

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, 2004. 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 \$58 million. Of this amount, approximately \$15.7 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 \$4.58 million or approximately 9% during the fiscal year.
- On a government-wide basis, the cost of the County's governmental activities was \$34.5 million.
- At the close of the current fiscal year, Boone County's governmental funds reported combined ending fund balances of \$20.08 million, a decrease of \$1.28 million in comparison with the prior year. A significant portion of the combined ending fund balance, \$12.98 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 \$8.5 million. Of this amount, \$2.1 million is designated for capital improvements. Unreserved fund balance net of the capital designation, or \$6.39 million, represents 30% of expenditures. A portion of the unreserved fund balance, approximately \$1.76 million, was appropriated in the Fiscal Year 2005 budget.
- Boone County's total long-term debt decreased by \$530,600. The decrease was due to payment of scheduled principal obligations during the year.
- General fund revenues totaled \$20.89 million, which exceeded original budgetary estimates by \$236,000, or 1%.
- General fund expenditures were \$21 million, or 92% of budget, resulting in a favorable budgetary variance of \$1.85 million.
- The net decrease in fund balance in the General Fund of \$994,035 was primarily due to the acquisition of land and buildings during the year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the 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 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 non major 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 with 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 \$58.06 million at fiscal year end, an increase of \$4.58 million over the previous year, as shown in the table below.

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

	<u>2004</u>	<u>2003</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
Assets:		
Current and other assets	\$ 25,851,834	28,810,107
Capital assets, net	42,164,895	37,096,850
Total assets	68,016,729	65,906,957
Liabilities:		
Long-term debt outstanding	6,507,821	7,038,421
Other liabilities	3,451,852	5,389,059
Total liabilities	9,959,673	12,427,480
Net Assets:		
Invested in capital assets, net of related debt	38,159,971	33,367,459
Restricted	4,229,839	4,984,204
Unrestricted	15,667,246	15,127,814
Total net assets	\$ 58,057,056	53,479,477

The largest portion of the County's net assets, or approximately 66%, reflects its investment of more than \$38 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 \$4.2 million which represents resources that are subject to external restrictions (including statutory restrictions) as to how they may be used. The remaining net assets of \$15.67 million are unrestricted and may be used to meet the government's obligations to citizens and creditors.

There was a decrease of \$754,000 in restricted net assets. Approximately \$540,000 is the result of reductions in the net assets subject to statutory restrictions. The balance of the decrease is due to reductions in the net assets restricted for debt service.

The government's net assets increased by \$4.58 million during the fiscal year just ended. This compares to an increase of \$4.96 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 previous fiscal year.

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

	2004	2003
	Governmental	Governmental
	Activities	Activities
Revenues:		
Program revenues:		
Charges for services	\$ 5,224,890	5,289,536
Operating Grants and Contributions	4,138,405	4,248,591
Capital Grants and Contributions	537,212	1,136,706
General revenues:		
Property Taxes	3,139,387	3,149,292
Sales Taxes	23,873,177	22,830,022
Franchise Taxes	175,724	164,694
Investment income	256,721	220,320
Hospital lease revenue	1,430,923	1,404,518
Other	313,951	555,255
Total revenues	<u>39,090,390</u>	<u>38,998,934</u>
Expenses:		
Policy and administration	6,776,220	6,024,342
Law enforcement and judicial	15,218,767	14,861,271
Environment, public buildings and infrastructure	10,216,603	10,636,282
Community health and public services	1,112,171	1,197,204
Economic vitality	66,000	66,000
Beautification and recreation	36,819	27,291
Protective inspection	895,051	823,532
Interest and fiscal charges	191,180	401,632
Total expenses	<u>34,512,811</u>	<u>34,037,554</u>
Increase in net assets	\$ 4,577,579	4,961,380
Net assets, beginning of year	<u>53,479,477</u>	<u>48,518,097</u>
Net assets, end of year	<u><u>58,057,056</u></u>	<u><u>53,479,477</u></u>

The County's total revenue on a government-wide basis was \$39 million, an increase of \$91,000 over the previous fiscal year. All taxes combined comprise 70% of total revenues, with sales tax as the single largest source of revenue accounting for 61% of all County revenue. Charges for services and grants and other support account for 13% and 12%, respectively, of County revenues. The remaining 5% of County revenues are derived from hospital lease revenues, investment income, and other revenue.

