



**Financial and Administrative Services**

March 18, 2014

Honorable Members of the County Council,  
County Manager and Citizens of Volusia County:

Ladies and Gentlemen:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the County of Volusia, Florida (the County) for the fiscal year ended September 30, 2013.

**FORMAL TRANSMITTAL OF THE CAFR**

Volusia County Home Rule Charter and Florida Statutes require that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby submit the comprehensive annual financial report of the County of Volusia, Florida for the fiscal year ended September 30, 2013.

The report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the costs of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by an independent firm of certified public accountants, James Moore & Co., P.L., Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended September 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the County's financial statements for the fiscal year ended September 30, 2013, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

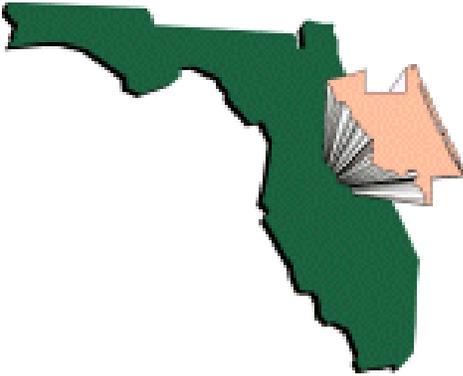
The independent audit of the financial statements of the County was part of a broader, federal and state mandated single audit and passenger facility charge audit designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent 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 those 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 independent auditors' report.

## 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.

Florida



Volusia County



Volusia County was established in 1854 and became the 30<sup>th</sup> 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. Voters elect the County Council which consists of seven members that serve four-year terms. Five are elected by district; the County Chair and the At-Large representative are elected countywide.

### The Reporting Entity

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 parking garage, a garbage collection program, and a refuse disposal system. The legally separate Clerk of the Circuit Court and Volusia County Law Library are reported separately within the County's financial statements as discretely presented component units. Additional information on these legally separate entities can be found in Note 1.A.1. of the Notes to the Financial Statements, page 64.

## INFORMATION USEFUL IN ASSESSING THE COUNTY'S ECONOMIC CONDITION

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

### Local Economy

The economy of Volusia County improved in fiscal year 2013 with most industry sectors showing stability or modest growth. Employment increased from 231,935 in October 2012 to 234,246 in October 2013, which means 2,311 more people had jobs at the end of the time period. The unemployment rate made consistent improvement throughout the year, as well, standing at 6.6% in October 2013, down from 8.4% in October 2012. Even so, the number of unemployed workers was above 16,000, highlighting the ongoing need to retain workers by upgrading their current skills.

New construction permits increased significantly in fiscal year 2013 over prior year both in number (67 percent increase in residential, 51 percent in commercial) and total value (83 percent increase in residential, 128 percent in commercial). Permit numbers and values were at the highest point since fiscal year 2008.

Another positive economic indicator relates to foreclosures. Foreclosure filings in Volusia County went down by 25 percent overall in fiscal year 2013 compared to fiscal year 2012. Sales of foreclosed homes rose by 42 percent in the same time period.

### **Major Initiatives and Programs**

In 2013, Daytona International Speedway launched its \$400 million DAYTONA Rising project which is a reimagining of the race experience to create the world's first true motorsports entertainment complex. On a parallel path, the International Speedway Corporation and Jacoby Development are designing the ONE DAYTONA entertainment, dining, and retail destination project encompassing 181 acres on the north side of International Speedway Boulevard in Daytona Beach. Preliminary conceptual designs for the first phase of ONE DAYTONA include 1.1 million square feet of world-class shopping, fine dining, hotel, and theaters. These projects are expected to make the Speedway a year round venue attracting many more visitors to the region. The DAYTONA Rising project is anticipated to be completed in January 2016, and both projects are anticipated to generate approximately 6,900 construction jobs over the next several years.

During 2013, Embry Riddle Aeronautical University completed approximately \$47 million of new construction which included the new Arts and Sciences Building, a new campus loop roadway system, infrastructure improvements in the new Research Park, construction of new sewage lift station facilities and various drainage improvements. These improvements accounted for hundreds of construction jobs and have further enhanced the university's stature as the world's premier aeronautical university. Embry Riddle is currently engaged in a \$278 million multi-year improvements program which will continue over the next several years.

