

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, 2006. 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 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 \$72.1 million. Of this amount, approximately \$10.6 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- On a government-wide basis, Boone County's total net assets increased by \$8.25 million or approximately 13% during the fiscal year.
- On a government-wide basis, the cost of the County's governmental activities was \$40.5 million.
- At the close of the current fiscal year, Boone County's governmental funds reported combined ending fund balances of \$26.6 million, an increase of \$3.17 million in comparison with the prior year. A significant portion of the combined ending fund balance, \$18.17 million, is available for spending at the government's discretion (i.e., it is *unreserved, undesignated* fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$7.9 million and represents 34% of expenditures. A portion of the unreserved fund balance, approximately \$1.7 million, was appropriated in the Fiscal Year 2007 budget.
- Boone County's total long-term debt decreased by \$173,510. The net decrease is the result of principal repayments exceeding the additional debt issued (\$182,000) during the year.
- General fund revenues totaled \$23 million, which exceeded original budgetary estimates by approximately \$433,000, or 2%.
- General fund expenditures were \$23 million. On a budgetary basis, the General fund experienced a favorable budgetary variance of \$2.07 million.
- Fund balance in the General Fund decreased by \$2.16 million, due to the net transfers out of the fund for capital projects.

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.

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 may be found on pages 18-19.

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.

The County has 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.

- ***Proprietary Funds.*** Proprietary funds offer short-term and long-term financial information about 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.
- ***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 \$72.1 million at fiscal year end, an increase of \$8.25 million over the previous year, as shown in the table below.

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

	2006 Governmental Activities	2005 Governmental Activities
Assets:		
Current and other assets	\$ 35,797,199	29,715,716
Capital assets, net	48,863,960	45,614,647
Total assets	<u>84,661,159</u>	<u>75,330,363</u>
Liabilities:		
Long-term debt outstanding	7,929,321	8,102,831
Other liabilities	4,618,057	3,364,207
Total liabilities	<u>12,547,378</u>	<u>11,467,038</u>
Net Assets:		
Invested in capital assets, net of related debt	43,327,618	39,783,056
Restricted	18,182,305	12,532,993
Unrestricted	10,603,858	11,547,276
Total net assets	<u>\$ 72,113,781</u>	<u>63,863,325</u>

The largest portion of the County's net assets, or approximately 60%, reflects its investment of more than \$43 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 \$18.18 million which represents resources that are subject to external restrictions, including statutory restrictions. The remaining net assets of \$10.6 million are unrestricted and may be used to meet the government's obligations to citizens and creditors.

There was an increase of \$5.6 million in restricted net assets. This increase is primarily due to increases in net assets in the County's various statutory special revenue funds and capital project funds. The government's net assets increased by \$8.25 million during the fiscal year just ended. This compares to an increase of \$5.8 million for the previous fiscal year. A discussion and analysis of the various factors resulting in this increase are presented in the following section.

Governmental Activities

The following schedule 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,**

	<u>2006</u> <u>Governmental</u> <u>Activities</u>	<u>2005</u> <u>Governmental</u> <u>Activities</u>
Revenues:		
Program revenues:		
Charges for services	\$ 6,581,632	5,808,314
Operating Grants and Contributions	4,174,709	4,079,444
Capital Grants and Contributions	2,306,349	96,000
General revenues:		
Property Taxes	3,900,415	3,467,469
Sales Taxes	27,751,933	25,452,011
Franchise and other taxes	213,759	193,172
Investment income	1,311,016	660,643
Hospital lease revenue	1,528,104	1,477,571
Gain on sale of capital assets	37,012	255,692
Other	913,564	432,654
Total revenues	48,718,493	41,922,970
Expenses:		
Policy and administration	8,235,033	6,520,149
Law enforcement and judicial	16,452,287	15,556,658
Environment, public buildings and infrastructure	13,178,130	11,331,430
Community health and public services	1,171,702	1,232,866
Economic vitality	66,000	67,875
Beautification and recreation	41,008	39,842
Protective inspection	1,039,597	1,047,305
Interest and fiscal charges	284,280	320,576
Total expenses	40,468,037	36,116,701
Increase in net assets	8,250,456	5,806,269
Net assets, beginning of year	63,863,325	58,057,056
Net assets, end of year	\$ 72,113,781	63,863,325

The County's total revenue on a government-wide basis was \$48.7 million, an increase of \$6.8 million over the previous fiscal year. The increase is primarily due to capital contributions from donated infrastructure (roads), capital grants related to election equipment, and additional sales tax revenue attributable to a one-fifth cent capital improvement sales tax (effective October 1, 2007). All taxes combined comprise 65% of total revenue, with sales tax as the largest single source, accounting for 57% of all County revenue. Charges for services account for 14% of total revenue; grants and other support account for 13% of total revenue. The remaining 8% of County revenues are derived from hospital lease revenue, investment income, gain on sale of capital assets, and other revenue.

