

COUNTY OF VOLUSIA, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
SEPTEMBER 30, 2002

Prepared By:

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COUNTY OF VOLUSIA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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The independent audit of the financial statements of the County was part of a broader, federal and state mandated single audit and passenger facility charge audit designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the County's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent accountants.

Profile of the County of Volusia, Florida

Volusia County is located in the east-central region of the State of Florida and bordered by the Atlantic Ocean. Volusia County is approximately 40 miles northeast of the City of Orlando and approximately 200 miles from Tallahassee, Florida's capital.

Volusia County was established in 1854 and became the 30th county in the State of Florida. In June 1970, the electorate of Volusia County adopted a Home Rule Charter, effective January 1, 1971. The County operates under a Council/Manager form of government. The promulgation and adoption of policy are the responsibility of the seven-member council and the execution of such policy is the responsibility of the council-appointed County Manager. The Council is elected on a non-partisan basis. Five council members are elected by voters of their respective districts and serve two-year terms; two members are elected at-large and serve staggered four-year terms.

On November 5, 2002, the electorate of Volusia County approved a charter amendment, which maintains a seven member county council; creates a popularly elected county chair, who takes office on January 1, 2005, replacing one at-large member; and transitions the five district members to staggered four year terms.

The County provides a full range of services, including public protection; highway, street, and other infrastructure construction and maintenance; growth management; conservation and resource management; economic development; health and human welfare assistance; and recreational activities and cultural events. In addition, the County operates a water and sewer system, an international airport, a public transportation system, a garbage collection program, and a refuse disposal system. The legally separate Clerk of the Circuit Court, Volusia County Law Library, and Emergency Medical Foundation, Inc. are reported separately within the County's financial statements as discretely presented component units. Additional information on all three of these legally separate entities can be found in Note 1.A.1. of the Notes to the Financial Statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy

Management and elected officials began fiscal year 2002 concerned about the impact the events of September 11, 2001 would have on the County's local economy and revenue streams that fund its budget. The County relies primarily on property taxes funding most countywide programs and services. Nevertheless, a downturn in economy sensitive revenues, such as sales taxes, could result in reductions in less critical services. As a precautionary measure, the County Manager instituted a hiring freeze. The County Council directed management to monitor key economic factors on a monthly basis to help them determine if and when further action would be required. As the fiscal year progressed, initial concerns over the economy eased as the key economic indicators and revenue collections remained on target with budgeted projections, thus allowing the County Manager to lift the hiring freeze in March, 2002.

Prior to September 11, 2001, the value of the countywide tax base had been steadily increasing each year, from 4 percent in fiscal year 1999 to 5 percent in fiscal year 2000, and almost 6.5 percent in fiscal year 2001. The growth in the countywide tax base continued to remain strong with increases of 8.17 percent in 2002 and 9.47 percent in 2003 tax years.

Tourism, a key ingredient in the overall mix of the County's economy, provides tourist tax revenues which support tourism-related advertising and provides funding for the debt service and operation and maintenance of the Ocean Center. The natural draw of tourists to the beach, and special events, such as Speed Weeks (Daytona 500), Bike-Week, Spring Break, Black College Reunion, and Biketoberfest help to fill hotel rooms, restaurants, and retail stores. The Orlando area realized an immediate negative impact resulting from the events of September 11. Both their tourist and sales tax revenues were adversely affected. Volusia County, however, did not experience a serious down turn. Sales tax revenues grew \$1.9 million to \$17.2 million or 12.2 percent over the previous year. Though not as large as sales tax, tourist taxes also posted an increase of 2.6 percent over the previous year.

At the end of fiscal year 2002, the number and value of residential and commercial building permits issued by the County increased over the previous fiscal year. Residential permits exceeded \$103 million. Commercial permits totaled more than \$54 million.

Economic Development

Developing and implementing a new comprehensive economic development strategy is a key goal for the County. The County began administering its economic development program in fiscal year 2002 with the creation of the Economic Development Department. The County hired its first Economic Development Director in October 2001. The department has scored some recent successes. Staff persuaded ForHealth Technologies to move to Daytona Beach, from its original location in Oklahoma. After looking at various areas around the country and Florida, the company decided to move to the county because of the availability of attractive lease sites. The company manufactures robots that can dispense medications into syringes. In addition, the economic development staff persuaded Healthcare Billings Systems to remain in the county and not relocate its operations elsewhere. The department assisted the company in securing tax incentives that allow it to remain financially viable.

