

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, 2005. 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 \$63.8 million. Of this amount, approximately \$11.5 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 \$5.8 million or approximately 10% during the fiscal year.
- On a government-wide basis, the cost of the County's governmental activities was \$36.1 million.
- At the close of the current fiscal year, Boone County's governmental funds reported combined ending fund balances of \$23.4 million, an increase of \$3.4 million in comparison with the prior year. A significant portion of the combined ending fund balance, \$15.6 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 \$9.7 million. Of this amount, \$2.2 million is designated for capital improvements. Unreserved fund balance net of the capital designation, or \$7.5 million, represents 36% of expenditures. A portion of the unreserved fund balance, approximately \$2.5 million, was appropriated in the Fiscal Year 2006 budget.
- Boone County's total long-term debt increased by \$1.6 million. The net increase is the result of additional debt issued (\$2.005 million) in excess of principal repayments during the year.
- General fund revenues totaled \$22.5 million, which exceeded original budgetary estimates by approximately \$669,000, or 3%.
- General fund expenditures were \$21 million. On a budgetary basis, the General fund experienced a favorable budgetary variance of \$2.56 million.
- The net increase in fund balance in the General Fund of \$1.5 million was primarily due to the combined impact of revenues exceeding budget while expenditures were less than budget.

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 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 \$63.8 million at fiscal year end, an increase of \$5.8 million over the previous year, as shown in the table below.

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

	2005 Governmental Activities	2004 Governmental Activities
Assets:		
Current and other assets	\$ 29,715,716	25,851,834
Capital assets, net	45,614,647	42,164,895
Total assets	75,330,363	68,016,729
Liabilities:		
Long-term debt outstanding	8,102,831	6,507,821
Other liabilities	3,364,207	3,451,852
Total liabilities	11,467,038	9,959,673
Net Assets:		
Invested in capital assets, net of related debt	39,783,056	38,159,971
Restricted	12,532,993	4,229,839
Unrestricted	11,547,276	15,667,246
Total net assets	\$ 63,863,325	58,057,056

The largest portion of the County's net assets, or approximately 62%, reflects its investment of nearly \$40 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 \$12.5 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 \$11.5 million are unrestricted and may be used to meet the government's obligations to citizens and creditors.

There was an increase of \$8.3 million in restricted net assets. This increase is primarily due to the determination that the net assets attributable to the Road and Bridge Fund and the Law Enforcement

Services Fund should be classified as restricted net assets due to statutory restrictions, whereas in the previous two years they were classified as unrestricted.

The government's net assets increased by \$5.8 million during the fiscal year just ended. This compares to an increase of \$4.5 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>2005</u> <u>Governmental</u> <u>Activities</u>	<u>2004</u> <u>Governmental</u> <u>Activities</u>
Revenues:		
Program revenues:		
Charges for services	\$ 5,808,314	5,224,890
Operating Grants and Contributions	4,079,444	4,138,405
Capital Grants and Contributions	96,000	537,212
General revenues:		
Property Taxes	3,467,469	3,139,387
Sales Taxes	25,452,011	23,873,177
Franchise and other taxes	193,172	175,724
Investment income	660,643	256,721
Hospital lease revenue	1,477,571	1,430,923
Gain on sale of capital assets	255,692	20,554
Other	432,654	293,397
Total revenues	41,922,970	39,090,390
Expenses:		
Policy and administration	6,520,149	6,776,220
Law enforcement and judicial	15,556,658	15,218,767
Environment, public buildings and infrastructure	11,331,430	10,216,603
Community health and public services	1,232,866	1,112,171
Economic vitality	67,875	66,000
Beautification and recreation	39,842	36,819
Protective inspection	1,047,305	895,051
Interest and fiscal charges	320,576	191,180
Total expenses	36,116,701	34,512,811
Increase in net assets	5,806,269	4,577,579
Net assets, beginning of year	58,057,056	53,479,477
Net assets, end of year	\$ 63,863,325	58,057,056

The County's total revenue on a government-wide basis was \$41.9 million, an increase of \$2.8 million over the previous fiscal year. The increase is primarily due to gain on sale of capital assets and increases in sales tax revenue and property tax revenue. All taxes combined comprise 69% of total revenue, with sales tax as the largest single source, accounting for 61% of all County revenue. Charges for services account for 14% of total revenue; grants and other support account for 10% of total revenue. The remaining 7% 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 \$36.1 million, an increase of approximately \$1.6 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 43% of total expenses followed by 31% 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 \$11.8 million and \$9.8 million, respectively.

As previously noted, governmental activities increased the County's net assets by \$5.8 million compared to an increase of \$4.6 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 6.9%.
- The County made significant investment in capital assets, using a combination of current and accumulated resources and long-term debt to finance the acquisitions. During fiscal year 2005, investment in capital assets exceeded the increase in annual depreciation expense and capital asset retirements, thus increasing net assets.
- The County realized economic gains on the disposal (including trade-ins) of assets, particularly large equipment items used in the road and bridge operations. The total gain recognized in the government-wide Statement of Activities is in excess of \$250,000.
- Revenues exceeded expenses in all three of the County's major funds, thus increasing the County's net assets reported on a government-wide basis. Overall spending in these funds was less than the current revenues, and as noted above, the primary revenue source to these funds, sales tax, exceeded budgetary expectations.

