for \$1.4 million from the Federal Government on October 27, 2000. The Federal Government will use the proceeds to help fund the Florida Everglades Restoration Program. The Federal Building, built in 1934 as part of the Works Progress Administration program, is a Neoclassical Revival style building that became Sarasota's first Post Office. The Federal Building was listed in the National Register of Historic Places in March of 1984, and was designed and crafted using finely carved stone ornaments such as the carved Corinthian columns located at the west elevation colonnade. The City plans to renovate and restore the building to its original condition and use it as a City Hall annex.

In January 2001 the City Commission adopted the totally revised Downtown Master Plan. The City retained the services of Andres Duany to develop a new plan based on earlier plans for downtown, including those of the John Nolen's plan of 1925, the RUDAT Plan of 1983, and the 1986 Downtown Master Plan. The new plan provides the details for ideas that were presented in charrettes conducted by Andres Duany. The major theme in the new plan includes - connecting the Downtown to the bay front, a system of walkable streets, a balanced transportation system, walk-to-town neighborhoods, civic improvements, and providing for strategic and pragmatic implementation.

In May, the City borrowed \$4.9 million to jump-start the new Downtown Master Plan and begin planning two of the proposed projects. The first is the Lemon Avenue Streetscape project (\$2.3 million), which will turn the area between Main Street and 1st Street into a purposely-designed public mall. The second is the continuation of the Main Street Streetscape project (\$2.5 million), from Orange Avenue eastwardly to School Street; similar to the way Main Street west of Orange Avenue down to the bay front is laid out. This will include old-fashioned streetlights, park benches, angled parking and trees in intervals of 30 feet apart.

The new Ritz Carlton Hotel opened its doors in the fall of 2001, and instantly became a landmark with lighted turrets on top of the structure, which can be seen from a distance. The Kane Plaza, which sits at

the eastern end of Main Street at School Avenue, opened during 2001, and has become a landmark for the other end of downtown. Kane Plaza is the headquarters for the YMCA. The new WWSB Channel 40 ABC affiliate station on Tenth Street, and the Sarasota Bay Club, which is a premier, assisted living facility located on the bay front also opened in 2001. The Marina Towers, which is an upscale 17 story condominium complex, is nearing completion as is the Golden Gate Point Condominium, the Phoenix Condominium and the Golden Bay Condominium.

Two projects worth over \$140 million are still in the planning stage but approved by the Commission. They are the \$60 million Ringling Towers condominium and retail project that will replace the downtown Holiday Inn at the corner of Gulf Stream Avenue and US 41 and the Ritz-Carlton Beach Club that will replace the Azure Tides Resort on Lido Key. A 100 room Holiday Express is also planned for the corner of US 41 and Sixth Street on a parcel that abuts the Renaissance of Sarasota Condominiums, which opened in late 2000.

During August 2001, the City upgraded its payroll/human resources software applications. The upgrade included payroll, human resources, attendance, benefits, risk management and applicant tracking. All of the applications are fully integrated and therefore share data entered into a particular module. The upgrade also included the implementation of a new electronic time sheet. This has been a real technological improvement for the departmental payroll preparers since they no longer have to manually complete the departmental time sheet. It is now done at their personal computer using the new e-time sheet.

The Van Wezel Performing Arts Hall required a \$1,893,196 subsidy from the General Fund to cover expenses for the 2000-01 fiscal year, as well as to cover the 1999-2000 fiscal year negative fund balance. A new executive director was brought on board in December 2000 to give the newly renovated Hall leadership for the 21st century. In addition, the position of financial manager was created to provide accountability and control to the operation. During the year, a commercial kitchen was installed in order to provide better food service to the patrons and users of the Hall, as well as expand the services. This was a gift of the Van Wezel Foundation. During the year mediation sessions were held to resolve differences over the design and construction of the renovated Hall. Differences between the City and the contractor are being resolved while legal proceedings are still pending against the architect.

Health insurance costs exceeded contributions and employee premiums by \$1,883,849. Health insurance costs have been steadily rising for three years. The administration thought that the significant portion of the increase was due to some catastrophic claims for approximately ten retirees. But an analysis of the claims for the calendar year 2000 showed that utilization of the City's plan was too rich. In August a consultant was hired to give the City an alternative to being self-insured by using a commercial insurance company. The events of September 11, 2001 had a significant effect on insurance across the nation, and as a result the City remains self-insured. Currently, the medical plan and rates continue to be the same as in the fiscal year just ended because of labor contracts. The City anticipates being able to put new employee premiums and plan utilization factors in place by April 1, 2002. In addition, a medical benefits focus group has been formed and charged with resolving medical premiums and contributions for the 2001-02 year by March 15, 2002. This group will then address the problem for the 2002-03 year and issue a report by June 1, 2002.

As a part of the City's electronic government (eGov) initiative a web site was developed as a means by which citizens can impact their government services and receive the information and services they require. The web site emphasizes easier access to information and online services. By selecting the "online services" button bar, citizens can pay their utility bills, seek employment opportunities and submit applications, or report and track code enforcement complaints. Planned "online services" include online bidding and requests for proposals through the Purchasing Department; applications for electrical, plumbing and mechanical permits with credit-card capabilities; and occupational licensing.

The operating ad valorem property tax was increased by 0.3875 mills to 2.4926 mills for the 2000-2001 fiscal year. This was the first operating millage increase after four years of decreasing operating millage from 3.0000 mills in 1995-1996 down to 2.1051 mills in 1999-2000. The decrease was attributed to the five-year phase in of consolidating the Fire-Rescue Bureau with Sarasota County, which started in January 1996. The debt service millage on the City's general obligation bonds was reduced for the eighth consecutive year. This brought the total millage rate to 3.2614 mills from the 2.9601 mills levied in fiscal year 1999-2000.

