

COUNTY OF VOLUSIA, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
SEPTEMBER 30, 2005

Prepared By:

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ACKNOWLEDGEMENTS

The successful completion of this year's Comprehensive Annual Financial Report is attributed to the group efforts of several individuals deserving of special recognition. The cooperation, contributions, and expertise provided by each one are greatly appreciated.

The Accounting staff is commended for their expertise and perpetual efforts put forth in the research, analysis, and compilation of this report.

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INTRODUCTORY SECTION

COUNTY OF VOLUSIA, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005

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Financial and Administrative Services

March 27, 2006

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

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 (County) for the fiscal year ended September 30, 2005.

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, 2005, 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 unqualified opinion that the County's financial statements for the fiscal year ended September 30, 2005, 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 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. Prior to January 1, 2005, five council members were elected by voters of their respective districts and served two-year terms; two members were elected at-large and served staggered four-year terms.

On November 5, 2002, the electorate of Volusia County approved a charter amendment, which maintained the seven member county council; created a popularly elected county chair, who took office on January 1, 2005, replacing one at-large member; and transitioned 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, page 64.

Economic Condition

Continuing on the path established by the vitality of the local economy that began in 2002, Volusia County experienced yet another year of appreciating values to its overall tax base. Influenced by continued in-migration of more than 27,000 new residents and a focus on high-valued real estate investments along the coastal communities of the county, Volusia County's tax base grew to beyond \$40 billion. This is nearly double the amount of value in the past five years.

While the number of new residents has continued to increase, the number of individuals leaving the community remains consistent with previous annual performances, or about 18,000 residents. This increasing gap between the number of new individuals arriving and those leaving the county continues to fuel the need for new housing capable of supporting between 8,000 and 8,500 new residents annually.

Evident within the statistical data collected in the review of Volusia County's migratory patterns is the fact that new arriving residents have higher annual income levels than those families leaving the community to go elsewhere. As an influencing group, new arrivals to the county are adding a greater influence in financial buying power than those they are replacing. This adds to the growth of commercial and professional services, as well, as supports continued job growth within the immediate market.

In 2005, new building permit activity exceeded \$1,524,243,495 adding significantly to the county's future tax base, as well, as providing a continuing fueling influence to the level of new construction and its impact on both job creation and the demand for goods and services throughout the county. In 2005, construction activity accounted for about 7 percent of the local economy.

While the amount of new construction is well diversified throughout the various regions of the county, the county's unincorporated areas accounted for more than 17.2 percent of the overall value of new residential construction and 24.5 percent of the actual number of residential permits issued. This is another strong indicator that even the most rural areas of the county are becoming more and more urbanized and is particularly telling for a community that is experiencing continued annexation of unincorporated areas by many of the county's 16 cities.

Commercial and industrial permitting accounted for \$231,071,826 in new construction in 2005 and is partly responsible for the increase in the number of overall workers. Volusia County's workforce grew to 238,363 in 2005, an increase of more than 5,000 new workers. Nearly 60 percent of this increase in workers was absorbed by the county's economy where the number of jobs grew 1.7 percent from 166,900 to 169,800.

Since 2001, Volusia County's employment has grown by more than 23,800 workers, an increase of 11.6 percent. The county's performance in employment growth exceeds the State of Florida's performance of 9.1 percent and the U.S. national employment increases of 3.5 percent.

During the same period of time, Volusia County's average annual wages for all public and private sectors have increased by 12.2 percent. And, according to the U.S. Department of Commerce, Bureau of Economic Analysis, Volusia County's per capita income has increased by 4.8 percent as compared to 2.8 percent for Florida and 2.9 percent nationally.

While job growth in business and professional services, healthcare and the service sector continues to influence job growth within the Volusia economy, work is being done by the county's economic development efforts to further diversify the local workforce and mitigate the number of workers that are commuting outside the immediate market for work. However, the county is strongly influenced by its geographical location within the central Florida metropolitan market.

Nearly 24 percent of the county's new residential demands come as the result of the out-growth of both residential and commercial activities from the more urbanized areas of Seminole and Orange counties located southwest of Volusia County. According to the County's Department of Economic Development, about 60,000 Volusia County residents commute to jobs in surrounding counties. There

is no doubt that Volusia County has become more and more integrated as part of a regional metropolitan economy and is now impacted by the economic trends of the region and less and less upon its own strengths and weaknesses.