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 \$9.7 million, of which \$2.2 million is designated for capital improvements, resulting in an unreserved and undesignated fund balance of \$7.5 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 36%, or to total budgeted expenditures, which calculates to 32%. A portion of the unreserved fund balance, approximately \$2.5 million, was appropriated in the Fiscal Year 2006 budget.

The total fund balance in the County's General Fund increased by \$1.5 million or by 16%. The change in the current fiscal year's fund balance is primarily due to the following factors.

- Sales tax revenues (49% of total fund revenue) and property tax revenues (11% of total fund revenue) exceeded budgetary estimates by approximately \$427,000 and \$81,000, respectively. This represents a 4% variance and was due to local economic activity exceeding expectations and the impact of property reassessment;
- Other revenue sources, such as investment income and charges for services also exceeded budgetary estimates. Combined, all other revenue sources reflect a 2% favorable budgetary variance;
- Historically, actual spending in the General Fund is approximately 93% to 95% of budgeted amounts. Actual spending for FY 2005 was 89% of budget. This actual budgetary savings was 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 approved budget authorized maximum spending in excess of revenues by \$1.76 million; however, actual spending was never expected to reach the levels authorized by the budget due to the expected budgetary savings identified above.

The total fund balance in the County's Road and Bridge Fund increased by \$1.3 million or 26%, to \$6.5 million. This increase is primarily due to sales tax revenues in excess of budgetary expectation and favorable spending variances (actual budgetary spending was equal to 83% of budget). Of the total fund balance, the unreserved portion was \$4.0 million. A significant portion of the unreserved fund balance, approximately \$2.06 million, was appropriated in the 2006 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. Some of the maintenance costs, such as snow and ice removal, were less than expected due to mild weather conditions and some of the work on larger projects was re-budgeted in FY 2006. This type of fluctuation is

inherent, given the nature of activities financed in this fund, and it results in varied spending levels from year to year, as well as in comparison to budget.

The fund balance in the County's Law Enforcement Services Fund increased by approximately \$225,000 or 27%. This increase is primarily due to the combined effect of sales tax revenues exceeding budgetary estimates and actual spending levels falling below budgeted amounts.

Fund balances in the County's non major governmental funds, all combined, increased by approximately \$290,000 or 6%. The increase is primarily due to activity in the debt service funds; bonds issued during the year required the County to set aside a debt service requirement from the bond proceeds, thus increasing the fund balance in the debt service fund.

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: \$1,038,284
- Self-Insured Dental Plan: \$ 49,104
- Self-Insured Workers' Compensation: \$ 100,570
- Facilities and Grounds: \$ 204,918
- Capital Repair and Replacement: \$ 898,803
- Building Utilities: \$ 113,722

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 \$1,145,716, representing an increase of \$182,785, or 19%, 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 \$40,500, representing an increase of \$993 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 \$115 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 \$284,000 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 3% and expenditures totaled 89% of budget. Appropriate adjustments, if needed, were implemented in the Fiscal Year 2006 budget process, depending on the causal factors of these 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 \$45.6 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 \$3.5 million or 8%, 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,**

	2005	2004
	Governmental	Governmental
	Activities	Activities
	<hr/>	<hr/>
Land	\$ 6,525,691	5,111,572
Construction in progress	631,180	1,478,753
Works of art	120,228	120,228
Buildings and improvements	28,193,224	28,333,610
Vehicles and equipment	5,404,963	4,969,887
Office furniture and equipment	463,813	471,142
Infrastructure	4,275,548	1,679,703
	<hr/>	<hr/>
Total capital assets	\$ <u>45,614,647</u>	<u>42,164,895</u>

This year's major capital asset additions included:

- Approximately \$2.0 million acquisition of land and buildings;
- More than \$2.0 million investment in infrastructure assets (in conjunction with the road and bridge activities of the Public Works Department);

- Approximately \$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 \$1.99 million was recognized in the government-wide financial statements for fiscal year 2005; this compares to \$1.53 million for the previous year. Depreciation expense was higher in the current year primarily to infrastructure that was previously classified as construction in progress, and therefore not being depreciated, being placed into service and subject to depreciation. In addition, assets that were depreciated for only a partial year in the previous year's financial statements were subject to a full year's depreciation in the current year. In addition, the building acquisition during 2005 increased depreciation expense for the year.

Capital asset retirements and disposals in the current year of approximately \$600,000 (net of accumulated depreciation) consisted of downtown property acquired the prior year (land and building) as well as 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 46 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 2005	Fiscal Year 2004
Governmental Activities		
General Obligation Debt	\$ 630,000	785,000
Special Obligation Debt	6,665,000	4,930,000
Capital Lease Obligation	-	36,454
Unamortized premiums	72,994	78,834
Accrued compensated absences	734,837	677,533
Total	\$ 8,102,831	6,507,821

At the end of the current fiscal year, the County had long-term liabilities for governmental activities in the amount of \$8.1 million compared to \$6.5 million from the previous year. Of this amount,

\$630,000 are general obligation bonds issued for the Neighborhood Improvement District program and are being retired through special assessments; \$6.665 million are special obligation bonds being retired through a combination of general fund appropriations and lease rental revenue; approximately \$73,000 is the result of unamortized premiums; and, approximately \$735,000 is associated with accrued compensated absences. Taxable special obligation bonds in the amount of \$2,005,000 were issued during the year to finance the acquisition of downtown properties to be used for future governmental operations. 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. 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 three fiscal years 2005, 2004, and 2003 was 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 2006.

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.

