



## Financial and Administrative Services

March 15, 2010

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, 2009.

### 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, 2009.

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, 2009, 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, 2009, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

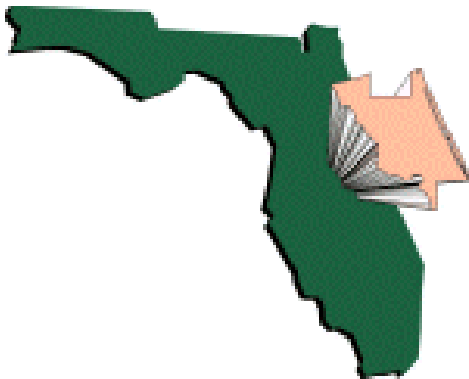
The independent audit of the financial statements of the County was part of a broader, federal and state mandated single audit and passenger facility charge audit designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent 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, 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 66.

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

During most of 2009, the Volusia County economy mirrored the weakening regional and national economic trends in housing, construction, employment, and overall growth. The slowdown in construction activity has been aggravated by increased numbers of foreclosures resulting in a decline in property values and excessive inventory of unsold homes.

The number of net new residents relocating or migrating to Volusia County has slowed. However, new residential housing permits issued in 2009 increased each quarter during the year from an all time low in the first quarter to a rate equal to mid-2008 levels. Commercial and industrial permit values declined from the strong 2008 numbers reflecting the beginning of construction of major retail and industrial projects which are projected to be completed in 2010.

Those Volusia County industry sectors that experienced overall declines during 2009 included construction, manufacturing, banking, professional and business services, retail trade, transportation, and utilities. The industry sectors posting positive gains for the year were leisure and hospitality and healthcare. The education and governmental sectors had little change in 2009. While the automotive sector has been negatively impacted, military and defense contractors continue to expand. Several smaller manufacturers have relocated to Volusia County, and others are expanding their facilities in anticipation of future growth.

Unemployment for 2009 rose from 7.2 percent to a year-end level of 11.8 percent. Double digit unemployment is expected to continue throughout 2010. The average wage has increased slightly and manufacturing wages, in particular, remain healthy.

The 2010 year is expected to show some improvement in the residential real estate market as excessive inventory is gradually reduced and values stabilize. This will positively influence a number of other related segments which rely on increased home sales and in-migration. Commercial construction will remain modest as projects under construction move toward completion.

Several major projects underway account for more than \$600 million in new construction. These projects include Daytona Live: a mixed use corporate office, hotel, retail and entertainment center. When completed, this \$450 million project will be home to an estimated 2,000 jobs. The new corporate headquarters for International Speedway Corporation and NASCAR will be completed in 2010 and will provide over 100 new jobs. A large retail development, the Pavilion at Port Orange, is scheduled to be completed in early 2010. This project will provide nearly 800,000 square feet of new retail, restaurant, and entertainment venues with the potential of creating close to 1,000 new jobs. Raydon Corporation's new 125,000 square foot headquarters and manufacturing facility will be the home to over 400 employees.

The convention center, with the completion of a \$76 million addition in 2009, is now being aggressively marketed. This expanded state-of-the-art facility is now the fifth largest such facility in the State of Florida capable of servicing conventions of up to 10,000 participants or more. The thrust of this increase in convention size will support expanded air passenger services at the Daytona Beach International Airport, area hotels, and hospitality venues. The economic impact of this initiative should have both short and long-term implications in the number of business travelers to the marketplace and the infusion of spendable income to support a wide array of business opportunities. Planning for additional development in the convention center area is underway as a partnership between the County and the City of Daytona Beach. An adjunct to that future growth is also underway with a corridor study to promote increased linkage between the Daytona Beach International Airport, the Daytona Speedway, Daytona Live, historic downtown, and the convention center.

## **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 related impact on the County's financial position and, each year, the County publishes a County Council approved five-year capital improvement program (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.

Financing of the capital program is provided by a number of funding sources. In fiscal year 2010, bond/loan proceeds for major construction projects is the largest source of funding, comprising 24 percent of the CIP budget. The remaining budget is funded through a mix of capital project carryover, state and local grants, gas taxes, road and fire impact fees, and federal funding from the Federal Aviation Administration.