The total cost of all programs and services was \$40.5 million, an increase of approximately \$4.4 million over the previous year. The County's expenses cover a broad range of services typically provided by county government. Law Enforcement and Judicial expenses account for 41% of total expenses followed by 33% for Environment and Infrastructure (primarily road and bridge activities). These areas also account for the largest burden on general tax revenues in the amount of \$12.6 million and \$9.8 million, respectively.

As previously noted, governmental activities increased the County's net assets by \$8.25 million compared to an increase of \$5.8 million the previous year. Key factors contributing to this increase are identified below. These factors are largely unchanged from the prior year.

- Economically sensitive sales tax revenue exceeded budgetary expectations, which assumed 4.0% growth. Local economic activity resulted in an actual annual growth rate of 4.5%. In addition, a locally approved capital improvement sales tax was authorized by voters and became effective October 1, 2007; however significant expenditures will not be incurred until 2008 and beyond. This resulted in an increase to net assets of approximately \$1.2 million.
- During fiscal year 2006, investment in capital assets exceeded the increase in annual depreciation expense and capital asset retirements, thus increasing net assets. In addition, the County received nearly \$1.4 million in contributed infrastructure assets (donated road infrastructure).
- The County's investment income increased by \$650,373 over the previous year.
- Revenues exceeded expenses in most of the County's governmental funds, thus increasing the County's net assets reported on a government-wide basis.

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 *total economic resources* focus 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.

At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$7.86 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 34%, or to total budgeted expenditures, which calculates to 31%. A portion of the unreserved fund balance, approximately \$1.7 million, was appropriated in the Fiscal Year 2007 budget. The total fund balance in the County's General Fund decreased by \$2.1 million or by 20%. The decrease in the current fiscal year's fund balance is primarily due to net operating transfers out to other funds, most notably to the capital projects fund.

The total fund balance in the County's Road and Bridge Fund increased by \$561,000, or 9%, to \$7.06 million. This increase is primarily due to revenues in excess of budgetary expectation and favorable spending variances (actual budgetary spending was equal to 80% of budget). Of the total fund balance, the unreserved portion was \$5.3 million. A significant portion of the unreserved fund balance, approximately \$2.6 million, was appropriated in the 2007 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 various major road improvements.

The fund balance in the County's Law Enforcement Services Fund increased by approximately \$585,000 or 56%. This increase is primarily due to the combined effect of sales tax revenues exceeding budgetary estimates and actual spending levels falling below budgeted amounts.

The County reported a fund deficit in the HAVA Election Fund (*Help Americans Vote Act*) at the end of the fiscal year. The accumulated deficit of \$113,234 is the result of expenditures exceeding intergovernmental revenue in 2006. The deficit will be offset by a future appropriation from the General Fund.

The County's One-Fifth Cent Sales Tax Capital Improvement Fund was newly established in FY 2006 and resources of this fund will be used to finance several capital improvement projects. Construction contracts will be awarded in FY 2007.

Fund balances in the County's non major governmental funds, all combined, increased by approximately \$922,000 or 18%. The increase is primarily due to revenues exceeding expenditures in the County's special revenue funds.

Proprietary Funds

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

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, the unrestricted net assets for the County's various internal service funds were as follows:

- Self-Insured Health Plan: \$ 1,576,510
- Self-Insured Dental Plan: \$ 58,176
- Self-Insured Workers' Compensation: \$ 534,587
- Facilities and Grounds: \$ 261,458
- Capital Repair and Replacement: \$ 1,411,790
- Building Utilities: \$ 123,593

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 \$1,389,860, representing an increase of \$244,144, or 21%, in total net assets from the previous year. The change is primarily due to employer matching contributions and investment income exceeding benefit distributions.

