

BOONE COUNTY, MISSOURI

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County's Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of Boone County, Missouri, for the fiscal year ended December 31, 2009. For a complete understanding of the County's financial statements, please read the transmittal letter at the front of this report along with the County's basic financial statements, including the footnotes, which follow the Management's Discussion and Analysis.

Financial Highlights

- On a government-wide basis, net assets (the amount by which assets exceeded liabilities) at the close of the most recent fiscal year totaled \$115.5 million. Of this amount, approximately \$8.2 million is unrestricted and may be used to meet the government's on-going obligations to citizens and creditors.
- On a government-wide basis, Boone County's total net assets decreased by \$2.47 million or less than 2.1% during the fiscal year.
- On a government-wide basis, the cost of the County's governmental activities was \$49.1 million.
- At the close of the current fiscal year, Boone County's governmental funds reported combined ending fund balances of \$30.36 million, a decrease of \$420,000 in comparison with the prior year. A significant portion of the combined ending fund balance, \$20.5 million, is available for spending at the government's discretion, subject to statutory restrictions applicable to specific funds (i.e., it is *unreserved, undesignated* fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6.7 million and represents 30% of expenditures. A portion of the unreserved fund balance, approximately \$2.1 million, was appropriated in the Fiscal Year 2010 budget.
- Boone County's total long-term debt decreased by approximately \$325,000. The net decrease is the result of principal repayments and deductions in accrued compensated absences exceeding the increases in accrued compensated absence liability. The liability for other post employment benefits increased by \$65,000.
- General fund revenues totaled \$22.7 million, which fell short of budgetary estimates by approximately \$842,000 or 4%.
- General fund expenditures (GAAP basis) were \$22.8 million. On a budgetary basis, the General fund experienced a favorable budgetary variance of \$2.33 million.

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Management's Discussion And Analysis (*Continued*)

- Fund balance in the General Fund decreased by approximately \$97,000, due to expenditures exceeding revenues. This decrease was partially off-set by a net increase in other financing sources and uses of \$55,000. The resulting net decrease to fund balance in the General Fund was \$42,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Boone County's basic financial statements. The County prepares and issues a *Comprehensive Annual Financial Report* (CAFR), which provides extensive financial information beyond the minimum reporting requirements established by generally accepted accounting principles (GAAP). The CAFR consists of the following parts:

- **Introductory Section**, which includes the transmittal letter and general information;
- **Management Discussion and Analysis (MD&A)**, (this part);
- **The Basic Financial Statements**, which include the government-wide and the fund financial statements as well as the notes to the basic financial statements;
- **Required Supplementary Information**, which includes budgetary comparison information for certain major funds and certain other required disclosures;
- **Other Supplementary Information**, which includes combining statements for non major governmental funds, internal service funds, and fiduciary funds, as well as budgetary comparison schedules for special revenue, debt service, and capital project funds; and,
- **Statistical Information**

Government-wide Financial Statements

The first set of financial statements is the government-wide statements which report information about the County as a whole. These statements are a result of Governmental Accounting Standards Board (GASB) Statement No. 34 and were new to the County's financial reporting in fiscal year 2003. They provide both long-term and short-term information about the County's overall financial condition. These financial statements are prepared using a full accrual basis of accounting in order to achieve a more corporate, or private-sector type of presentation. The two government-wide statements, **Statement of Net Assets** and **Statement of Activities**, report the County's net assets and how they have changed from the previous year. The County does not provide services through *business-type activities* (such as a public utility); consequently, only *governmental activities* are included in the County's financial statements.

The **Statement of Net Assets** presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets may serve as a useful indicator of whether or not the financial position of the County is improving or deteriorating. The Statement of Net Assets also provides information on unrestricted and restricted net assets and net assets invested in capital assets, net of related debt.

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Management's Discussion And Analysis (*Continued*)

The **Statement of Activities** presents information showing how the County's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of the timing of related cash flows. The Statement of Activities presents the various functions of the County and the degree to which they are supported by charges for services, federal and state grants and contributions, tax revenues, and investment income.

The government-wide financial statements include not only Boone County, Missouri itself (the *primary government*), but also a legally separate hospital board of trustees (a *component unit*) for which Boone County is financially accountable. Financial information for the component unit is reported separately from the financial information of the primary government. The government-wide financial statements do not include any blended component units.