On September 1, 2001, water and sewer rates increased 2 percent to fund capital improvements and operating expenditure increases. This was the second year of a two-year planned rate increase. The last increase was on September 1, 2000, when rates were also increased 2%.

The forecast for fiscal year 2001-02 continues to look promising despite the economic fallout from the events of September 11, 2001. Revenues continue to be at the same level as a year ago, but the question is when will it hit Sarasota? This year or next?

For the Future

The City of Sarasota and Sarasota County have joined forces to create an Enterprise Zone in an area of the City that has been economically depressed for many years. The application to the State was filed near the end of December 2001 and the City expects to be notified momentarily that the award has been made. The Enterprise Zone is a program geared toward economic revitalization and business assistance. The Enterprise Zone offers financial incentives to businesses that choose to locate in the zone and/or employ residents who live in the Zone. Any business located in the Zone can receive tax credits on the State use and sales tax, corporate income tax and property tax. It is anticipated that this will be the economic stimulus to get revitalization of the Enterprise Zone area moving in a positive direction.

Sarasota County and the City have discussed a permanent location for the Sarasota County Area Transit (SCAT) Transfer Station for the past three years. When all proposed sites were unable to be purchased within reason, the decision was made that the County would purchase a portion of the City Hall parking lot and locate the transfer station on that property. Since that decision has been made, Commissioners have changed and a new City Manager is in place. The City Commission has now ratified the sale of the City Hall property to the County, but the City Manager has requested a sixty-day delay while he and the County Administrator research an alternate site, one mile from City Hall. The prospect of a bus transfer station next to City Hall concerns many City employees.

After several years of discussion, the City Commission has stated that a "Mega House" Ordinance will be put in place for 2002. The ordinance will create a method for measuring single-family dwellings and raises the threshold for repair or rebuilding of non-conforming structures destroyed by fire or other disaster from 50% to 75% of the structure's market value. The Ordinance will promote more compatible infill development in established neighborhoods by lessening the contrasting heights between single-story houses and newer houses constructed near to the maximum allowable heights. Plus, it will require tree planting and storm water drainage. The ordinance is expected to encourage homeowners to increase private reinvestment in housing and the development to be architecturally compatible including the consideration of scale and exterior materials.

At the budget workshops in July 2001, the City Commission directed the administration to finalize plans to close the Mobile Home Park in 2002. Back in 1990, the administration was directed to prepare a density reduction plan that would enable the Park to be reduced from 630 units to 270 units, while making major infrastructure improvements. At June 30, 2001 the number of units had been reduced to 28 units. As of this date, the City is diligently working with three families that have not located suitable alternate housing. The Park is scheduled to close April 30, 2002.

The Government Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments in June 1999.

This Statement establishes a new financial reporting model for State and Local Governments. The new model requires a Management Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information.

The City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002 will be in accordance with GASB No. 34.

Department Focus

David R. Sollenberger headed the City Manager's Office for fifteen years. He retired on December 31, 2001. The City Manager is one of the three Charter Officials as provided under the City's Charter. The other two Charter Officials are the City Auditor and Clerk and the City Attorney.

The City Manager's Office is responsible for the day-to-day operations of the City. Departments reporting to the City Manager include: Police, Finance, Human Resources, Planning, Engineering, Building, Zoning and Code Enforcement, Neighborhoods, Redevelopment, Housing and Community Development, Public Works, Public Utilities, General Services, Bobby Jones Golf Course, Ed Smith Sports Complex and Van Wezel Performing Arts Hall.

As Chief Executive Officer of the City, the City Manager is responsible for guiding the City to a higher level of achievement in services provided to its citizens. Department heads are required to have earned an undergraduate degree. Some key department head positions require a Masters Degree. The City provides more services at a higher level than it did in 1987. For example, the Finance Department had 17 employees in 1987 and now has 12 employees, yet the department produces more reports in a shorter time period. Employees throughout the City are working harder and smarter.

In 1987, the downtown was a ghost town with vacant storefronts and a dearth of office buildings. The City Manager had a vision for downtown development and through his leadership was able to motivate employees to take an active role in downtown revitalization. The City made real estate investments to provide parking lots and to eradicate a property eyesore in the central downtown area and turn it into a beautifully landscaped passive park. Storefront investments were made by the City's offer to match investments of property owners who wanted to make their buildings more attractive. Federal grants were obtained to beautify Main Street with old-fashioned streetlights, tree canopies and park benches. Main Street traffic again became two-way instead of one-way and parking was angled to maximize the number of spaces. As a result, downtown began to bustle once again. This created an opportunity for Sarasota County to build a state of the art library in the central downtown core with Five Points Park at its front door. The City gave up one of its parking lot investments to make this happen.

In 1990, City employees entered into a comprehensive customer service-training program to learn how to serve their customers more effectively and efficiently. Several years of customer service training sessions have dramatically increased the level of service the City provides to the citizens. The City Commission now enjoys hearing compliments from citizens on the exemplary service by City employees.

The City Manager's Office is the cornerstone of City government and its operations. The 2002 year starts off with the fourth City Manager the City has had since the Commission – City Manager form of government began in 1945. His leadership will guide and mold the City for the future.

FINANCIAL INFORMATION

Internal Control Structure

The City administration is responsible for maintaining, evaluating and improving the internal control structure, which has been designed to assure that the assets of the City are safeguarded against loss, theft or misuse; and to assure that an adequate accounting system compiles reliable financial records for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurances that these objectives will be met. The concept of reasonable assurance recognizes that:

1. The cost of a control should not exceed the benefits likely to be derived; and
2. The evaluation of costs and benefits requires estimates and judgments by management.