The County is trustee for two private-purpose trust funds. At the end of the current fiscal year, net assets of the trust funds totaled \$41,193, representing an increase of \$693 in net assets from the previous year. The change is due to contributions and investment income exceeding distributions made from the trust funds, pursuant to the trust agreements.

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, there are no net assets to discuss. At the end of the current fiscal year, the combined gross assets of the agency funds totaled over \$124 million.

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 \$235,000 and represent budgetary increases associated with various grants and contracts received during the year. As previously noted, actual revenues exceeded budgetary estimates for the year and actual expenditures were less than appropriations resulting in a combined favorable budgetary variance. Revenues exceeded budgetary estimates by 2% and expenditures totaled 92% of budget. Appropriate adjustments, if needed, were implemented in the Fiscal Year 2007 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

The County had invested over \$48.8 million in a broad range of capital assets (net of accumulated depreciation) at the close of the fiscal year. This amount represents a net increase of approximately \$3.2 million or 7%, over last year. Detailed information is provided in the schedule below.

Boone County, Missouri
Schedule of Changes in Capital Assets,
Net of Accumulated Depreciation
December 31,

		2006	2005
		Governmental	Governmental
		Activities	Activities
		<hr/>	<hr/>
Land	\$	6,631,724	6,525,691
Construction in progress		539,445	631,180
Works of art		120,228	120,228
Buildings and improvements		27,636,930	28,193,224
Vehicles and equipment		5,623,831	5,404,963
Office furniture and equipment		1,122,753	463,813
Infrastructure		7,189,049	4,275,548
Total capital assets	\$	<hr/> <u>48,863,960</u>	<hr/> <u>45,614,647</u>

This year's major capital asset additions included routine replacement of vehicles, machinery & equipment, and new HAVA-funded election equipment. In addition, the County invested \$1.8 million in infrastructure capital assets and received donated infrastructure assets (roadways) in the amount of \$1.4 million.

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 \$2.2 million was recognized in the government-wide financial statements for fiscal year 2006; this compares to \$1.99 million for the previous year. Depreciation expense was higher in the current year primarily due to assets that were depreciated for only a partial year in the previous year's financial statements being subject to a full year's depreciation in the current year.

Capital asset retirements and disposals in the current year totaled approximately \$298,000 (net of accumulated depreciation) and consisted of vehicles, office furniture, and equipment. Under the provisions of GASB 34, the County was required to begin *prospective* reporting of all general

infrastructure assets beginning in fiscal year 2003, the year of implementation. The County's deadline for *retroactively* reporting all general infrastructure assets is fiscal year 2007. The County is continuing its efforts to compile the information needed to comply with the retroactive reporting requirement. Accordingly, amounts presented in the schedule above and in other sections of this CAFR reflect prospective reporting only at this time.

Additional information on Boone County's capital assets can be found in note 8 on page 47 of this report.

Long-term Debt

The schedule below 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	Fiscal Year
	2006	2005
Governmental Activities		
General Obligation Debt	\$ 680,000	630,000
Special Obligation Debt	6,395,000	6,665,000
Unamortized premiums	67,154	72,994
Accrued compensated absences	787,167	734,837
Total	\$ 7,929,321	8,102,831

At the end of the current fiscal year, the County had long-term liabilities for governmental activities in the amount of \$7.9 million compared to \$8.1 million from the previous year. Of this amount, \$680,000 are general obligation bonds issued for the Neighborhood Improvement District program and are being retired through special assessments; \$6.395 million are special obligation bonds being retired through a combination of general fund appropriations and lease rental revenue; approximately \$67,000 is the result of unamortized premiums; and, approximately \$787,000 is associated with accrued compensated absences. General obligation bonds in the amount of \$182,000 were issued during the year in conjunction with the Neighborhood Improvement Program. Additional information on Boone County's long-term debt can be found in note 9 on page 49 of this report.

Economic Outlook

The unemployment rate for Boone County remains significantly lower than the state and national averages. Local population growth is stable and continues at a pace faster than the state as a whole. Assessed valuation continues to grow and the local sales tax growth rate for each of the last four fiscal years (2006, 2005, 2004, and 2003) was 4.54%, 6.9%, 4.7%, and 3.7%, respectively. Currently enacted reductions in state revenue are expected to continue; however, no additional

reductions are expected at this time. All of these factors were considered in preparing the Boone County budget for fiscal year 2007.

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.