The government-wide financial statements are the first statements included in the Basic Financial Statements tab section.

Fund Financial Statements

The second set of statements is the fund financial statements which provide information about groupings of related accounts which are used to maintain control over resources for specific activities or objectives. The County uses fund accounting to demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the County's most significant funds – not the County as a whole.

County operations require the use of three kinds of funds:

- ***Governmental Funds.*** Governmental funds reflect how general government services were financed in the short-term as well as what financial resources remain available for future spending to finance County services.

The County maintains numerous individual governmental funds according to their type (general, special revenue, debt service, and capital projects). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for funds that are considered to be a major fund; financial information for all non-major funds is summarized and presented in a single column. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements.

Fund financial statements for governmental funds are prepared using a modified accrual basis of accounting which differs from the full-accrual basis of accounting used to prepare the government-wide financial statements. Because of the resulting differences, a reconciliation of the fund financial statements to the government-wide financial statements is provided.

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Management's Discussion And Analysis (*Continued*)

- *Proprietary Funds.* Proprietary funds offer short-term and long-term financial information about the various internal services which the County provides through a business-type operation, using a full accrual basis of accounting. The County does not operate enterprise activities, where the customers are primarily external to the County, such as a public utility. However, the County does operate several internal service activities, where the customers are internal County departments, such as Facilities Maintenance and Housekeeping and self-insured employee benefits.
- *Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of individuals or entities external to the County. The County's fiduciary responsibilities are summarized and reported by type: pension trust fund, private-purpose trust funds, and agency funds. These assets are restricted as to purpose and use or are being held by the County on behalf of others and do not represent discretionary assets of the County. Therefore, these assets are not presented as a part of the government-wide financial statements.

Financial Analysis of the County as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Statement of Activities is used to report changes in net assets resulting from operations of the fiscal year just ended.

Net Assets

On a government-wide basis, the County's net assets were approximately \$115.5 million at fiscal year end, a decrease of \$2.47 million over the previous year, as shown in the table on the following page.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

Boone County, Missouri Schedule of Net Assets As of December 31,

| | 2009 Governmental Activities | 2008 Governmental Activities |
|--|------------------------------------|------------------------------------|
| Assets: | | |
| Current and other assets | \$ 40,240,931 | 40,846,941 |
| Capital assets, net | 88,424,088 | 91,189,007 |
| Total assets | 128,665,019 | 132,035,948 |
| Liabilities: | | |
| Long-term debt outstanding | 8,590,015 | 8,849,753 |
| Other Liabilities | 4,619,233 | 5,258,782 |
| Total liabilities | 13,209,248 | 14,108,535 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 83,875,914 | 86,300,817 |
| Restricted | 23,366,471 | 20,988,696 |
| Unrestricted | 8,213,386 | 10,637,900 |
| Total net assets | \$ 115,455,771 | 117,927,413 |

The largest portion of the County's net assets, or approximately 73%, reflects its investment of nearly \$84 million in capital assets, less any related outstanding debt used to acquire these assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for the liabilities.

Included in the County's total net assets is \$23.4 million which represents resources that are subject to external restrictions, including statutory restrictions. Restricted net assets increased by \$2.4 million compared to the previous year; this increase is primarily due to increases in net assets in the County's various statutory special revenue funds, debt service funds, and capital project funds. The remaining net assets of \$8.2 million are unrestricted and may be used to meet the government's obligations to citizens and creditors. Unrestricted net assets decreased by \$2.4 million from the prior year.

Taken as whole, the government's net assets decreased by \$2.47 during the fiscal year just ended. This compares to a decrease of \$551,000 for the previous fiscal year. A discussion and analysis of the various factors resulting in this decrease are presented in the following section.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

Governmental Activities

The schedule on the following page shows the revenues and expenses for the County's activities for the current fiscal year as compared to the previous fiscal year.