The total cost of all programs and services was \$34.5 million, an increase of approximately \$500,000 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 44% of total expenses followed by 30% 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 \$11.6 million and \$8.3 million, respectively.

As previously noted, governmental activities increased the County's net assets by \$4.58 million compared to an increase of \$4.96 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 performed better than expected. Budgetary expectations assumed 2.5% growth, consistent with state-wide and national trends. However, local economic activity was stronger than anticipated, with an actual annual growth rate of 4.7%.
- The County made significant investment in capital assets, using current and accumulated resources rather than debt to finance the additions. During fiscal year 2004, the use of current period revenues for investment in capital assets exceeded the increase in annual depreciation expense, thus increasing net assets. In addition, the County received approximately \$245,000 in capital grant revenue which was used in the construction of the Boone County-City of Columbia Health Facility.
- Revenues exceeded expenses in the County's Road and Bridge Fund, a major special revenue fund, by approximately \$3.0 million, thus increasing the County's net assets reported on a government-wide basis. Overall spending in the Road and Bridge Fund was less than the current revenues; however, the increase is also attributable to the use of approximately \$1.8 million of current revenues for investment in capital assets that will be depreciated over future years as well as \$60,000 capital contribution revenue associated with developer-donated infrastructure.
- Revenues exceeded expenses in several of the County's special revenue funds which are established by state statute and are subject to the appropriation authority of specific elected officials. Such funds include the Record Preservation Fund (Recorder of Deeds), the Tax Maintenance Fund (Collector of Revenue), the Election Services Fund (County Clerk), the Assessment Fund (Assessor), and the Sheriff Civil Charges Fund (Sheriff). Combined, these account for approximately \$200,000 increase in net assets. The nature of these funds is such that resources (net assets) may be accumulated over several years in order to finance larger expenditures in certain future years.

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 spending at the end of the fiscal year.

At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$8.5 million, of which \$2.1 million is designated for capital improvements, resulting in an unreserved and undesignated fund balance of \$6.4 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%, or to the sum of expenditures and transfers out, which calculates to 29%. A portion of the unreserved fund balance, approximately \$1.76 million, was appropriated in the Fiscal Year 2005 budget.

The total fund balance in the County's General Fund decreased by \$994,035 or by 10%. The change in the current fiscal year's fund balance is primarily due to the following factors.

- Acquisition of downtown land and buildings during the year at a cost of more than \$900,000;
- Actual spending exceeded revenues for the year by approximately \$120,000. The approved budget authorized maximum spending in excess of revenues by \$1.8 million; however, actual spending was never expected to reach the levels authorized by the budget. Historically, actual spending in the General Fund is approximately 93% to 95% of budgeted amounts. This budgetary savings is the result of not spending the mandatory emergency appropriation, which is 3% of budgeted expenditures, combined with other general savings across a wide array of departments and accounts.

The total fund balance in the County's Road and Bridge Fund increased by \$1.4 million or 38%, to \$5.16 million. This increase is primarily due to better-than-expected sales tax revenues, revenues exceeding expenditures for the period, and an increased reserved fund balance for open encumbrances at the end of the year. Of the total fund balance, the unreserved portion of \$2.9 million for compares very closely to \$2.6 million of the prior year. A significant portion of the unreserved fund balance, approximately \$1.7 million, was appropriated in the 2005 budget.

The fund balance in the County's Law Enforcement Services Fund increased by approximately \$91,000 or 12%. This increase is primarily due to actual spending levels falling below budgeted amounts.

Fund balances in the County's non major governmental funds decreased by a combined amount of \$1.8 million, or 27%. The decrease is due to spending in capital project funds, particularly the Juvenile Justice Center Expansion Fund and the City-County Health Facility Fund. County resources, including bond proceeds received in fiscal year 2003 were expended in 2004, thus resulting in a decrease in fund balance in the current year.

