

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, 2008. 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 \$117.9 million. Of this amount, approximately \$10.6 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 \$551,000 or less than 0.5% during the fiscal year.
- On a government-wide basis, the cost of the County's governmental activities was \$49.9 million.
- At the close of the current fiscal year, Boone County's governmental funds reported combined ending fund balances of \$30.78 million, a decrease of \$998,000 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 \$6.8 million and represents 29% of expenditures. A portion of the unreserved fund balance, approximately \$1.7 million, was appropriated in the Fiscal Year 2009 budget.
- Boone County's total long-term debt increased by approximately \$1.2 million. The net increase is the result of new debt issues (\$1.7 million) exceeding principal repayments and the decrease in accrued compensated absence liability.
- General fund revenues totaled \$23.4 million, which fell short of budgetary estimates by approximately \$496,000 or 2%.
- General fund expenditures (GAAP basis) were \$23.9 million. On a budgetary basis, the General fund experienced a favorable budgetary variance of \$2.29 million.
- Fund balance in the General Fund decreased by approximately \$578,000, due to expenditures exceeding revenues.

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Management's Discussion And Analysis (*Continued*)

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.

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Management's Discussion And Analysis (*Continued*)

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.

- ***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.

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Management's Discussion And Analysis (*Continued*)

- *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 \$117.9 million at fiscal year end, a decrease of \$551,000 over the previous year, as shown in the table below.

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

	2008 Governmental Activities	2007 Governmental Activities
Assets:		
Current and other assets	\$ 40,846,941	40,317,505
Capital assets, net	91,189,007	89,507,640
Total assets	132,035,948	129,825,145
Liabilities:		
Long-term debt outstanding	8,801,398	7,581,737
Other Liabilities	5,307,137	3,764,743
Total liabilities	14,108,535	11,346,480
Net Assets:		
Invested in capital assets, net of related debt	86,300,817	84,283,160
Restricted	20,988,696	23,598,191
Unrestricted	10,637,900	10,597,314
Total net assets	\$ 117,927,413	118,478,665

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Management's Discussion And Analysis (*Continued*)

The largest portion of the County's net assets, or approximately 73%, reflects its investment of more than \$86 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 \$20.9 million which represents resources that are subject to external restrictions, including statutory restrictions. Restricted net assets decreased by \$2.6 million compared to the previous year; this decrease is primarily due to decreases in net assets in the County's various statutory special revenue funds and capital project funds. The remaining net assets of \$10.6 million are unrestricted and may be used to meet the government's obligations to citizens and creditors. Unrestricted net assets are essentially unchanged from the prior year.

Taken as whole, the government's net assets decreased by \$551,000 during the fiscal year just ended. This compares to an increase of \$3.1 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 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, MISSOURIManagement's Discussion And Analysis *(Continued)*

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

	2008	2007
	Governmental	Governmental
	Activities	Activities
Revenues:		
Program revenues:		
Charges for services	\$ 5,988,599	6,023,531
Operating Grants and Contributions	4,190,088	4,664,023
Capital Grants and Contributions	798,921	1,049,328
General revenues:		
Property Taxes	4,182,556	4,052,018
Sales Taxes	30,948,772	31,463,171
Franchise and other taxes	204,337	222,558
Investment income	1,024,891	1,640,430
Hospital lease revenue	1,630,692	1,566,918
Gain on sale of capital assets	191	2,654
Other	469,744	1,759,031
Total revenues	<u>49,438,791</u>	<u>52,443,662</u>
Expenses:		
Policy and administration	8,696,371	8,351,758
Law enforcement and judicial	18,501,921	18,355,489
Environment, public buildings and infrastructure	20,064,282	19,846,910
Community health and public services	1,219,204	1,316,693
Economic vitality	66,000	66,000
Beautification and recreation	56,485	42,141
Protective inspection	1,123,218	1,082,119
Interest and fiscal charges	262,562	277,262
Total expenses	<u>49,990,043</u>	<u>49,338,372</u>
Change in net assets	(551,252)	3,105,290
Net assets, beginning of year	118,478,665	115,373,375
Net assets, end of year	<u>\$ 117,927,413</u>	<u>118,478,665</u>

The County's total revenue on a government-wide basis was \$49.4 million, a decrease of \$3.0 million over the previous fiscal year. The decrease is primarily due to reductions in investment income and sales tax revenue as well as 2007 including one-time insurance proceeds (\$1.2 million). All taxes combined comprise approximately 72% of total revenue, with sales tax as the largest single source, accounting for nearly 63% 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. Actual sales tax revenue fell below budget estimates, with actual sales tax growth of negative 1.36% compared to budgetary growth estimates of 0.5%. Charges for services account for approximately 12% of total revenue; grants and other support account for approximately 10% of total revenue. The remaining 6% of County revenues are derived from hospital lease revenue, investment income, gains on sale of capital assets, and other revenue.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

The total cost of all programs and services was \$49.9 million, an increase of approximately \$650,000 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 40% of total expense followed by Law Enforcement and Judicial which accounts for 37% of total expenses and Policy and Administration which accounts for 17% of total expenses. These areas also account for the largest burden on general tax revenues in the amount of \$17.6 million, \$14.4 million, and \$4.4 million, respectively.

As previously noted, governmental activities decreased the County's net assets by approximately \$551,000 compared to an increase of \$3.1 million the previous year. Two primary factors contributed to the current year's decrease as compared to the previous year's increase.