Countywide, the dollar value for new residential home permits issued during the first quarter of 2005 averaged around \$164,000. This value increased to nearly \$183,000 during the second quarter, \$207,000 during the third quarter, finishing the year with average new home permits topping \$214,000.

Median sale prices of existing single family homes have increased in the Volusia market by 92.2 percent since 2002, averaging \$208,200 by the end of the third quarter of 2005. This strong performance in terms of price value compares to a 59.9 percent increase in the Tampa-St. Petersburg-Clearwater area; 91.3 percent in the Orlando market and 58.7 percent in the Jacksonville market for the same period. When compared to the overall national statistics for existing single family home increases, Volusia County's 92.2 percent improved value well out-performed the national average of 36.6 percent.

This level of performance in Volusia County's real estate market reinforces Money Magazine's June 2004 ranking listing the Volusia County's MSA as one of the top 10 housing markets forecasted for growth and appreciation of real estate. According to the report, the county's values were projected to continue to increase in value by an additional average of 12.3 percent in 2005.

Employment, Wage, and Federal Entitlement Trends

Employment trends continue their upward momentum in 2005 as Volusia County increased its overall workforce population beyond 238,000 workers according to the LAUS Report issued by the Florida Agency for Workforce Innovation. Unemployment rates continued to fall during 2005 from 5.0 percent in September of 2004 to 3.4 percent at September 30, 2005. Volusia County's 3.4 percent average for unemployed workers remains below the State of Florida's average of 3.7 percent and well below the national average of 5.4 percent for the same reporting period.

The total of annual wages for Volusia County's workforce increased from \$4.18 billion over the previous year, to a new high of \$4.53 billion in total wages. The county's economy was further strengthened with Federal retirement and disability payments for individuals increasing from \$1.47 billion to \$1.61 billion. The increase of \$490 million in wages and federal entitlement payments infused more than \$6.14 billion in fresh capital into the Volusia County economy.

Effective Buying Income

The overall Effective Buying Income (EBI) of Volusia County households increased from \$8.534 billion in 2004 to \$8.997 billion in 2005; a \$463 million increase. This increase in EBI helped to push the county's overall retail sales up more than \$800 million to a new historic level of \$7 billion. This represents a 28.5 percent increase in retail sales over the past four years. Local consumer confidence and a continued in-migration of more than 27,000 new residents, new capital investments for new construction of \$1.52 billion, furniture sales and significant increases in professional and healthcare services continued to drive much of the County's economic viability.

Economic Development

Progress was made in the planning and construction of future employment centers throughout the county. Work began on the County's new DeLand Crossings Industrial Park along Interstate 4. Designed to accommodate new high technology based manufacturing, DeLand Crossings will be home to up to 300,000 square feet of new industrial space capable of supporting up to 300 high skilled and high waged jobs. This \$6.1 million project will attract an estimated \$31 million in new capital investments. The first two manufacturing companies to locate in the Park will begin construction of more than 130,000 square feet of new industrial facilities in mid 2006.

Further expansion of the Gateway Business Park South in Daytona Beach has provided space for the relocation of several new businesses that have already committed more than \$24 million in new capital investment. The year 2005 saw the construction of an additional 186,000 square feet of new industrial and distribution space and the commitment for 50,000 square feet of industrial space to be added in 2006 by ARK Technologies, a manufacturer of automotive parts from Illinois recruited by the County's Department of Economic Development.

In mid 2005, the County Council approved a capital infrastructure grant for \$300,000 to the City of Edgewater in order to leverage the city's \$1 million investment to expand their Parktowne Industrial Center. This public project will add more than 80 acres of new industrial parcels. Similar projects are being reviewed in Port Orange, DeLand and Ormond Beach.

In 2005, the County's Department of Economic Development reported more than \$114 million in new capital projects to support industrial relocations and expansions within Volusia County, including a total of \$37 million in Industrial Revenue Bonds. In 2006, the Industrial Development Authority is planning to issue an additional \$15 million to facilitate the relocation and construction of new industrial facilities to support ARK Technologies, NSI Intellitec and BBK Performance Products.