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: \$598,134
- Self-Insured Dental Plan: \$ 30,085
- Facilities and Grounds: \$173,813
- Capital Repair and Replacement: \$718,845
- Building Utilities: \$107,175

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. As of the end of the current fiscal year, the net assets of the pension fund totaled \$962,931, representing an increase of \$200,970, or 26%, in total net assets from the previous year. The change is primarily due to employer matching contributions and investment income.

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 \$39,507, representing a decrease of \$468 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. As of the end of the current fiscal year, the combined gross assets of the agency funds totaled over \$104 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 \$370,000 and represent budgetary increases associated with various grants 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 1% and expenditures totaled 92% of budget. Appropriate adjustments were implemented in the Fiscal Year 2005 budget process, depending on the causal factors of the variances. However, as previously noted, 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 \$42 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 more than \$5 million or 14%, 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,**

		2004	2003
		Governmental	Governmental
		Activities	Activities
		<hr/>	<hr/>
Land	\$	5,111,572	4,650,515
Construction in progress		1,478,753	2,228,000
Works of art		120,228	120,228
Buildings and improvements		28,333,610	24,272,854
Vehicles and equipment		4,969,887	4,488,908
Office furniture and equipment		471,142	271,849
Infrastructure		1,679,703	1,064,496
		<hr/>	<hr/>
Total capital assets	\$	<u>42,164,895</u>	<u>37,096,850</u>

This year’s major capital asset additions included:

- More than \$5 million in land and building acquisition as well as construction related to the Health Facility, Juvenile Justice Center, and the South Facility (Road and Bridge) projects.
- \$1.7 million in routine acquisitions and replacements of vehicles and equipment and office furniture and equipment.

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, record capital asset purchases as expenditures and ignore depreciation. Depreciation expense of \$1.53 million was recognized in the government-wide financial statements for fiscal year 2004; this compares to \$1.59 for the previous year. Depreciation expense was slightly less in the current year due to numerous assets reaching full depreciation during the year. In addition, significant capital expenditures related to land, buildings, and construction resulted in depreciation for only a small portion of the year as a result of the timing of the acquisition.

Capital asset retirements and disposals in the current year of approximately \$157,000 (net of accumulated depreciation) consisted of miscellaneous 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 2006. 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 45 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
	2004	2003
Governmental Activities		
General Obligation Debt	\$ 785,000	959,000
Special Obligation Debt	4,930,000	5,240,000
Capital Lease Obligation	36,454	72,064
Unamortized premiums	78,834	84,674
Accrued compensated absences	677,533	682,683
Total	\$ 6,507,821	7,038,421

At the end of the current fiscal year, the County had long-term liabilities for governmental activities in the amount of \$6.5 million compared to \$7.04 million from the previous year. Of this amount, \$785,000 are general obligation bonds issued for the Neighborhood Improvement District program and are being retired through special assessments; \$4,930,000 million are special obligation bonds being retired through general fund appropriations; \$36,000 is associated with a capital lease and is being retired through general fund appropriations, \$78,000 is the result of unamortized premiums; and, \$678,000 is associated with accrued compensated absences. No long-term debt was issued during the year and the overall decrease in long-term debt for the County is the result of principal payments for outstanding bonds and the capital lease that were made during the year.

Additional information on Boone County's long-term debt can be found in note 9 on page 48 of this report.

Economic Outlook

The unemployment rate for Boone County remains significantly lower than the state and national averages. Assessed valuation continues to grow and the local economy appears stable with sales tax revenue currently growing at a rate of 4%. 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 2005 and contribute to the overall stability of the Boone County's budget.

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$6.39 million, of which approximately \$1.76 million was appropriated in fiscal year 2005. As previously noted, it is very unlikely that unreserved, undesignated fund balance will decrease by this full amount. It is intended that the use of available fund balance will avoid the need to raise taxes or reduce appropriations during the 2005 fiscal year.

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.

