



May 23, 2016

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, 2015.

#### **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, 2015.

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, 2015, 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, 2015, 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.

### **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 2015 with most industry sectors showing employment growth of 2 to 3 percent. The number of unemployed residents declined from 15,015 in October 2014 to 12,515 in October 2015; from a rate of 6.2 percent to 5.3 percent. The number employed remained above 225,400.

Residential new construction permit activity increased 1.1 percent in total numbers and 1.8 percent in total dollar value over prior year, while commercial new construction permit activity increased 28.8 percent in value. Foreclosure filings in Volusia County continued to decline compared to the prior year, as did sales of foreclosed properties.

Overall, bed tax revenue increased 11 percent and year-to-date hotel occupancy was up by 2 percent to an average of 65 percent. Revenue per available room was up 8 percent and the average daily rate rose by 3 percent.

### **Business Expansion and Recruitment projects**

The DAYTONA Rising project is scheduled for on-time completion of the \$400 million reimagining of the Daytona International Speedway (DIS). Across the street from the DIS, International Speedway Corporation will begin construction of a Cobb Theatre multiplex facility, a Bass Pro Shops, and a Marriott Hotel as part of the ONE DAYTONA project that includes their headquarter building.

New construction and expansions completed during fiscal year 2015 included: World Class Distribution's new distribution facility in Daytona Beach to serve Trader Joe's; Boston Whaler's new \$10 million manufacturing facility in Edgewater; Frontier Communications' \$2.5 million in renovations to open a second DeLand location; and Tailwind Development's new shopping center in DeLand anchored by a new \$6 million Publix supermarket. Combined, these firms are projected to employ over 2,600 area residents.

Florida Hospital completed and opened a new \$11 million outpatient clinic in Deltona, and Florida Hospital Fish Memorial completed hospital renovations (\$1.75 million) and upgrade to its emergency room and catheterization labs (\$3 million) at its Orange City facility. Nearing completion is Blue Coast Bakers' renovations for a commercial bakery and food-manufacturing plant in Ormond Beach. TopBuild Corporation, a former division of Masco Corporation has initiated site development for new headquarters in Daytona Beach.

Tanger Outlet Mall purchased 39 acres adjacent to Interstate 95 in Daytona Beach for the construction of a 350,000 square foot outlet center with 80-90 stores which are expected to create up to 800 new full and part time jobs. The sale of 18.1 acres to an affiliate of Sam's Club and 37 acres to the North American Development Group are also part of the new Tomoka Town Center. Minto Communities, a Canadian residential developer has contracted to purchase approximately 1,600 acres for a planned community with over 3,000 single family homes. Embry Riddle Aeronautical University has begun construction of a \$75 million, 177,000 square foot student center.

Additional announced future local expansions include: Central Florida Regional Hospital constructing a freestanding emergency department in Deltona; Halifax Health building a new \$100 million emergency and medical office complex in Deltona and a \$5 million urgent care center near State Road 415; Davita Labs building a diagnostic medical laboratory in DeLand; B. Braun Medical expanding of its FDA-rated facility; Embry Riddle Aeronautical University constructing a \$28 million Advanced Aerodynamics Laboratory and Wind Tunnel facility.

Demolition has begun on property purchased south of Stetson University in DeLand for construction of a five-story Courtyard Hotel by Marriott. Bayshore Capital, Inc. is preparing for the construction of a \$100 million Hard Rock Hotel in Daytona Beach and Protogroup is planning a \$150 million condo hotel near the Ocean Center convention facility. The Hilton Daytona Beach Oceanfront Resort was acquired by the Starwood Capital Group for \$92 million with reported plans to invest over \$25 million in renovations. The Summit Hospitality Group is spending more than \$20 million to transform the former Desert Inn into a Westin Resort & Spa.

### **Transportation Programs and Initiatives**

The Daytona Beach International Airport (DBIA) secured JetBlue air service that began January 7, 2016. The daily JetBlue service is estimated to bring an added 95,000 to 100,000 passengers the first year.

Passenger traffic at the airport since 2009 has increased over 55 percent. The airport has 630,000 passengers traveling through the facility on an annual basis (prior to JetBlue), compared to 400,000 passengers in 2009. The load factors (i.e. the total percentage of seats that are filled) for DBIA average over 92 percent which is above the national average of 84 percent. By comparison, the average load factor for the airport in 2009 was 82 percent.