Progress to plan and permit an 80-acre business park located near the Daytona Beach International Airport was advanced in 2005. This work will be completed by the 4th quarter of 2006 with construction planned for 2007/2008. When completed, this business park will provide space for 296,000 square feet of large-scale office space and an estimated 310,000 square feet of light manufacturing facilities. Collectively, these projects will attract up to \$65 million in new capital investment and have the capability to provide employment space for up to 1,500 new workers in the Daytona Beach area.

In 2005, the County began negotiations to acquire 130-acres of land on the south side of the Daytona Beach International Airport. This acreage will allow the county to master plan this acreage for future development and provide for additional aviation, light manufacturing and office space.

In the county's northeast region, the county has partnered with the City of Ormond Beach to encourage the development of Ormond Crossings Commerce Center. Located along I-95 and US Route 1, this project will provide a future employment and commerce center for up to 700 acres for light manufacturing and office park users and a new tax base expected to exceed \$250 million.

In fiscal year 2005, the long awaited start of construction for the Ocean Center's \$60 million expansion project began. This expansion of the county's convention and meeting facility will provide for 164,000 square feet of interior exhibit space and 300,000 square feet of exterior exhibit space making it among the top five convention facilities in the State of Florida. The expansion of the Ocean Center is expected to be completed and open for business in 2008.

This single largest public works project has already begun to influence private-sector capital investments in the immediate area around the Ocean Center with several new full-service hotels and support facilities planned for future construction. The completion of the Ocean Center project is expected to attract several hundred millions of dollars in new construction to meet the future needs of conventioners and tourists alike.

Long-Term Financial Planning

The County takes a planned approach to the management of debt, funding from internally generated capital, where appropriate, and financing when appropriate. Conservative financial strategies and management practices help to minimize exposure to sudden economic shocks or unexpected volatility. Quarterly monitoring and evaluation of factors that can affect the financial condition of the County help to identify any emerging financial concerns. The practice of multi-year forecasting enables management to take corrective action long before budgetary gaps develop into a crisis. The planning process also includes an examination of new capital and/or operating initiatives in relationship to their impact on the County's financial position. The following is a brief discussion of these projects.

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 improve service delivery. The CJIS Council assisted the County of Volusia in developing a conceptual design for a new multi-agency criminal justice information system. The implementation of the new system began in June 2005 and will continue in phases over a projected three-year period ending in FY 2007-08. The cost for this project is estimated at \$17 million.

800 MHz Radio System

The 800 MHz Radio System is based on early 1990's technology. To extend the life of the radio equipment in place and to continue to provide reliable service to public safety agencies, a major technological upgrade to the 800 MHz Radio System is being projected for FY 2006-07. The upgrade project is expected to cost \$7 million. The maintenance contract for the current system expires in 2009. It is expected that a replacement of the system will be required sometime after that. With changing technology in this area, the replacement cost is unknown at this time.

Correctional Facilities/ Jail Expansion

The Volusia County Correctional Facility and Branch Jail (which opened in 1977 and 1987 respectively) have a combined rated capacity of 1,494 inmates. The average daily inmate population has routinely exceeded this capacity over the past year. During 2005, the County issued Requests for Qualifications for architectural and engineering services, construction management services, and owners representative services. The County selected firms for each function and has begun the process to design, and prepare construction documents for expansion of inmate housing adjacent to the Branch Jail. The FY 2005-06 budget includes \$2 million for this project. It is anticipated the construction will be completed in multiple phases at a cost of \$35 million. Phase I includes the addition of approximately 400-500 beds to address female, juvenile, and special needs populations.

Commuter Rail

Volusia County has been evaluating the possibility of rail service linking Volusia County and the Orlando metropolitan area since 1997. 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. Area agencies are working on coordinating efforts to ensure the

development of an effective rail project. The four local governments involved in this project are Seminole, Orange, Osceola, and Volusia. The entire project is expected to cost \$473 million, with the state and federal governments picking up 75 percent of the cost. It is up to the four counties to finance the remaining \$118 million. Volusia County has pledged \$11.7 million, which will pay for a train station in DeBary and for a portion of the cost to extend Saxon Boulevard to reach the station. The County included \$1.5 million in fiscal year 2005-2006's budget and has been tentatively approved for a loan from the Florida Department of Transportation (FDOT) in the amount of \$10.2 million. Future operating impact is unknown at this time..