Bayshore Capital, Inc. began the approval process for construction of a 375,000 square foot Hard Rock Hotel and Café in Daytona Beach, which will include 250 hotel rooms, 120 condos, and 250 restaurant seats. The \$100 million first phase is expected to begin construction in 2014. Russian hotel developer Protogroup is also moving forward with plans to construct a \$150 million condo hotel in Daytona Beach. Plans call for 500 hotel rooms and 122 condos, making it the biggest beachside development in the city's history.

Construction commenced for the Cici and Hyatt Brown Museum of Art this year. The 27,000 square foot six-gallery art museum will house the most extensive collection of Florida art in the world. The Browns funded \$14 million for the museum construction and donated the paintings collected over a 20 year period. The museum is expected to be open to the public in the spring of 2015.

The University of Central Florida (UCF)-managed Business Incubator at the Daytona Beach International Airport ended the second year (July 2013) with 13 client companies. These first and second stage companies created over 55 new positions pursuing business models that generally fell into four categories: Technology, Manufacturing, Service, and Health.

Daytona Beach International Airport (DBIA) saw increased passenger traffic again in 2013. Passenger enplanements and deplanements were at 597,920, representing a 3.2 percent increase over 2012. It is the highest level of traffic since 2008. Aircraft operations (aircraft take offs and landings) at DBIA were approximately 300,000, which makes the airport one of the most active airports in Florida in this category. The airport completed a new taxiway, Taxiway "Y", which is an important safety enhancement for the airfield. Total cost was \$2.2 million, with 95 percent of the costs covered by federal and state grants.

Major interstate transportation design and construction improvements in Volusia County advanced in fiscal year 2013. The Florida Department of Transportation commenced worked on an Interstate-4 widening project valued at \$162 million and an Interstate-95 widening project valued at \$196 million. Improvements for the I-4/I-95 interchange are expected to commence in 2014, valued at \$296 million.

## RELEVANT FINANCIAL INFORMATION

### Long-term Financial Planning

The long-term financial planning process includes an examination of new capital and/or operating initiatives in relationship to their related impact on the County's financial position. As a result, a long-term capital improvement program (CIP) is developed to ensure that capital projects (1) match community objectives and goals; (2) encourage efficient government administration by eliminating overlapping or conflicting programs among government agencies; and (3) foster a sound and stable financial program. Each year, the County publishes a County Council approved five-year CIP document. By looking beyond year-to-year budgeting and projecting what, where, when, and how capital investments should be made, capital programming enables the County to maintain an effective level of service to the present and future population.

Major capital improvement projects that were funded for fiscal year 2013 include:

- Road construction and improvement
- Water and sewer utilities improvements
- Port District projects
- Storm water utility improvements

The fiscal year 2013 CIP is financed by multiple funding options. Carryover (fund balance) is the largest source of funding, comprising 45 percent of the CIP budget, while the enterprise funds account for 28 percent. The remaining budget is funded through a mix of ad valorem, gas taxes, impact fees, grants, user fees, and other miscellaneous revenues.

Long-term planning also incorporates multi-year projections for operating funds including the general fund, library, municipal services district, and fire service funds. Revenue estimates are based on historical data, trend analysis, discussions with department directors, reviews of proposed initiatives, estimates from the U. S. Bureau of Labor Statistics, Florida Department of Revenue, Florida Legislature's Office for Demographic and Economic Research, and analysis of economic data from various sources, including the University of Florida Bureau of Economic and Business Research. Because these estimates for the fiscal year 2013 continued to show little or no revenue growth upon which the operating funds rely, action was taken to adjust expenditures and, if necessary, modify service levels. Mini-budget workshops were held with management and County Council to review these impacts and establish current and future priorities prior to adopting the fiscal year 2013 budget.

### Budget Development

While the County's economic picture appears to be improving, the property values for fiscal year 2013 dropped by approximately three percent. Budgeted property taxes for fiscal year 2013 were \$800,000 less than fiscal year 2012. Since fiscal year 2009, property taxes collected have fallen about \$42 million, or 18 percent, across all taxing funds. However, the cost of providing services has continued to rise. The cost of providing \$100 worth of services in 2004, for example, now costs \$115; a 15 percent increase. As a result, areas within the organization continue to implement initiatives to reduce costs with a relatively small change in service levels. The County's total operating budget was reduced by \$7.9 million in fiscal year 2013.