- Total revenues were decreased by approximately \$3.0 million compared to the previous year. The decline is primarily due to decreased sales tax revenues, decreased investment income, reduced contributed capital (donated infrastructure and buildings), and reduced insurance proceeds.
- Total expenses were higher than the previous year due to election expenses and increased spending associated with the Boone County Fairgrounds.

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.

At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$6.8 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 29%. A portion of the unreserved fund balance, approximately \$1.7 million, was appropriated in the Fiscal Year 2009 budget. The total fund balance in the County's General Fund decreased by approximately \$578,000 or by 7%. The decrease in the current fiscal year's fund balance is primarily due to increased election costs.

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Management's Discussion And Analysis (*Continued*)

The total fund balance in the Road and Bridge Fund increased by approximately \$295,000, or 3%, to \$9.0 million. This increase is primarily due to favorable spending variances (actual budgetary spending was equal to 71% of budget). Several projects which were included in the FY 2008 budget did not proceed according to schedule and were re-budgeted in FY 2009. Of the total fund balance, the unreserved and undesignated portion was \$6.6 million. A significant portion of this balance, approximately \$5 million, was appropriated in the 2009 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 increased by approximately \$44,465 or 3%. This increase is primarily due to the sale of capital assets.

The One-Fifth Cent Sales Tax Capital Improvement Fund was newly 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 \$7.1 million to \$2.1 million) is the result of spending according to the approved capital projects.

Fund balances in the County's non major governmental funds, all combined, increased by approximately \$4.1 million or 64%. The increase is primarily due to a \$1.7 million bond issue pertaining to a Neighborhood Improvement District sewer project. In addition, monies that had been transferred to the One-Fifth Cent Sales Tax Capital Improvement Fund in 2006 as seed money were transferred back to the appropriate capital project 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, total unrestricted net assets of \$4.38 million for the County's various internal service funds were comprised of the following:

• Self-Insured Health Plan:	\$ 2,006,366
• Self-Insured Dental Plan:	79,510
• Self-Insured Workers' Compensation:	687,132
• Self-Insured Workers' Compensation Loss Control	9,286
• Facilities and Grounds:	441,677
• Building/Ground Capital Repair and Replacement:	982,701
• Building Utilities:	105,576
• Health Facility Capital Repair and Replacement -	
Family Health Center Unit:	39,797
Health Department Unit:	32,688

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Management's Discussion And Analysis (*Continued*)

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 \$1,215,300, representing a decrease of \$443,091, or 27%, in total net assets from the previous year. The decline is due to investment losses.

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 \$122,733 representing an increase of \$272 in net assets from the previous year. The change is due to investment income and contributions exceeding distributions.

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 \$139 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 \$314,000 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, resulting in a negative budget variance of 2%. Actual spending was less than budgeted, representing 91% of budget. Appropriate adjustments, if needed, were implemented in the Fiscal Year 2009 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.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis (*Continued*)

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 \$91 million. This amount represents a net increase of approximately \$1.6 million or 2%, over last year. Detailed information is provided in the schedule below.

	2008	2007
	Governmental	Governmental
	Activities	Activities
	<hr/>	<hr/>
Land	\$ 6,656,080	6,656,080
Land-Infrastructure	10,383,805	10,275,034
Construction in progress	8,109,172	1,353,838
Construction in progress-Infrastructure	534,020	121,806
Works of art	120,228	120,228
Buildings and improvements	27,996,698	28,196,962
Vehicles and equipment	5,043,314	5,796,359
Office furniture and equipment	740,410	1,050,652
Infrastructure	31,605,280	35,936,681
Total capital assets	<hr/> <hr/>	<hr/> <hr/>
	\$ 91,189,007	89,507,640

This year's major capital asset additions included construction in progress (Courthouse expansion project); routine replacement of vehicles, machinery, and equipment; and infrastructure additions, including both constructed and donated infrastructure assets.

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 \$7.8 million was recognized in the government-wide financial statements for fiscal year 2008; this compares to \$8.3 million for the previous year.

Capital asset retirements and disposals in the current year totaled approximately \$258,000 (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 45 of this report.

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Management's Discussion And Analysis (*Continued*)

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 2008	Fiscal Year 2007
Governmental Activities		
General Obligation Debt	\$ 2,101,000	542,000
Special Obligation Debt	5,795,000	6,120,000
Unamortized premiums	55,476	61,314
Accrued compensated absences	849,922	858,423
Total	<u>\$ 8,801,398</u>	<u>7,581,737</u>

At the end of the current fiscal year, the County had long-term liabilities for governmental activities in the amount of \$8.8 million compared to \$7.6 million from the previous year. Of this amount, \$2.1 million are general obligation bonds issued for the Neighborhood Improvement District program and are being retired through special assessments; \$5.795 million are special obligation bonds being retired through a combination of general fund appropriations and lease rental revenue; approximately \$55,000 is the result of unamortized premiums; and, approximately \$850,000 is associated with accrued compensated absences. Additional information on Boone County's long-term debt can be found in Note 8 on page 46 of this report.

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 continues to grow as well; 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 in 2007 and 2008, reflecting the lowest annual growth rates for this revenue source since its initial approval by voters in the early 1980's. The 2008 negative annual growth rate (-1.36%) was the first-ever negative rate for the County. This compares to 0.5% in 2007 and 5% in 2006. 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.

BOONE COUNTY, MISSOURI

Management's Discussion And Analysis *(Continued)*

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.