Boone County, Missouri Schedule of Changes in Net Assets For the Fiscal Years Ended December 31,

| | 2009 Governmental Activities | 2008 Governmental Activities |
|---|---|---|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 6,054,896 | 5,988,599 |
| Operating Grants and Contributions | 4,713,632 | 4,190,088 |
| Capital Grants and Contributions | - | 798,921 |
| General revenues: | | |
| Property Taxes | 4,227,381 | 4,182,556 |
| Sales Taxes | 28,967,457 | 30,948,772 |
| Franchise and other taxes | 283,856 | 204,337 |
| Investment income | 221,272 | 1,024,891 |
| Hospital lease revenue | 1,632,323 | 1,630,692 |
| Gain on sale of capital assets | 50,407 | 191 |
| Other | 471,486 | 469,744 |
| Total revenues | <u>46,622,710</u> | <u>49,438,791</u> |
| Expenses: | | |
| Policy and administration | 7,302,080 | 8,696,371 |
| Law enforcement and judicial | 18,630,308 | 18,501,921 |
| Environment, public buildings and infrastructure | 20,497,171 | 20,064,282 |
| Community health and public services | 1,219,320 | 1,219,204 |
| Economic vitality | 66,000 | 66,000 |
| Beautification and recreation | 58,877 | 56,485 |
| Protective inspection | 1,041,387 | 1,123,218 |
| Interest and fiscal charges | 279,209 | 262,562 |
| Total expenses | <u>49,094,352</u> | <u>49,990,043</u> |
| Change in net assets | (2,471,642) | (551,252) |
| Net assets, beginning of year | 117,927,413 | 118,478,665 |
| Net assets, end of year | <u>\$ 115,455,771</u> | <u>117,927,413</u> |

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

The County's total revenue on a government-wide basis was \$46.6 million, a decrease of \$2.8 million over the previous fiscal year. The decrease is primarily due to reductions in investment income and sales tax revenue. Taxes (all sources combined) comprise approximately 72% of total revenue, with sales tax as the largest single source, accounting for more than 62% of all County revenue. Sales tax revenue is a primary source of operating revenue to the General Fund and the Road and Bridge Fund; however, it is the sole revenue source (other than investment income) to the Law Enforcement Services Fund and the One-Fifth Cent Capital Improvement Fund. The three-year one-fifth cent sales tax for capital improvements expired September 31, 2009. Actual sales tax revenue fell below budget estimates, with actual sales tax growth of negative 2.76% compared to budgetary growth estimates of 0%. Charges for services account for approximately 13% of total revenue; grants and other support account for approximately 10% of total revenue. The remaining 5% of County revenues are derived from hospital lease revenue, investment income, gains on sale of capital assets, and other revenue.

The total cost of all programs and services was \$49.1 million, a decrease of approximately \$896,000 over the previous year. The County's expenses cover a broad range of services typically provided by county government. Environment, Public Buildings, and Infrastructure (primarily road and bridge activities) accounts for 42% of total expense followed by Law Enforcement and Judicial which accounts for 38% of total expenses and Policy and Administration which accounts for 15% of total expenses. These areas also account for the largest burden on general tax revenues in the amount of \$18.6 million, \$14.2 million, and \$3.2 million, respectively.

As previously noted, governmental activities decreased the County's net assets by approximately \$2.47 million compared to a decrease of \$551,000 the previous year. The decrease is attributable to declining revenues, particularly sales tax revenue and investment revenue.

Financial Analysis of the County's Funds

As previously mentioned, the purpose and focus of the County's governmental funds is significantly different than that of the government-wide financial statements. A discussion and analysis of the County's three types of fund financial statements (governmental funds, proprietary funds, and fiduciary funds) is presented below.

General Fund and Other Governmental Funds

The focus of the County's governmental funds is to provide information on the inflows, outflows, and balances of resources that are available for spending as well as to demonstrate compliance with statutory and other legal requirements. As a result, the fund financial statements reflect a *current financial resources* focus rather than a focus on *total economic resources*, which is used in the government-wide financial statements.

Given the focus of the fund financial statements, an unreserved fund balance may serve as a useful measure of a government's net resources available for funding future services.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$6.7 million. As a measure of the General Fund's liquidity, it may be useful to compare this amount to total fund expenditures, for a ratio of 30%. A portion of the unreserved fund balance, approximately \$2.1 million, was appropriated in the Fiscal Year 2010 budget. The total fund balance in the County's General Fund decreased by approximately \$42,000 or by 1%. The decrease in the current fiscal year's fund balance is primarily due to declining revenues, particularly sales tax and investment revenue.