The County Council also commissioned the development of a countywide strategic plan to direct and guide the overall economic development strategy of the County. This plan was adopted by the County Council in June, 2002. The strategic plan includes five major goals and over 200 objectives, which the Economic Development Department has already begun to implement. The major goals are as follows:

- Developing and implementing a unified approach to economic development
- Enhancing business development and expansion
- Enhancing tourism and expansion
- Encouraging workforce development
- Fostering community development

Volusia County has an employed work force of approximately 169,000. Major employers include Volusia County Schools, Halifax Medical Center, State of Florida, Volusia County Government, Wal-Mart, Embry Riddle Aeronautical University, Publix Supermarkets, City of Daytona Beach, Memorial Health Systems, and the United States Postal Service. Major industries include printing and publishing, industrial machinery and equipment, lumber and wood products, transportation equipment, and fabricated metal products.

Long-Term Financial Planning

Land Information Systems

In accordance with the long-term information technology plan, the County has begun replacing legacy computer applications, many of which are over 15 years old. The property appraisal system replacement, which provides assessment and tax roll generation functionality, will be completed in fiscal year 2003 and is estimated to cost \$1,443,000.

In conjunction with the property appraisal system replacement project, the legacy growth management system (land development, permitting, reviews, inspections, and code enforcement) is being replaced in two phases. The first phase, which began in fiscal year 2002, included a high-level overview of growth and resource management's business functions and their relationships. The second phase scheduled to begin in fiscal year 2003 will include the detailed analysis, design and implementation of modules. The estimated cost for the two phases is \$865,000. The property appraisal and growth management systems, together with the County's geographic information system, will form the foundation of a comprehensive land information system.

Criminal Justice Information System (CJIS)

The exchange of information between Volusia County's criminal justice agencies, as well as other local, state, and federal agencies will be streamlined and further automated through the use of new technology. The ability to access and retrieve information (documents, video, voice, pictures, and data) in a timely manner will dramatically improve service delivery. The CJIS Council assisted the County of Volusia in developing a conceptual design for a new criminal justice information system. This design was used to develop a Request For Proposal, which is scheduled to be issued in fiscal year 2003. System selection is targeted for fiscal year 2003. Total project cost is estimated to be \$6,144,000.

Telephone System

A new voice over IP (VoIP) telephone system will be implemented over a three-year time period beginning in fiscal year 2003. The new system will provide modern features such as call queuing,

auto-attendant, and caller-id, while eliminating the need to maintain separate voice and data networks. In addition, annual maintenance costs will be reduced. The total project is expected to cost \$3,060,000.

Commuter Rail

The County of Volusia has been evaluating the possibility of establishing rail service linking Volusia County and the Orlando metropolitan area. In November 2001, the County Council approved VOTRAN's participation in the "Alternative Analysis Study" for the development of commuter rail service with LYNX designated as the lead agency. Federal, State, and local legislators have been working with the central Florida area on pursuing the Commuter Rail Technology Project in advance of the "Alternative Analysis Study" being completed. Area agencies are working on coordinating these two efforts to ensure the development of an effective rail project. Capital costs are projected to be \$21.9 million dollars, with annual operating and maintenance cost to the County of \$7.4 million.

Volusia Forever and Volusia ECHO

Two initiatives, approved by the voters of Volusia County in November 2000, have established a 20-year funding source for eligible projects that will improve and enhance the quality of life in the county. Volusia Forever will fund the purchase and improvement of environmentally sensitive, water resource protection, and outdoor recreation lands. Volusia ECHO will fund Environmental, Cultural, Historic, and Outdoor recreation capital projects. Over the next 20 years, each initiative is expected to raise approximately \$80 million. In addition, each of these programs will leverage matching funds from other government and local sources to maximize the impact of the programs.

At this time, it is difficult to project the future impact of the Volusia Forever and Volusia ECHO projects on the County's operating budget. To date, \$7.2 million has been expended to leverage the purchase of 20,400 acres of environmentally sensitive land with a minimal impact on division operating costs. The development of Volusia ECHO projects could add significant additional ongoing costs involved with staffing, operating, and maintaining new facilities. Initially, to the extent possible, operating costs will be absorbed by the County's operating budget. Approximately \$2.1 million has been awarded to fund ECHO projects countywide and is not expected to have an impact on the operating budget.

Spatial Needs Study

A consulting firm has been hired to provide an analysis of spatial needs of the nine buildings in the DeLand complex, including the Historic Courthouse. The results of this study will document and evaluate existing buildings of approximately 250,000 square feet and will identify key recommendations regarding either demolition, reuse/renovation, or construction of facilities. When completed, the DeLand Complex Master Plan – Needs Assessment will define an appropriate and cost effective program of facility development in the downtown DeLand area, provide a comprehensive documentation of special needs, and include a phased implementation plan to the year 2020. The cost of capital improvements is unknown at this time.