### Investment Policies and Practices

Cash balances of County funds are pooled and invested pursuant to the following criteria: safety, liquidity, and yield. The County's investment policy states safety - the preservation of capital - is the "foremost objective of the investment program." This objective is met by purchasing investments that mitigate both credit and interest rate risks. Credit risk, or the risk of loss due to failure of the security issuer, is mitigated by limiting investments to the safest types of securities, pre-qualifying broker/dealers with which the County will do business, and diversifying investments so that potential losses on individual securities is minimized. The investment policy provides a list of authorized investments with maximum percentages allowed. Interest rate risk, or the risk of reduced market value due to changes in interest rates, is mitigated by purchasing securities that mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity.

During fiscal year 2013, the County's cash resources were primarily invested in U.S. Agency and Treasury instruments, and government money market mutual funds regulated by the Securities and Exchange Commission. In order to provide some additional diversification, but still maintain an acceptable level of

safety, the County invested in highly rated commercial paper with maturities of 270 days or less. The County did not invest in any derivatives or similar debt and investment instruments because these do not meet its risk mitigation objectives. The interest rates received from individual securities for the fiscal year ranged from 0.01 percent to 2.30 percent. Because weak economic conditions have forced the federal funds rate (0.00 percent to 0.25 percent) to remain low, the County's average annual rate of return dropped from 0.77 percent in 2012 to 0.60 percent in 2013. According to the Federal Reserve's Federal Open Market Committee (FOMC), it is expected that these exceptionally low levels will remain in place at least as long as unemployment exceeds 6.5 percent and the expected inflation rate is no higher than 2.5 percent. The FOMC projects these rates to remain the same until late 2015. For additional information concerning the investment of surplus funds, refer to Note 2 of the Notes to the Financial Statements on page 72.

### **Debt Management**

The County issues debt only for the purposes of constructing or acquiring capital improvements or for making major renovations to existing capital assets. Financing in the form of long-term notes for the acquisition of major equipment is also allowed provided there is cost justification to do so. As part of its overall monitoring activities, the County assesses existing market conditions to determine the appropriate time to refund or extinguish outstanding debt issues, if appropriate, to realize sufficient cost savings. During fiscal year 2013, a review of the County's debt determined that savings could be realized if its gas tax revenue bond issue was refinanced. As a result, the County was able to take advantage of an economic gain of nearly \$4.0 million.

### **Emergency Reserve Policy**

For the property tax supported operating funds, the County Council adopted an emergency reserve policy based upon staff recommendations and the Government Finance Officers Association (GFOA) recommended practices. The policy sets the goal for the County to systematically build emergency reserves for future fiscal years until the total of such reserves equal a minimum of five percent and maximum of ten percent of current budgeted revenues. Based upon recommendation and request from the County Manager, the County Council must approve any transfers from these reserves to the operating accounts to cover emergency-related expenditures not covered by other sources. No funds were transferred in fiscal year 2013. To the extent possible, emergency reserves that fall below the five percent threshold will be replenished during the following fiscal year, which for this reporting period, did not occur. For fiscal year 2013, the status of those reserves, based upon actual revenues, is as follows:

<u>Fund</u>	<u>Reserve Amount</u>	<u>Percentage of Operating Revenue</u>
General	\$15,616,023	8.7
Municipal service district	1,851,918	5.0
Library	1,234,065	8.1
East Volusia Mosquito Control district	341,346	8.8
Ponce Inlet Port Authority	195,277	10.3
Fire services	2,002,151	9.8

### **New Accounting Standards**

In June 2013, Governmental Accounting Standards Board issued Statement No. 67, *Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25*. Staff is currently reviewing this statement and will be implementing it starting with fiscal year 2014.

In June 2013, Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. Staff is currently reviewing this statement and will be implementing it starting with fiscal year 2015.

## 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, 2012, an ongoing tradition since the County received its first award in 1977. 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 finance staff. I would like to express my sincere appreciation to the Accounting Director, each member of the Accounting Division, the Management and Budget Director, the Economic Development Business Manager, and the Deputy Director, Financial and Administrative Services, who assisted and contributed in the preparation of this report. I would also like to thank the County Manager, the County 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.

## USE OF THIS REPORT

This report and other financial information prepared by the County of Volusia, Department of Financial and Administrative Services may be found on the County's website at <http://www.volusia.org/finance>.

Sincerely,



Charlene Weaver, CPA  
Deputy County Manager/Chief Financial Officer