Emergency Operations Center (EOC)

The FY 2005-06 budget includes \$300,000 for architectural engineering and design of a new or expanded Emergency Operations Center. It is envisioned that the new facility would be integrated with the existing EOC facility and the Sheriff's Communications Center. The combined facilities would house integrated communications and dispatch center equipment and include office space for the Emergency Management staff. The facility would provide for two major elements or capabilities: integrated law enforcement, fire and emergency medical dispatching; and an emergency operations center that will provide functional space and equipment for planning and operation and dormitories to sustain prolonged emergency operations center activations of up to one month for 125 personnel.

Sheriff Facilities

Staff is currently reviewing Requests for Qualifications for architectural and engineering services to design and prepare construction documents for a combined Sheriff facility that houses the following activities: District 2 Headquarters, Investigative Services, and evidence storage. It is anticipated this \$10-\$15 million project will be financed and constructed in phases, with the first phase being a new Evidence Processing and Storage Facility.

125 Bed Residential Treatment Facility

The County Council has approved the construction/purchase of a 28,000 sq. ft., 125-bed facility to provide long-term specialized treatment services to residents who fall in the following categories: veterans, dually diagnosed with substance abuse/mentally ill, chronically homeless, and jail diversion. Current research demonstrates that effective interventions targeting high-risk mentally ill and substance abusing populations will reduce public costs related to hospital emergency rooms, jails, detoxification centers, and crisis stabilization units. The cost of construction is estimated at \$6 million. State and federal sources will provide funding for ongoing operating expense.

Cash Management Policies and Practices

Cash balances of all County funds are pooled and invested pursuant to the following criteria: safety, liquidity, yield, and term. The County's formal investment policy allows the County to invest in the State of Florida Local Government Surplus Funds Trust Fund; 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 2005, 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 1.82 percent to

6.875 percent and yielded \$11,511,600 of interest income. For additional information concerning the investment of surplus funds, refer to Note 5 of the Notes to the Financial Statements on page 74.

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 potential losses related to these risks, funding is generated from user charges to the various funds that participate in the program. Each year, an actuarial review is conducted to estimate claims costs and funding levels to cover these costs. 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. While the insurance fund continues to realize a deficit in its net assets, the deficit has been substantially reduced from last year's amount of \$4,120,296 to \$514,886. Because of initiatives that have been put in place to ensure that all costs are recaptured plus an additional annual funding amount of \$500,000, the deficit has diminished over the past five years. The County will continue its efforts to eliminate the deficit in future years. For additional information, refer to Note 14 of the Notes to the Financial Statements that explains the nature of this deficit on page 97.

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. 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. Funding to pay claims associated with the plan comes from both the County and its employees. Employees pay \$5.00 per pay period towards their own premium costs and the County contributes the remainder. Employees pay their dependent premium costs. Premiums are accumulated in the Group Insurance Fund. Excess reserves continue to grow within the Group Insurance Fund equal to 2 months of claims as required by Section 112.08 Florida Statutes. Unrestricted net assets have increased in each of the past three fiscal years, ensuring continued coverage of County employees during times of rising medical costs. For additional information concerning the Group Insurance Fund, refer to Note 16 of the Notes to the Financial Statements on page 98.

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 the County must make to the pension plan to ensure the plan will be able to fully meet its obligations to retired volunteers. 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 in funding 110 percent of the present value of the projected benefits earned by employees. The overfunded amount is being systematically amortized over a 17-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, 2004. 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 Director, and the Operations/Debt Manager 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.

Sincerely,

Charlene Weaver, CPA
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Volusia,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emen

Executive Director

COUNTY OF VOLUSIA, FLORIDA

PRINCIPAL COUNTY OFFICIALS

September 30, 2005

COUNTY COUNCIL

Frank T. Bruno, Jr., Chair

Joie Alexander, Vice-Chair
Dwight D. Lewis
Arthur E. Giles
Jack Hayman
Carl G. Persis
Bill Long

Council Member At-Large
District No. 1
District No. 2
District No. 3
District No. 4
District No. 5

ELECTED COUNTY OFFICIALS

Ben F. Johnson
Ann McFall
Morgan B. Gilreath, Jr.
Diane Matousek

Sheriff
Supervisor of Elections
Property Appraiser
Clerk of the Circuit Court

INTERIM COUNTY MANAGER

Matt Greeson

VOLUSIA COUNTY GOVERNMENT