In addition to the examination of controls performed by members of the Finance Department, the Internal Audit staff continually review and assess the soundness, adequacy and application of all accounting and administrative controls of the City's financial system. Financial transactions and related data are examined for accuracy, completeness and authorization. Furthermore, computer applications and systems are analyzed to assure that the necessary controls are in effect.

All internal control evaluations occur within the above framework. We believe the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Single Audit

The City of Sarasota is a recipient of federal, state and local financial assistance, making the City responsible for ensuring that proper internal controls are in place and that it is in compliance with applicable laws and regulations related to all financial assistance. These internal controls are audited each year by independent auditors, and hence, the concept of a single audit. As a part of the City's single audit, tests are made to determine the adequacy of the internal control structure, including the portion specifically related to federal and state financial assistance programs, as well as the audit of the fiscal year ended September 30, 2001. The results of the City's single audit for the 2001 fiscal year showed no instances of material weakness in internal control or significant violation of applicable laws and regulations. The information related to the single audit is included in the single audit section of this report.

Budgetary Controls

In addition to the internal controls, the City maintains budgetary controls. The objective of these budgetary controls is to assure compliance with legal provisions of the annual budget appropriated and approved by the City Commission. The general, special revenue, and debt service funds have annual adopted budgets. Project length budgets are adopted for the capital projects funds, but are reappropriated and approved at the beginning of each fiscal year. The level of budgetary control (the point at which expenditures and encumbrances cannot legally exceed appropriations) is by department within an individual fund. In fact, budgetary control is maintained daily at the line item level by an automated requisition/encumbrance accounting system. This requires the requisition of estimated purchase amounts prior to the release of purchase orders to vendors. Requisitions for amounts greater than the budgeted funds available are denied until the appropriate action is taken. This action may be in the form of approval to exceed budget as authorized by the City Manager or City Commission. Encumbered amounts lapse at year-end, however, open encumbrances are generally reappropriated as a part of the following year's budget. These open encumbrances are reported as reservations of fund balance at September 30, 2001.

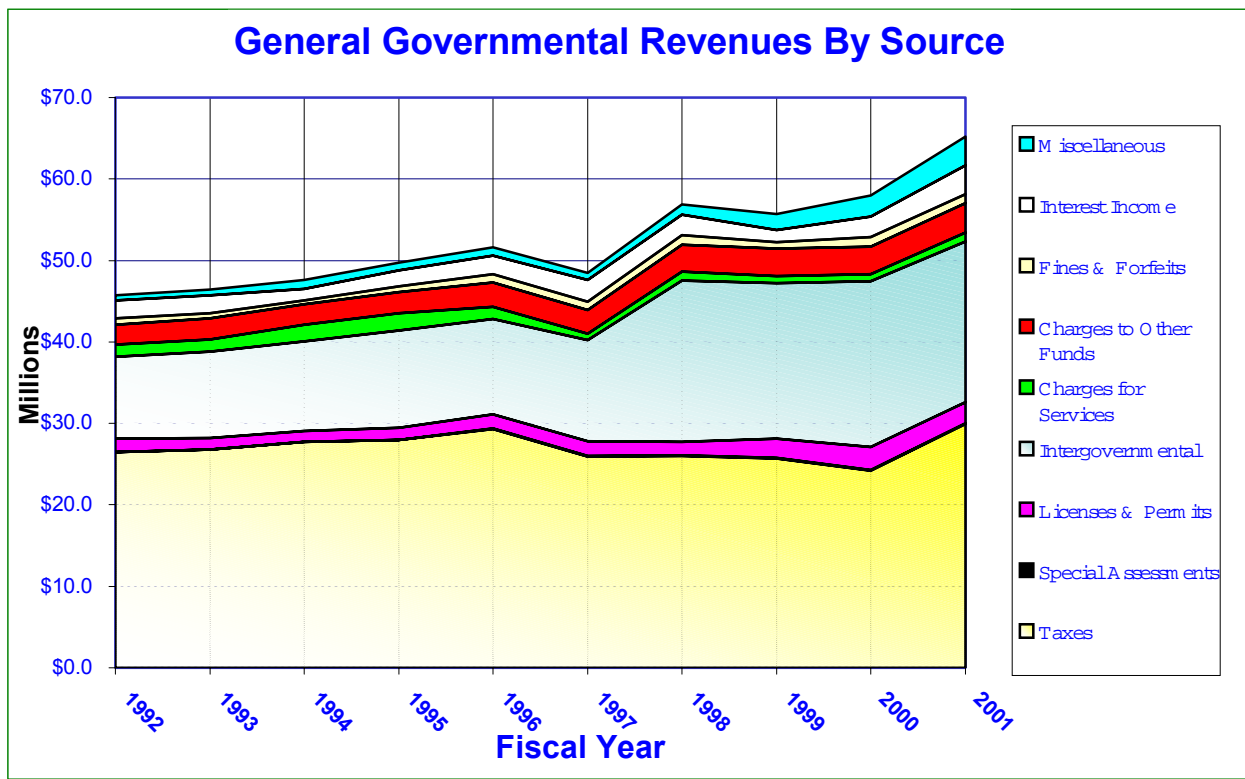
As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

General Government Functions

The following schedule presents a summary of general fund, special revenue fund and debt service fund revenues (in thousands of dollars) for the fiscal year ended September 30, 2001, as compared to last year, and the amount and percentage of increases and decreases in relation to prior year revenues:

Revenues	2001 Amount	Percent of Total	2000 Amount	Increase (Decrease)	
				Amount	Percent
Taxes					
Ad Valorem Tax	\$ 11,895	18.2 %	\$ 10,163	\$ 1,732	17.0 %
Franchise Fees	4,448	6.8	3,844	604	15.7
Utility Service Taxes	8,593	13.2	8,415	178	2.1
Tourist Development Tax	2,347	3.6	-	2,347	NA
Gas Tax	2,615	4.0	1,769	846	47.8
Special Assessments	90	0.1	84	6	7.1
Licenses and Permits	2,646	4.1	2,815	(169)	(6.0)
Intergovernmental	19,686	30.2	20,377	(691)	(3.4)
Charges for Services	1,076	1.6	842	234	27.8
Charges to Other Funds	3,607	5.5	3,415	192	5.6
Fines and Forfeits	1,113	1.7	1,110	3	0.3
Investment Income	3,552	5.5	2,576	976	37.9
Miscellaneous	3,562	5.5	2,553	1,009	39.5
Total	<u>\$ 65,230</u>	<u>100.0 %</u>	<u>\$ 57,963</u>	<u>\$ 7,267</u>	<u>12.5 %</u>

The following graph illustrates a ten-year history of the City's general governmental revenues:



The City's principal sources of local tax revenues consist of ad valorem taxes, utilities service excise taxes, franchise fees, tourist development tax and gas taxes. In the aggregate, these revenues represented 45.8% of the revenue collected that supports the annual costs of the governmental services provided during the year. For the 2001 fiscal year, the City's total property tax rate (including voted debt service) increased to 3.2614 mills from 2.9601 mills the previous year. The increase is the result of the increase in the General Fund ad valorem tax from 2.1051mills to 2.4926 mills. This increase was enacted to fund various projects and fiscal difficulties such as the budgeted deficit from fiscal 2000, funding the continuation of the comprehensive master plan for the Newtown area, funding for the Downtown Association, funding for the debt service for the acquisition of the Federal Building and the

addition of eleven new General Fund positions, three of which were for the new Redevelopment Department.

Ad Valorem Tax revenue totaled \$11.9 million, a \$1.7 million increase from the amount collected during 2000 due to the increase in the ad valorem millage rate that was previously discussed, coupled with a 7.47% increase in the assessed taxable valuation for the City.

Franchise Fees and Utility Service Taxes totaled \$13 million for 2001 and continues to be a large revenue source for the City. Franchise fees increased \$604 thousand due mainly to an increase in the Florida Power & Light electric rates during the year. Utility Service Excise taxes increased \$178 thousand, which is attributed to a \$131 thousand increase in the amount of excise tax received from Florida Power & Light, plus \$22 thousand increase in the telecommunications excise tax, a \$20 thousand increase in the water excise taxes, and a \$5 thousand increase in natural and propane gas. Excise tax at \$8.6 million is a slightly larger source of revenue in the General Fund as compared to the \$8.5 million for General Fund ad valorem taxes.

Tourist Development Tax totaled \$2.3 million for 2001. This revenue is from the Sarasota County Tourist Development Tax, and was utilized for the Lido Key beach renourishment project.

Licenses and Permits revenue at \$2.6 million decreased \$169 thousand from the prior year. This decrease is due to the \$146 thousand decrease in building department permits issued in fiscal 2001 as compared to fiscal 2000. Building permits, however, exceeded the budget by \$765 thousand for the year as major construction projects continued in the Downtown area.

Intergovernmental revenues at \$19.7 million decreased \$691 thousand from the prior year. During fiscal 2001 the Community Development Block Grant Fund received \$948 thousand, which was a \$822 thousand decrease from the \$1.8 million received in 2000. The Community Redevelopment Fund received \$906 thousand, a decrease of \$98 thousand from 2000. The Sarasota Bay National Estuary Fund received \$741 thousand, a decrease of \$233 from 2000. The Tourist Development Tax Fund received \$2 million in 2001, an increase of \$1.6 million from the \$339 thousand received in 2000. This increase is due to a State grant for the renourishment of Lido Key beach. The Penny Sales Tax Fund received \$5.8 million, a decrease of \$139 thousand from 2000. The City received \$3.5 million in Miscellaneous Grants in 2001, a decrease of \$630 from 2000. Lastly, the City's share of the Half-Cent Sales Tax revenue received from the State increased \$188 thousand for the year.

Charges for Services revenue, totaling \$1.1 million, increased \$234 thousand from the prior year. This increase is due to the transfer of \$237 thousand in excess revenue from the Billable Fee system.

Charges to Other Funds in the amount of \$3.6 million increased \$192 thousand from 2000. Charges to Other Funds represents the cost allocation charges to the Enterprise and Internal Service funds of the City to cover the General Fund operating expenses provided to these funds.

Fines and Forfeits revenue, at \$1.1 million, increased \$3 thousand in fiscal 2001. Traffic Fines were down \$40 thousand from 2000. However, in fiscal 2000, the City received an additional \$84 thousand in traffic fines for fines collected by the Sarasota County Sheriff's office in the prior fiscal year, but not remitted to the City until fiscal 2000. Special Law Enforcement fines increased \$54 thousand that offset the decrease in traffic fines.

Investment Income revenue, totaling \$3.6 million, increased \$1 million from 2000. This increase is due to the \$894 thousand of unrealized investment earnings recorded at year-end as mandated by the Government Accounting Standards Board (GASB) Statement 31.

Miscellaneous revenues, at \$3.6 million, increased \$1 million in fiscal 2001. The Community Development Block Grant Fund revenues for the house payment program, increased \$232 thousand from 2000. The Penny Sales Tax Fund received \$650 thousand in impact fees for the construction of the 6th street and Coconut Avenue intersection. The Penny Sales Tax Fund had advance funded a portion of these two projects in 1999. Miscellaneous Grants and Multi-Purpose funds used for various projects throughout the City received an increase \$260 thousand from fiscal year 2000.