DBIA has completed the design of the new Aircraft Rescue and Fire Fighting station; construction will begin in fiscal year 2016. Initial planning and schematic conceptual designs have been prepared to upgrade and rehabilitate the 23 year old terminal. A new ten year parking agreement has been finalized between Republic Parking and DBIA guaranteeing the airport a minimum of \$14.3 million per year or 86 percent of gross

receipts, whichever is greater. The agreement also provides for parking improvements including a new parking revenue control system, new sign packages, and renovated parking exit to include LED signage.

Major interstate transportation improvements in Volusia County include: Eighty-five percent completion of the \$138 million Interstate 4 widening project and 90 percent completion of the \$118 million Interstate 95 widening project. Ongoing construction projects include widening of State Road 415 (\$51 million), US Highway 92 pedestrian improvements (\$17 million), and Orange Avenue in Daytona Beach (\$43 million). The new \$44 million Veterans Memorial Bridge project over the Halifax River is scheduled to commence in 2016.

## **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 2015 include:

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

The fiscal year 2015 budgeted CIP included \$30.7 million in projects funded through a mix of property taxes, gas taxes, impact fees, grants, user fees, and other miscellaneous revenues. Prior year carry-forward was \$8.3 million and the new funding allocation was \$22.4 million.

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.

### **Budget Development**

The development, approval, and execution of the annual budget is essentially a year-round process that involves understanding financial forecasts, legislative and property valuation impacts and aligning them with the County Council's policies and priorities. Coming out of one of the largest economic downturns in history, the County has begun to see signs of economic improvement and continues to have a stable outlook. Fiscal year 2015 was the second year of increased property value after five consecutive years of declining values. The countywide value increased 6.2% to \$25.6 billion with 5.4% increase from reassessments and 0.8% from new constructions added to the tax rolls. Even with these changes the values are still below those of 2005.

Included in the adopted budget was \$1.3 million to continue the efforts of job creation through incentives within the economic development department. As major infrastructure is added to the tax rolls with ONE DAYTONA, various hotel developments and Trader Joes, the financial outlook will continue to improve with increased property values, job creation and consumer spending. It has however, remained a challenge to create a balanced budget while maintaining services and attempting to absorb increased costs related to inflationary pressures and state mandates. The adopted budget left eight of the taxing funds millage rates flat with a slight reduction in one millage rate. General fund ad valorem taxes budgeted for fiscal year 2015 was equal to \$312 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 2015, 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 2.125 percent. Throughout the fiscal year the Federal Reserve's Federal Open Market Committee (FOMC) reaffirmed its view that the 0.00 percent to 0.25 percent target range for the federal funds rate remained appropriate in order to support continued progress toward maximum employment and price stability. In that exceptionally low interest rate environment, the County's average annual rate of return remained about the same from fiscal year 2014 to 2015, at 0.72 percent and 0.71 percent, respectively. For additional information concerning the investment of county funds, refer to Note 2 of the Notes to the Financial Statements.

## **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 2015, a review of the County's debt determined that savings could be realized if it's limited tax general obligation bonds (series 2005) were refinanced. As a result, the County was able to take advantage of an economic gain of approximately one million dollars.

## **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 2015. 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 2015, the status of those reserves, based upon actual revenues, is as follows:

<b><u>Fund</u></b>	<b><u>Reserve Amount</u></b>	<b><u>Percentage of Operating Revenue</u></b>
General	\$ 18,722,005	10.0%
Fire services	2,303,753	10.0%
Municipal service district	2,072,727	5.5%
Library	1,150,531	8.0%
East Volusia Mosquito Control district	374,139	10.0%
Ponce Inlet Port Authority	202,728	10.0%

## **New Accounting Standard**

During fiscal year 2015 a new accounting standard was implemented in the financial statements for pensions and net pension liability and is particularly relevant. In accordance with Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, the County now includes in the government-wide statements and proprietary fund statements its proportionate share of the net pension liability of the cost-sharing pension plans in which it participates. This proportionate amount represents a share of the present value of projected benefit payments to be provided through the cost-sharing pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the cost-sharing pension plan's fiduciary net position. See the Note 1.N, Note 9, and Note 16 to the financial statements for more information.

## **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, 2014, 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 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, Finance Department may be found on the County's website at <http://www.volusia.org/finance>.

Sincerely,



Donna de Peyster, CPA  
Deputy County Manager/Chief Financial Officer