

March 18, 2015

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, 2014.

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, 2014.

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, 2014, 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, 2014, 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.



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. 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 2014 with most industry sectors showing stability or modest growth. Employment for October 2014 was 258,685, an increase of 8,282 jobs when compared to the same time period in 2013. The unemployment rate made consistent improvement throughout the year, standing at 6.3 percent in October 2014, down from 6.8 percent in October 2013. Even so, the number of unemployed workers was 14,786, highlighting the ongoing need for retraining workers to upgrade current skills.

Permit values continued in an upward trend in fiscal year 2014. The value for new commercial and residential permits increased over last year by 16 percent and 12 percent, respectively.

Foreclosure filings in Volusia County declined by 43 percent overall in fiscal year 2014 compared to fiscal year 2013. Sales of foreclosed homes rose by 27 percent in the same time period.

Business Expansion and Recruitment Projects

Daytona International Speedway is on schedule for its \$400 million DAYTONA Rising project; a total reimagining of all things related to the race experience which will create the world's first true motorsports entertainment complex. The International Speedway Corporation and Jacoby Development also broke ground on Phase 1 of the \$800 million ONE DAYTONA entertainment, dining, and retail destination project encompassing 181 acres on the north side of the Speedway in Daytona Beach. The Speedway has estimated these projects will contribute 6,900 construction jobs to the local economy prior to January, 2016.

Additional announced expansions by local firms include: Boston Whaler, boat manufacturer; Davita, diagnostic medical laboratory; Frontier Communications, customer service and technical support center; and Masco Administrative Services. These companies combined will generate more than \$40 million in new capital investment and will create over 300 new jobs.

Embry Riddle Aeronautical University opened the new \$39 million College of Arts & Sciences building in January 2014. This project is a key component of the university's ongoing \$278 million multi-year improvements program. Active construction and renovation projects during the year totaled approximately \$13 million. These improvements accounted for hundreds of construction jobs and have further enhanced the university's stature as the world's premier aeronautical university.

An estimated total of \$99 million in planned redevelopment of existing hotel properties was initiated in 2014. These include the Hilton Daytona Beach Oceanfront Resort, the former Desert Inn, and several other hotels.

World Class Distribution, Inc. began construction work on the 630,000 square foot distribution center in Daytona Beach that will serve Trader Joe's, a California-based upscale grocery chain with retail stores in Florida and other southeastern U.S. states. Capital investment is expected to exceed \$85 million when fully built and the project is expected to create jobs for up to 450 on-site workers as well as a number of delivery drivers. Additionally, Blue Coast Bakers, a wholesale baked goods company that supplies international restaurants and retail chains, announced plans to invest \$12 million in redeveloping the former U.S. Foods facility near Ormond Beach into a commercial bakery and food-manufacturing plant that will create 300 jobs over the next three years.

Bayshore Capital, Inc. is progressing toward construction of a 375,000 square foot Hard Rock Hotel and Café in Daytona Beach, which will include 250 hotel rooms, 120 condos, and a 250-seat restaurant. Construction of the \$100 million first phase is expected to begin in fiscal year 2015. 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 continued this year on the Cici and Hyatt Brown Museum of Art. The 27,000 square foot six-gallery art museum will house the most extensive collection of Florida art in the world. The Browns provided \$14 million for the museum construction and donated paintings collected over a 20 year period. The museum is expected to be open to the public in 2015.

The University of Central Florida (UCF) managed Business Incubator at the Daytona Beach International Airport served 19 client companies during the third quarter of 2014. These first and second stage companies have created 158 new positions pursuing business models that generally fell into four categories: Technology, Services, Manufacturing, and Health. The County of Volusia approved funding for continued UCF management of the Incubator through September 2017.

Transportation Programs and Initiatives

Again in fiscal year 2014, Daytona Beach International Airport (DBIA) saw increased passenger traffic. Traffic in calendar year 2014 is projected at 632,000 passengers, which represents a four percent increase over 2013. In fiscal year 2014, the Airport began the process of renovation and upgrade of public spaces in and around the terminal, including renovation of all restrooms, replaced cracked and dated tile with epoxy flooring, signage upgrades, and parking lot improvements. The County entered into an agreement with a new concessionaire, Faber, Coe and Gregg of Florida, Inc., which includes an agreement to invest approximately \$800,000 to completely reconstruct and expand both food and beverage facilities. A new \$7 million in-line baggage conveyor system upgrade was completed in 2014, funded 95 percent by the Transportation Security Administration (TSA) and 5 percent by the Department of Transportation (DOT). Aircraft operations (aircraft take offs and landings) at DBIA were approximately 290,000, which made DBIA the third busiest in the State of Florida.