The following schedule presents a summary of general fund, special revenue fund, and debt service fund expenditures (in thousands of dollars) for the fiscal year ended September 30, 2001, as compared to 2000, and the amount and percentage of increases and decreases in relation to prior year expenditures:

<u>Expenditures</u>	<u>2001</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>	<u>2000</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	
				<u>Amount</u>	<u>Percent</u>
Current					
General Government	\$ 10,626	18.1 %	\$ 9,159	\$ 1,467	16.0 %
Public Safety	20,919	35.7	21,606	(687)	(3.2)
Physical Environment	7,023	12.0	3,227	3,796	117.6
Transportation	3,633	6.2	3,457	176	5.1
Cultural and Recreation	39	0.1	9	30	333.3
Economic Environment	4,290	7.3	7,035	(2,745)	(39.0)
Debt Service					
Principal	4,945	8.4	3,534	1,411	39.9
Interest and Fiscal Charges	2,020	3.4	2,144	(124)	(5.8)
Capital	<u>5,142</u>	<u>8.8</u>	<u>4,425</u>	<u>717</u>	<u>16.2</u>
Total	<u>\$ 58,637</u>	<u>100.0 %</u>	<u>\$ 54,596</u>	<u>\$ 4,041</u>	<u>7.4 %</u>

General Government expenditures increased \$1.5 million to \$10.6 million in fiscal 2001. The major increase in General Government expenditures is due to the budgeted salary increases totaling \$142 thousand for general government employees, \$306 thousand for the new Redevelopment Department, \$133 thousand for a Comprehensive Master Redevelopment Plan for Newtown, \$52 thousand for election expenses, \$112 thousand for three additional employees, \$424 thousand for debt service for the recently purchased Federal Building, a budgeted increase of \$230 thousand for retiree medical insurance, and a \$244 thousand increase in legal fees for the City Attorney's office.

Public Safety expenditures decreased \$687 thousand to \$20.9 million in 2001. Public Safety includes the Police Department, the Building, Zoning and Code Enforcement Department, the Police Law Enforcement Trust funds, and Miscellaneous Grants. Police expenditures decreased \$667 thousand due mainly to the \$1 million one-time expenditure in fiscal 2000 for the Vision software program that is used for records and crime statistics. This decrease was offset in 2001 by the budgeted salary adjustments in the department. The Building, Zoning and Code Enforcement Department expenses increased \$66 thousand due to the addition of a plans examiner and budgeted salary increases. Grant expenditures decreased \$96 thousand based on the amount of Block Grant funds received during the year.

Physical Environment expenditures increased \$3.8 million to \$7 million in 2001. Physical Environment includes the Landscape Maintenance Department, the Sarasota Bay National Estuary Program and the Tourist Development Tax fund. Tourist Development expenses increased \$3.9 million because of the Lido Key beach Renourishment project, which accounts for the increase in expenditures.

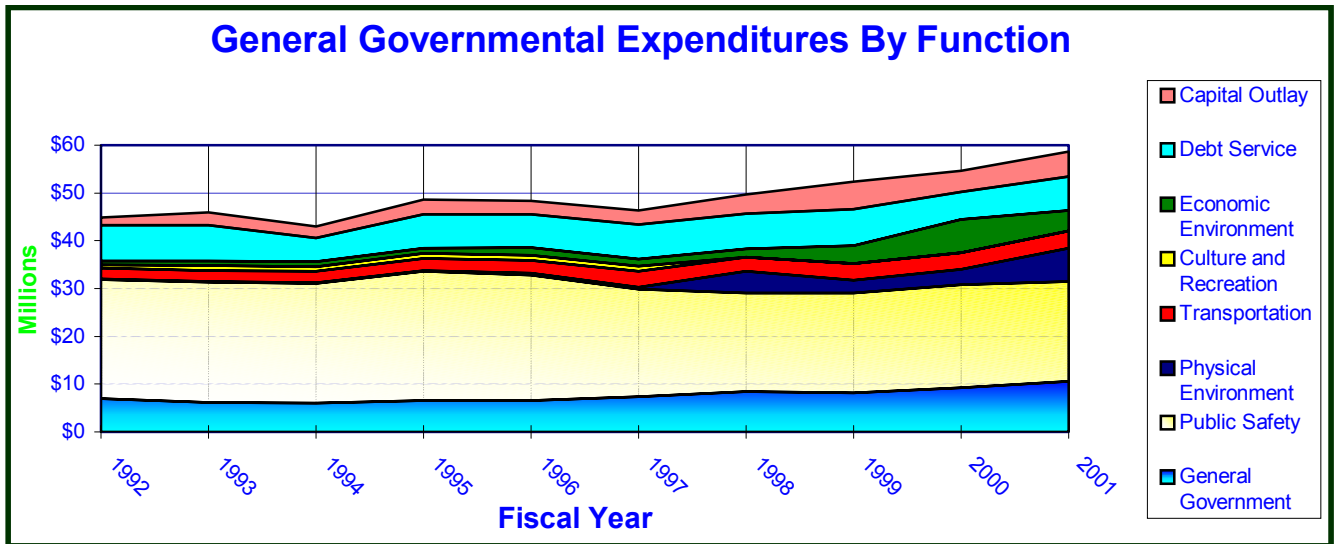
Transportation expenditures (non-capital) increased \$176 thousand to \$3.6 million in 2001. Transportation expenditures consist of Engineering (\$898 thousand), Streets and Highways (\$2.5 million), Community Redevelopment Agency (\$117 thousand), Miscellaneous Grants (\$7 thousand), and Multi-Purpose funds (\$68 thousand). The Streets and Highway Department expenses increased \$368 thousand from the prior year as the result of the \$251 thousand for tropical storm Gabrielle debris removal, \$83 thousand in increased utility service charges for street lighting, and \$51 thousand for budgeted salary adjustments, The Engineering Department expenditures increased \$40 thousand due to salary adjustments (\$27 thousand), and additional capital equipment (\$26 thousand).