The total fund balance in the Road and Bridge Fund decreased by approximately \$682,000, or 8%, this decrease is primarily due to declining sales tax revenues and CART revenues. CART (County Aid Road Trust) funds are derived from state fuel taxes and are distributed to cities and counties according to a constitutional formula. Of the total fund balance, the unreserved and undesignated portion was \$5.7 million. A significant portion of this balance, approximately \$3.1 million, was appropriated in the 2010 budget. The Road and Bridge Fund provides financing for routine road maintenance activities, distributions to local cities and a special road district, as well as road improvements.

The fund balance in the Law Enforcement Services Fund decreased by approximately \$87,000 or 3%. This decrease is primarily due to declining sales tax revenues.

The One-Fifth Cent Sales Tax Capital Improvement Fund was established in FY 2006 to account for the additional three-year sales tax approved by voters for various capital improvement projects. The resources of this fund are used to finance several capital improvement projects. The largest project, the Courthouse expansion project, was completed in 2009. The reduction in fund balance in this fund (from \$2.2 million to \$658,000) is the result of spending in accordance with the approved capital projects.

Fund balances in the County's non major governmental funds, all combined, increased by approximately \$990,000 or 14%. The increase is primarily due to the transfer of funds from the One-Fifth Cent Capital Improvement Fund to a debt service to be used to retire capital-related debt, in accordance with voter approval. In addition, funds were transferred from the General Fund to provide a portion of the funding for a shared facility to be used for Sheriff's activities and election equipment storage. The construction expenses for this facility will be incurred in 2010.

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

As previously noted, the County does not operate enterprise funds; however it does operate several internal service funds. At the end of the fiscal year, total unrestricted net assets of \$4.8 million for the County's various internal service funds were comprised of the following:

| | |
|---|--------------|
| • Self-Insured Health Plan: | \$ 2,202,687 |
| • Self-Insured Dental Plan: | 79,847 |
| • Self-Insured Workers' Compensation: | 646,147 |
| • Self-Insured Workers' Compensation Loss Control | 21,874 |
| • Facilities and Grounds: | 496,862 |
| • Building/Ground Capital Repair and Replacement: | 1,177,099 |
| • Building Utilities: | 108,050 |
| • Health Facility Capital Repair and Replacement- | |
| Family Health Center Unit: | 40,027 |
| Health Department Unit: | 32,876 |

Fiduciary Funds

The County maintains a fiduciary fund for the assets of the pension trust fund for Boone County Matching Pension Plan for county employees. At the end of the current fiscal year, the net assets of the pension fund totaled more than \$1.67 million, representing an increase of approximately \$452,000, or 37%, in total net assets from the previous year. The increase is due to employer contributions and investment income exceeding benefit disbursements.

The County is trustee for three private-purpose trust funds. At the end of the current fiscal year, net assets of the trust funds totaled approximately \$119,000 representing a decrease of slightly more than \$3,300 in net assets from the previous year. The change is due to expenses exceeding investment income.

The County is the custodian of numerous agency funds. The most common use of agency funds is to account for pass-through activity associated with property tax collection and distribution; however, the County administers numerous agency funds for various other purposes such as pass-through criminal costs, inmate funds, and unclaimed fees. Since, by definition, all assets of the agency funds are held for the benefit of other entities (i.e., all assets represent liabilities to the fund), there are no net assets. At the end of the current fiscal year, the combined gross assets of the agency funds totaled over \$140 million.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

General Fund Budgetary Highlights

The final budget for the County's General Fund represents the original budget plus any supplemental appropriations approved during the year, combined with transfers of budgeted funds between departments and accounts. Prior year encumbrances are accounted for as a reservation of fund balance and are not added to the subsequent year's budget. Supplemental appropriations to the General Fund for the year totaled approximately \$171,000 and represent budgetary increases associated with various grants and contracts received during the year. As previously noted, actual revenues for investment income and sales tax fell short of budgetary estimates for the year; overall, revenues had a negative budget variance of 3.6%. Actual spending was less than budgeted, representing 91% of budget. Appropriate adjustments, if needed, were implemented in the Fiscal Year 2010 budget process, depending on the causal factors of these variances. However, actual spending in the General Fund is consistently less than budget due to the unspent emergency appropriations and miscellaneous savings across a variety of departments and accounts.