Capital Outlay

Currently, an average of \$2.7 million is expended annually for capital outlay items. On the horizon, are several major system replacements. During the next five years, \$3.5 million annually is estimated to fund system requirements, including the following:

- Replacement of the financial/human resource system (\$5,314,000)
- Replacement of the revenue collection system (\$500,000)
- Replacement of the Criminal Justice Information System (\$6,144,000)
- Replacement of the County telephone system (\$3,060,000)

Cash Management Policies and Practices

Cash balances of all County funds are pooled and invested pursuant to the following criteria: term, liquidity, yield, and safety. The County's formal investment policy allows the County to invest in the State of Florida Local Government Surplus Funds Trust Fund; Florida Counties Investment Trust; negotiable direct obligations which are unconditionally guaranteed by the United States Government; bonds, debentures, notes, and other indebtedness guaranteed by United States Government agencies; money market mutual funds regulated by the Securities and Exchange Commission; Bankers Acceptances; Commercial Paper; non-negotiable interest-bearing time certificates of deposit or saving accounts; repurchase agreements; and state and/or local government taxable and tax-exempt debt. Additionally, the County may invest Volunteer Firefighters Pension funds in equities.

During fiscal year 2002, the County's cash resources were primarily invested in the State of Florida Local Government Surplus Funds Trust Fund, U.S. Treasury and Agency issues, and repurchase agreements. The County did not invest in any derivatives or similar debt and investment instruments. The interest rates received from individual securities for the fiscal year ranged from 1.520 percent to 7.125 percent and yielded \$6,516,008 of interest income. For additional information concerning the investment of surplus funds, refer to Note 5 of the Notes to the Financial Statements.

Risk Management

The Personnel Division manages the self-insurance and loss-control programs of the County. The County self-insures its workers compensation, general liability, and physical damage risks. To meet the potential losses related to these risks, funding is generated from user charges to the various funds that participate in the program. These funds are accumulated in the Insurance Fund. In addition, the County sponsors a loss-control program requiring frequent inspections of County buildings to identify hazards and on-going loss prevention training classes to lessen the frequency and severity of accident-related losses. At September 30, 2002, the Insurance Fund had a deficit in its net assets of \$5,630,040. This is a reduction of \$2,256,332 from the prior year's deficit of \$7,886,372. Initiatives have been put in place to ensure that all costs are recaptured including an additional annual funding amount of \$500,000 over the past two years and the next three years to further reduce the deficit. For additional information, refer to Note 16 of the Notes to the Financial Statements that explains the nature of this deficit.

Group Insurance

The County provides medical, dental, pharmaceutical, and behavioral health services to its employees and their dependants through a self-insured program called the Health Partnership Plan. Funding to pay claims associated with the plan comes from both the County and the employee. The employee pays \$5.00 per pay period and the County contributes the remainder of the premium costs for the employee. The employee pays dependent premium costs. The premiums are accumulated in the Group Insurance Fund. The plan's goal is to provide quality services at the lowest price. The County has contracted with various hospital, pharmaceutical, and health networks to meet this goal. In addition, the plan's design is regularly reviewed to find ways to improve efficiency and lower or stabilize costs. For additional information concerning the Group Insurance Fund, refer to Note 18 of the Notes to the Financial Statements.

Pension Plan

The County contributes to the Volunteer Firefighters Pension Plan, a single employer defined benefit plan. Each year, an independent actuary, engaged by the pension plan, calculates the amount of the annual contribution that the County must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees. As a matter of policy, the County fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of its funding policy, the County has succeeded as of September 30, 2002, in funding 116 percent of the present value of the projected benefits earned by employees. The overfunded amount is being systematically amortized over a 20-year period as part of the annual required contribution calculated by the actuary.

Awards and Acknowledgements

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 County for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2001. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report. This report 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 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgements

A Comprehensive Annual Financial Report of this nature could not have been prepared without the dedicated efforts of the Accounting staff. I would like to express my sincere appreciation to the Accounting Director and to each member of the Accounting Division who assisted and contributed in the preparation of this report. I would also like to thank the County Manager and the Chair and members of the County Council for their leadership and support in planning the financial operations of the County in a responsible and progressive manner.

Sincerely,

Charlene Weaver, CPA
Chief Financial Officer

**COUNTY OF VOLUSIA, FLORIDA
PRINCIPAL COUNTY OFFICIALS**

September 30, 2002

COUNTY COUNCIL

Ann McFall, Chair
District No. 5

Frank T. Bruno, Jr., Vice-Chair	District No. 2
Dwight D. Lewis	District No. 1
James E. Ward	District No. 3
Joseph C. Jaynes	District No. 4
Big John	Council Member At-Large
Patricia Northey	Council Member At-Large

ELECTED COUNTY OFFICIALS

Ben F. Johnson	Sheriff
Deanie Lowe	Supervisor of Elections
Morgan B. Gilreath, Jr.	Property Appraiser
Diane Matousek	Clerk of the Circuit Court

COUNTY MANAGER

Cynthia A. Coto

Volusia County Government