Economic Environment expenditures decreased \$2.7 million for 2001. Economic Environment includes expenditures for the Community Development Block Grant Program, Miscellaneous Grants, and County Occupational Licenses fees. Expenditures in the Community Development Block Grant Program (CDBG) decreased \$718 thousand. Miscellaneous Grants expenditures decreased \$2 million in 2001 due to the \$1.2 million decrease in the Housing Partnership program, \$350 thousand decrease in the Special Needs Program, and \$600 thousand decrease in the contributions from developers for low-income housing.

Debt Service expenditures increased \$1.3 million to \$7 million due mainly to the added debt service for two bond issues. The 1999 Infrastructure Sales Surtax Bonds were issued in the amount of \$10 million to help finance the Van Wezel renovation, and it added \$545 thousand to Debt Service expense. Additionally, the 2000 First Florida Governmental Finance Commission loan, in the amount of \$4.385 million to finance the acquisition of the Federal Building and the remodeling of City Hall, added \$423 thousand to the Debt Service expense.

Capital expenditures increased \$717 thousand during the year. This increase is due mainly to the \$1.1 million increase in the Gas Tax Fund expenditures. Beginning January 1, 2001, the City began receiving a portion of the new Five Cent Gas Tax that was passed by the County Commission. This new revenue source added \$762 thousand of new revenue that was used to fund street reconstruction and new curbs and gutters. Community Redevelopment expenditures decreased \$513 thousand while Penny Sales Tax expenditures for the Capital Improvement Program (CIP) projects increased \$118 thousand.

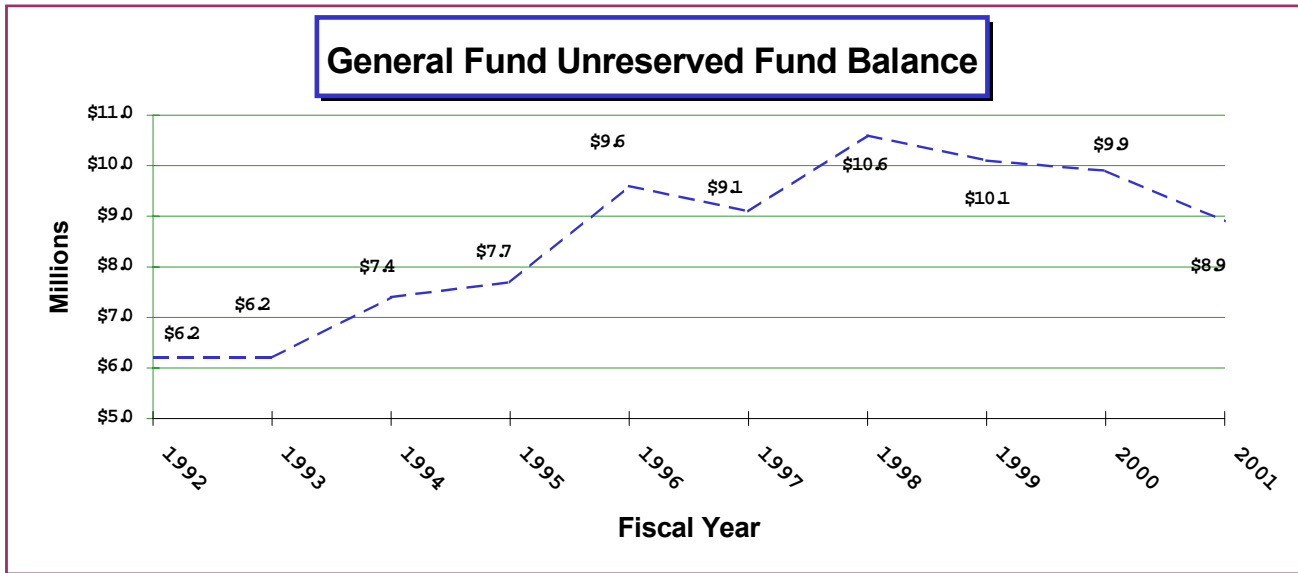
The following graph illustrates a ten-year history of the City's general governmental fund expenditures:



General Fund Balance

The unreserved General Fund balance represents a cushion of funds that can be appropriated in future years and used for emergencies such as a natural disaster, revenue shortfalls and unanticipated projects approved by the Commission. A portion of the fund balance, \$942 thousand, has been designated for funding projects and commitments that were ongoing in the 2000-2001 fiscal year, but specific vendors have not been identified, and therefore these funds are not reserved according to generally accepted accounting principals. As a percentage of budgeted expenditures for the fiscal year 2000-2001, the \$8.9 million unreserved fund balance at September 30, 2001, is a healthy 21.1%.