Capital Assets and Debt Administration

Capital Assets

At the close of the fiscal year, the County's investment in a broad range of capital assets, including infrastructure assets (net of accumulated depreciation) exceeded \$88 million. This amount represents a net decrease of approximately \$2.76 million or 3%, over last year. Detailed information is provided in the schedule on the following page.

| | 2009 | 2008 |
|---|---------------------|---------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| Land | \$ 6,656,080 | 6,656,080 |
| Land-Infrastructure | 10,423,277 | 10,383,805 |
| Construction in progress | 883,067 | 8,109,172 |
| Construction in progress-Infrastructure | 1,363,313 | 534,020 |
| Works of art | 120,228 | 120,228 |
| Buildings and improvements | 35,994,864 | 27,996,698 |
| Vehicles and equipment | 4,803,735 | 5,043,314 |
| Office furniture and equipment | 576,354 | 740,410 |
| Infrastructure | 27,603,170 | 31,605,280 |
| Total capital assets | \$ 88,424,088 | 91,189,007 |

This year's major capital asset additions included construction in progress (facility construction projects, parking lot improvements, and roadway infrastructure projects) and routine replacement of vehicles, machinery, and equipment.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

For government-wide financial presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements, however, reflect capital asset purchases as expenditures and ignore depreciation. Depreciation expense of \$9.76 million was recognized in the government-wide financial statements for fiscal year 2009; this compares to \$7.8 million for the previous year.

Capital asset retirements and disposals in the current year totaled approximately \$199,000 (net of accumulated depreciation) and consisted primarily of vehicles, office furniture, and equipment.

Additional information on Boone County's capital assets can be found in Note 7 on page 46 of this report.

Long-term Debt

The schedule on the following page summarizes the changes in net outstanding debt. As previously noted, the County does not report business type activities; accordingly, all debt is attributable to governmental activities.

Boone County, Missouri
Schedule of Changes in Net Outstanding Debt
December 31,

| | Fiscal Year 2009 | Fiscal Year 2008 |
|--------------------------------|-----------------------------|-----------------------------|
| Governmental Activities | | |
| General Obligation Debt | \$ 1,997,000 | 2,101,000 |
| Special Obligation Debt | 5,455,000 | 5,795,000 |
| Unamortized premiums | 49,637 | 55,476 |
| Accrued compensated absences | 974,939 | 849,922 |
| Total | <u>\$ 8,476,576</u> | <u>8,801,398</u> |

At the end of the current fiscal year, the County had long-term liabilities for governmental activities in the amount of \$8.47 million compared to \$8.8 million from the previous year. Of this amount, approximately \$2.0 million are general obligation bonds issued for the Neighborhood Improvement District program and are being retired through special assessments; \$5.455 million are special obligation bonds being retired through a combination of general fund appropriations and lease rental revenue; approximately \$50,000 is the result of unamortized premiums; and, approximately \$975,000 is associated with accrued compensated absences. Additional information on Boone County's long-term debt can be found in Note 8 on page 47 of this report.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

Economic Outlook

The unemployment rate for Boone County remains significantly lower than the state and national averages, although the rate has increased as a result of the economic recession. Local population growth is stable and continues at a pace faster than the state as a whole. Assessed valuation reflects flat growth; however, the property tax revenue is a very small percentage of the County's overall revenues. Local sales tax is the single most important revenue source to the County and its growth rate declined significantly in 2007 and then became negative in 2008 (-1.36%) and 2009 (-2.76%). The 2008 negative annual growth rate was the first-ever negative growth rate for the County. Sales tax revenue is inherently volatile, responding very quickly to changing economic conditions, particularly consumer spending. Since sales tax revenue is a significant revenue source to the County, the County is at risk in the event of a decline in this revenue source. The current economic environment has resulted in a sudden and significant decline in taxable sales, which is reflected in Table No. 5, *Taxable Sales by Category* (Last Ten Years). This, combined with declining building permit revenue, investment income, and real estate recording fees as well as lagging state reimbursement revenues will present significant budget challenges in the foreseeable future.

Requests for Information

This financial report is designed to provide a general overview of the finances of Boone County, Missouri, for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the office of Boone County Auditor, Roger B. Wilson Government Center, 801 E. Walnut, Room 205, Columbia, MO 65201.