



March 21, 2011

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, 2010.

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, 2010.

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, 2010, 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, 2010, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

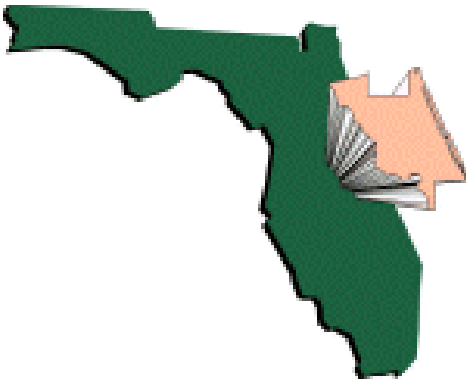
The independent audit of the financial statements of the County was part of a broader, federal and state mandated single audit and passenger facility charge audit designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent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

While the economy of Volusia County mirrored regional and national economic trends, certain sectors of the economy have shown stability and growth.

The number of net new residents relocating or migrating to Volusia County has slowed, but the number of permits for new residential housing has increased by 16 percent over 2009. The number of commercial and industrial permits also increased by 31 percent and \$23 million from the 2009 numbers reflecting the beginning of construction of retail and industrial projects which are projected to be completed in 2011.

Unemployment remained basically the same throughout 2010, the small variations correspond to seasonal variations in the total workforce. The Volusia County industry sectors that experienced overall declines during 2010 included construction, manufacturing, and local government. All other industry sectors showed stability throughout the year and the industry sectors posting positive gains for the year were leisure and hospitality and healthcare. The \$20 million repaving of the Daytona International Speedway and the ongoing \$17 million repaving of the main runway and the construction of a new \$5 million corporate hangar at Daytona Beach International Airport has provided a healthy boost to construction employment. The average wage has increased slightly and manufacturing wages, in particular, remain healthy.

Our military contractors, such as Raydon and AO Precision, continue to expand. An OEM automobile parts maker has broken ground on a new 50,000 square foot manufacturing facility and a manufacturer of robotic packaging equipment is building a new 60,000 square foot facility at the County owned and developed industrial park. Several other smaller manufacturers are expanding their facilities in anticipation of future growth. Exporting continues to grow for manufactured goods and horticultural products.

The 2011 year is not expected to show improvement in residential real estate market values. However, the number of foreclosures is declining and the inventory of foreclosed homes is declining as well. Of the foreclosures in 2010, 64 percent were homesteaded properties (permanent residences) and 33 percent were non-homesteaded, or second homes. Commercial properties accounted for 3 percent of the total.

The FAA has made a major commitment in its partnership with Embry-Riddle Aeronautical University (ERAU) to develop NextGen, the only private research facility to promote the next generation of air traffic control. ERAU has leased a facility at the Daytona Beach International Airport for this effort. ERAU is partnering with a number of major aerospace contractors to participate in this project, which is planned to expand into ERAU's Research Park. Basic infrastructure work on the park is expected to begin in 2011.

Traffic at the Daytona Beach International Airport continues to increase and has resulted in both Delta Air Lines and US Airways using larger aircraft to increase capacity. Passenger volume is now approaching 500,000 passengers per year, a close to 20 percent increase. Volusia County government's completion of a \$76 million addition to the area's convention center in 2009 is now being aggressively marketed. 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 International Speedway, Daytona Live, historic downtown, and the Ocean 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 2011, state and local grants funds for major construction projects are the largest source of funding, comprising 21 percent of the CIP budget. The remaining budget is funded through a mix of ad valorem revenue, gas taxes, road and fire impact fees, and developer/city contributions.

RELEVANT FINANCIAL INFORMATION

Cash Management Policies and Practices

Cash balances of County funds are pooled and invested pursuant to the following criteria: safety, liquidity, and yield. 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. It expanded the list of authorized investments by adding corporate obligations fully insured by the FDIC. Changes were also made to the overall mix of investment instruments to promote further diversification, to spread risk, and limit credit and sector exposure. 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 2010, 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 5 of the Notes to the Financial Statements on page 77.

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 3 of the Notes to the Financial Statements on page 75.

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. Revenues 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, or expenditures can be reduced. 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.

Emergency Reserve Policy

For the property 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 2010, the status of those reserves, based upon actual revenues, is as follows:

Fund	Percentage of Operating Revenue
General	8.0
Municipal service district	4.8
Library	6.4
East Volusia Mosquito Control District	10.3
Ponce Inlet Port Authority	11.2
Fire services	10.2

New Accounting Standards

Intangible Assets – In June 2007, the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The County implemented Statement No. 51 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 2011.

Other Standards – In November 2010, the Governmental Accounting Standards Board issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* and Statement No. 61, *The Financial Reporting Entity Omnibus*. Both statements are in review by County staff, and if applicable, would be effective starting with fiscal year 2013.

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Staff is currently reviewing this statement and, if applicable, would be effective starting with fiscal year 2013.

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, 2009, an ongoing tradition since the County received its first award in 1977. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgements

A Comprehensive Annual Financial Report of this nature could not have been prepared without the dedicated efforts of the finance staff. I would like to express my sincere appreciation to the Accounting Director, each member of the Accounting Division, the Management and Budget Director, the Economic Development 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