The following graph illustrates the trend of the general fund unreserved fund balances for the last ten years:



Enterprise Funds

Enterprise funds are used to account for operations:

- That are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges; or
- Incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City has eight enterprise operations meeting the above criteria. Operating revenues and net income (in thousands) follows:

	Operating Revenues		Net Income (Loss)	
	2001	2000	2001	2000
Water and Sewer	\$24,392	\$24,146	\$2,576	\$3,214
Bobby Jones Golf Course	2,440	2,444	(15)	74
Mobile Home Park	138	198	11	104
Van Wezel Performing Arts Hall	5,960	1,002	711	(2,032)
Solid Waste Management	9,180	8,822	532	(49)
Municipal Auditorium	229	204	(51)	(14)
Sports Stadium	570	592	(208)	(184)
Parking Management	474	458	127	110
Totals	\$43,383	\$37,866	\$3,683	\$1,223

Water and Sewer revenues were \$246 thousand higher due to the 2% rate increase that went into effect September 1, 2000, coupled with a drier than normal winter season which raised consumption. The rate increase was put into effect in order to build sufficient funds to pay for future capital projects without the need to borrow the funds. Bobby Jones Golf Course revenues were level with the prior year. Net income was down \$59 thousand from the prior year due to the increase in the greens maintenance contract. The Van Wezel Performing Arts Hall revenues were \$5 million greater than the prior year. The Van Wezel Hall

reopened October 13, 2000, after being closed the prior year as it underwent a major renovation. The \$711 thousand net income is after a \$1.9 million transfer from the General Fund to offset the prior and current year loss due to the closure and renovation of the Hall. Solid Waste Management Department revenues were \$358 thousand higher compared to the prior year due mainly to a 3.17% rate increase for the year.

Internal Service Operations

Internal service funds are established to account for the financing of goods and services provided by one department to other departments of the City on a cost-reimbursement basis.

The City accounted for its Central Stores, Equipment Maintenance, Information Systems, Self-insurance and Equipment Replacement operations as internal service funds. Departmental users are charged for the services provided by these operations. Operating revenues and net income (in thousands) are as follows:

	Operating Revenues		Net Income (Loss)	
	2001	2000	2001	2000
Central Stores and Duplicating	\$1,264	\$ 1,477	\$8	\$24
Equipment Maintenance	956	948	(18)	16
Information Systems	1,351	1,301	(110)	247
Self-Insurance	6,824	7,202	(1,110)	(466)
Equipment Replacement	904	904	(263)	(68)
	<u>\$11,299</u>	<u>\$11,832</u>	<u>(\$1,493)</u>	<u>(\$247)</u>

The City's Self-Insurance funds include Automotive Liability, Group Health, Worker's Compensation, Law Enforcement Death Benefit and Police Liability. For the year, the Self-Insurance fund had a \$466 thousand loss due to a \$1.9 million loss in Group Health, which was partially offset by the net income from the other four programs.

Trust and Agency Funds

Pension Trust Funds: The City maintains three retirement plans for its current employees and for employees whose operations have been transferred to the County. Each plan has a separate Board of Trustees. Plan administration and investment management is the responsibility of these boards. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans. Benefits vary depending on the particular membership in the plans.

Pension plan activity for the year is as follows:

	General Employees' Pension	Police Officers' Pension	Firefighters' Pension
Contributions			
Plan members	\$ 1,126,858	\$ 768,971	\$ 393,051
City	1,355,266	768,971	--
County	70,919	--	61,295
State	--	631,820	490,180
Total	<u>\$ 2,553,043</u>	<u>\$ 2,169,762</u>	<u>\$ 944,526</u>
	General Employees' Pension	Police Officers' Pension	Firefighters' Pension
Net Investment income	(\$10,937,286)	(\$ 9,901,233)	(\$6,624,026)
Benefits paid	3,017,811	3,606,491	3,729,934
Other expenses	422,579	149,904	740,705

The three pension plans experienced investment losses totaling \$27.5 million for the year as compared to the \$19 million earned in the prior year. During the fiscal 2001, equity securities experienced a roller

coaster ride and are the reason for the poor performance. There are 290 retirees in the General Employees' Pension Plan, 109 retirees in the Police Officers' Pension Plan, and 116 retirees in the Firefighters Pension Plan. The net assets of the three pension funds total \$265.1 million.

Trust Funds: The City maintains an expendable trust fund to account for funds received as donations that have been restricted to expenditures for specified purposes.

Agency Funds: The City maintains three agency funds that include the Miscellaneous Purpose, Payroll deductions, and the Van Wezel Non-City funds. Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governmental units.

Debt Administration

The outstanding debt of the City as of September 30, 2001, and 2000 is as follows:

	2001	2000
Water & Sewer Utility Revenue Bonds	\$55,460,306	\$58,783,188
Special Obligation Bonds	22,760,843	24,037,522
General Obligation Bonds	12,640,000	14,785,000
Loans Payable	20,895,184	17,057,256
Bobby Jones Golf Course Special Obligation Bonds	--	100,000
Special Assessment Debt	139,990	170,161
Capital Lease Obligations	19,904	34,540
Total	\$111,916,227	\$114,967,667

The ratio of net general obligation bonded debt to assessed valuation and the bonded debt per capita indicates the City's long-term debt position is excellent.

	2001	2000
Net General Bonded Debt	\$10,888,541	\$13,172,278
Bonded Debt to Assessed Valuation	0.29%	0.37 %
Ratio of Net Bonded Debt Per Capita	\$206.55	\$254.99

On April 24, 2001, the City closed in escrow on \$18,970,000 Water and Sewer System Revenue Refunding Bonds, Series 2002 to currently refund on a forward basis the City's outstanding Water and Sewer System Revenue Refunding Bonds, Series 1992 which are scheduled to mature on or after October 1, 2003. The net present value savings will be \$648,245 or 3.5% of refunded principal. The bonds will close on or about July 9, 2002.

On May 18, 2001, the City borrowed \$4,885,000 from First Florida Governmental Financing Commission for the acquisition, construction, and improvements to projects in the Downtown Master Plan, including streetscape improvements to Main Street and Lemon Avenue.

On November 8, 2001, the City borrowed \$1,270,000 from First Florida Governmental Financing Commission for the purpose of advance refunding \$1,260,000 of the loan payable to the First Florida Governmental Financing Commission dated September 15, 1994. The net present value savings were \$58,858 or 4.7% of refunded principal.