The largest project on the horizon is the branch jail expansion. The general overcrowding and management of special populations has become increasingly difficult and an expansion is needed. This 100,000 square foot project includes a 500 bed dormitory and is estimated to cost \$43 million.

## **RELEVANT FINANCIAL INFORMATION**

### **Cash Management Policies and Practices**

Cash balances of County funds are pooled and invested pursuant to the following criteria: safety, liquidity, yield, and term. In response to national economic conditions and based upon recommendations of staff, the investment policy was changed in February 2009 by approval of the County Council. It added additional safeguards by requiring money market fund ratings to be at least AAAM and AAM-G; and by authorizing investment in obligations fully guaranteed by the United States Government, including those instruments under the FDIC Temporary Liquidity Guarantee Program. In addition, changes were made to the overall mix of investment instruments to promote further diversification, to spread risk, limit credit and sector exposure, and improve liquidity. Finally, it removed the State Board of Administration's Local Government Surplus Fund as an authorized investment eliminating that fund as a performance measurement objective and substituted the 90 day U. S. Treasury Bill as a benchmark.

During fiscal year 2009, the County's cash resources were primarily invested in U.S. Agency and Treasury issues, FDIC guaranteed Corporate Notes, and government money market mutual funds regulated by the Securities and Exchange Commission. 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 0.01 percent to 5.25 percent. For additional information concerning the investment of surplus funds, refer to Note 4 of the Notes to the Financial Statements on page 76.

### **Budgetary Controls**

The County maintains extensive budgetary controls. The objective of these controls is to ensure compliance with the legal, legislative, and contractual provisions affecting the County, which are incorporated into the annually appropriated budget. Budgetary control is maintained at the appropriation unit level within each division/activity. An appropriation level is defined as personal services, operating expenditures, capital outlay, debt service, transfers, and reserves. Budgetary control includes a comparison of encumbrances, pre-encumbrances, and actual expenditures to appropriations before issuing purchase orders for payments. This control is performed by automated edit checks in the accounting system. Expenditures that exceed appropriations, which are budgeted at the fund level, require the County Council to approve a budget amendment before processing payment. Encumbrances are recognized as contractual obligations of the County and re-appropriated in the new fiscal year. For additional information concerning budgetary controls, refer to Note 2 of the Notes to the Financial Statements on page 74.

### **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. All capital improvements financed through the issuance of debt are financed for a period not to exceed the useful life of the improvements, but in no event exceed thirty years. As an additional restriction, the County will not construct or acquire a capital improvement if subsequent maintenance and operating costs of the improvement are unsustainable. Revenues sources are only pledged for debt when legally available. In those situations where the revenue sources have previously been used for general operating expenditures, they are only pledged for debt when other sufficient revenue sources are available to replace them. As part of its overall monitoring activities, the County assesses existing market conditions to determine the appropriate time to refund outstanding debt issues, if appropriate, to realize sufficient cost savings.

### **Emergency Reserve Policy**

For the tax supported operating funds, the County Council adopted an emergency reserve policy based upon recommendations of staff and 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. To the extent possible, emergency reserves that fall below the five percent threshold will be replaced during the following fiscal year. For fiscal year 2009, the status of those reserves, based upon actual revenues, is as follows:

<b><u>Fund</u></b>	<b><u>Percentage of Operating Revenue</u></b>
General	7.0
Municipal service district	10.8
Library	5.4
East Volusia Mosquito Control District	8.3
Ponce Inlet Port Authority	12.4
Fire services	6.2

### **New Accounting Standards**

***Pollution Remediation Obligations*** – In November 2006, the Governmental Accounting Standards Board issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The County implemented Statement 49 for fiscal year 2009 (see Note 15.B on page 108).

***Intangible Assets*** – In June 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. For the County, the requirements of this statement are effective starting with fiscal year 2011. It is the County's intent to implement this standard for fiscal year 2010.

***Fund Balance Reporting*** – In February 2009, the Governmental Accounting Standards Board issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. For the County, the requirements of this statement are effective starting with fiscal year 2012.

## **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, 2008. 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 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