Major interstate transportation design and construction improvements in Volusia County continued to advance in fiscal year 2014. The Florida Department of Transportation contractors reached 70% completion on the Interstate-4 widening project valued at \$138 million and 60% completion on the Interstate-95 widening project valued at \$118 million. Improvements for the I-4/I-95 interchange are expected to commence in 2015, valued at \$205 million. Other major transportation construction projects that are moving forward include the widening of SR 415 (\$51 million), US 92 pedestrian improvements (\$17 million), and Orange Avenue in Daytona Beach (\$43 million), which includes the new Veterans Memorial Bridge over the Halifax River.

RELEVANT FINANCIAL INFORMATION

Long-term Financial Planning

The long-term financial planning process includes an examination of new capital and/or operating initiatives and their 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 2014 include:

- Road construction and improvement
- Water and sewer utilities improvements
- Ponce de Leon Inlet and Port District projects
- Storm water utility improvements
- Park and Trail projects

The fiscal year 2014 CIP was funded from numerous sources. Nearly \$28.0 million in projects were budgeted in 2014; \$21.0 million of ongoing projects and \$7.0 million of new projects. These projects were funded through a mix of property taxes, gas taxes, impact fees, grants, user fees, and other miscellaneous revenues. Prior year carry-forward of \$2.5 million and new funding of \$25.4 million were budgeted for these projects.

Long-term planning also incorporates multi-year projections for operating funds including the general fund, library, municipal services district, fire service, and other funds that have significant impact on the county's budget, such as debt service and enterprise 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 fiscal year 2014 showed modest revenue growth, expenditures were kept flat and, where necessary, service levels were modified. 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 2014 budget.

Budget Development

The development, approval, and execution of the annual budget is essentially a year-round process that involves understanding financial forecasts, legislative impacts, and property valuation impacts and aligning them with the County Council's policies and priorities. After five years of declining growth due to the recession, property values increased by 2.6 percent, though still remain below 2004 values. This increase, along with a modest millage increase, allowed the county to budget an additional \$14.2 million in ad valorem taxes across its tax supported funds. These additional taxes helped to absorb increased costs related to inflation pressures and state mandates such as increased retirement rates imposed by the Florida Retirement System. Inflation alone over the last five years accounts for a \$9.2 million loss in buying power in the general fund. As a result, even with an increase in property taxes, the organization continued to reduce expenditures by eliminating or not funding 26 positions, bringing the total workforce reduction to 570 since fiscal year 2007. General fund ad valorem taxes budgeted for fiscal year 2013-14 is equal to \$296 per person, which is the same funding level of 10 years prior when adjusted annually by the average change in consumer price index of 2.3 percent.

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 2014, 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. Though the federal funds rate remained exceptionally low (0.00 percent to 0.25 percent), the County's average annual rate of return increased slightly from 0.60 percent in 2013 to 0.72 percent in 2014. According to the Federal Reserve's Federal Open Market Committee (FOMC), it is expected that these exceptionally low levels will remain in place for a considerable time due to very gradual progress toward the FOMC's goals of maximum employment and two percent inflation. For additional information concerning the investment of surplus funds, refer to Note 2 of the Notes to the Financial Statements on page 73.

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 2014, a review of the County's debt determined that savings could be realized if its tourist development tax revenue bonds and capital improvement revenue notes were refinanced. As a result, the County was able to take advantage of an economic gain of over \$7.4 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 2014. 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 2014, the status of those reserves, based upon actual revenues, is as follows:

<u>Fund</u>	Reserve Amount	Percentage of Operating Revenue
General	\$17,746,493	9.1
Municipal service district	2,072,727	5.3
Library	1,150,531	8.0
East Volusia Mosquito Control district	398,907	10.6
Ponce Inlet Port Authority	201,064	10.0
Fire services	2,030,339	10.0

New Accounting Standard

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, 2013, 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 Deputy Department Director of Finance, each member of the Accounting Division, the Department Director of Budget and Administrative Services, the Economic Development Business Manager, and Department Director of Business 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

Charlese Weaver