The bond ratings continue to reflect that the City's bonds have the characteristics of strong investment quality as shown below:

	<u>Standard & Poor's</u>	<u>Moody's Investors Service</u>
General Obligation	AA-	AA3
Special Obligation	A	**
Water and Sewer	A+	**

**Not rated because debt is Aaa insured.

Moody's Investor Services upgraded the City's General Obligation Bonds from A1 to AA3 in September 1999. Standard and Poor's upgraded the City's General Obligation Bonds from A+ to AA- in July 1998. The rating upgrade reflects:

- Affluent residential base combined with its successful revitalization efforts
- Strong financial position
- Moderate debt burden

The bond resolution of the Water and Sewer Revenue Bonds contains provisions that revenues will be sufficient to cover a pre-defined level of expenditures. The revenues of the Water and Sewer System were sufficient to satisfy the applicable revenue rate provisions. All required principal, interest and reserves for outstanding debt were provided for during the year.

Cash Management

The primary objective of the City's investment program is the preservation of capital. Investment transactions are conducted in such a manner as to avoid loss, whether by security default or by erosion of market value. The City has the authority to invest surplus funds in securities of the U.S. government and its agencies, certificates of deposit, prime commercial paper, the pooled investment account with the State Board of Administration, A rated corporate bonds and notes, Florida Municipal Investment Trust, and A1/P1 rated short-term institutional money market funds.

In 2001, the City adopted a resolution to rescind the investment policy of 1998 and created a new investment policy that conforms to a new State law, which went into effect October 1, 2000, mandating every local government adopt an investment policy. Investments not specifically listed in the investment policy are prohibited. The policy requires the Finance Director and Cash and Investment Manager to obtain continuing educational credits on an annual basis. In addition, the new policy adds the provision that an annual report from the investment committee must be submitted to the City Commission.

The City conducts investment transactions only through financial institutions that comply with Chapter 280 of the Florida Statutes, entitled "Security for Public Deposits". All securities are purchased on a delivery-versus-pay basis, which enables the City to take possession of securities concurrent with the release of funds.

The Governmental Accounting Standards Board has defined three categories for levels of risk with category 1 being the lowest level of risk. All of the City's investments were classified in category 1. Quarterly, the City's Investment Committee meets to review the investments of the prior quarter and make recommendations.

Account balances are verified daily to ensure that sufficient funds are available to meet current commitments, and all surplus funds are invested at market rates of return. To ensure this, the cash resources of the individual funds (excluding debt service funds, water and sewer funds and trust funds) are combined to form a pool of cash and investments. During 2001, the City's average daily investment portfolio was \$105.5 million versus \$107.6 million in 2000. The City portfolio earned interest income of \$7.9 million in the current year compared to \$6.6 million in 2000. Although the interest rate environment was declining throughout the year, the City maximized returns through the purchase of callable securities with significant yield spreads to the treasury market. There was very little reward for maturity extension,

therefore, portfolio liquidity increased. The City's portfolio, while quite liquid, has maintained diversity throughout the year and is positioned to take advantage of a potential increase in interest rates in 2002.

Risk Management

The Risk Management Department, under the administration of the Finance Director, oversees the citywide self-insurance programs that include the areas of workers' compensation, general liability, and automotive liability. Third party administrators handle workers' compensation claims for the City. Premiums are charged to various operating departments based on formulas that are updated each fiscal year, as well as monitored during the year. Excess premiums are retained in the fund to provide reserve adequacy. Risk Management is instrumental in the purchase and administration of police professional and public officials liability insurance, as well as property, petroleum, boiler and machinery, crime and stop loss insurance. Risk Management also is responsible for the safety program and other loss control programs. The department has adopted a policy of aggressively pursuing liability claims in order to reduce long-term liability. Additionally, the department has increased the number of site inspections for locations that represent the greatest potential of work related incidents.

OTHER INFORMATION

Independent Audit

As required by Article IV, Section 9 of the City Charter, a firm of independent certified public accountants selected by the City Commission has audited the financial statements of the City. This requirement has been met by the certified public accounting firm of CPA Associates and their opinion is found on Page 1 of this report. The opinion covers the General Purpose Financial Statements, as well as selected individual fund financial statements. Section 9 also requires the auditors to deliver a copy of their management letter to the City Commission. The audit was also designed to meet the requirements of Government Auditing Standards, both the Federal and Florida Single Audit Acts, related OMB Circular A133 and Chapter 10.550 Rules of the Auditor General. The auditor's reports related to Government Auditing Standards and the single audit are included in the Single Audit/Grants Compliance Section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sarasota, Florida, for its Comprehensive Annual Financial Report for the fiscal year ending September 30, 2000. This was the twentieth consecutive year that the City has received this prestigious award. We are pleased to continue to achieve this distinction. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, which conforms to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual financial plan for the fiscal year beginning October 1, 2000, the same period covered by this Comprehensive Annual Financial Report. This was the eleventh consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning, organization and as a communications medium. We are pleased that we continue to achieve this distinction also.

ACKNOWLEDGEMENTS

This report represents countless hours of preparation and could not have been accomplished without the dedicated efforts of the employees of the Accounting and Finance Department. A very special note of appreciation is extended to David C. Flatt, Accounting and Payroll Manager, Dolores Gamble, Accounting Supervisor, and Michelle Valentich, Financial Management Analyst who had major roles in the preparation of this report.

In closing, the continued interest and support by the members of the City Commission in the planning and guidance of the financial operations of the City is appreciated.

Sincerely,

Gibson E. Mitchell, CGFO, CPFO
Finance Director

Michael A. McNees
City Manager