

COUNTY OF COLE, MISSOURI
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2006

Prepared by:

Auditor's Office
James T. LePage, CPA
County Auditor

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TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 17
Basic Financial Statements:	
Government-Wide:	
Statement of Net Assets	18
Statement of Activities	19
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet and Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Fiduciary Funds:	
Statement of Fiduciary Net Assets	23
Notes to Basic Financial Statements	24-38
Required Supplementary Information:	
Budgetary Comparison Schedules	
General Fund	39
Road and Bridge Fund	40
Sales Tax Fund	41
Supplementary Information:	
Non-Major Governmental Funds:	
Combining Balance Sheet	42
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances with Budget Information	43-44
Fiduciary Funds:	
Combining Fiduciary Net Assets	45
Combining Statement of Changes in Assets and Liabilities	46-47

SINGLE AUDIT REPORTS:

Report on Compliance and on Internal Control over Financial Reporting	48-49
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	50-51
Schedule of Expenditures of Federal Awards	50-55
Schedule of Findings and Questioned Costs	56-57
Summary Schedule of Prior Year's Audit Findings	58

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

County Commission
County of Cole, Missouri

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information for County of Cole, Missouri (the County), as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the County as of December 31, 2006 and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the budgetary comparison schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the County taken as a whole. The supplementary information and the schedule of expenditures of federal awards listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Williams Keepers LLC

July 24, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

INTRODUCTION

The discussion and analysis in this MD&A of Cole County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2006, based on currently known facts, decisions, and conditions. It should be studied in conjunction with the County's basic financial statements, including the footnotes, which follow the MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The reporting package consists of the following:

- MD&A (this section)
- Basic Financial Statements (includes the government-wide and fund financial statements, and footnotes)
- Required Supplementary Information (budget comparison for major funds)
- Supplementary Information (combining statements for non-major funds)

Financial reports reflect management's decisions on how resources of the County were used. The discussion in the MD&A summarizes in a narrative format how the financial statements reflect key decisions primarily in a short run operational context. Financial statements of public institutions differ somewhat from those of private businesses. In the private sector profits represent an increase in the net assets or value of the business. In the public sector the comparable to profits is an increase in net assets.

The financial reports the County issues to the public and the standards of reporting county officials set for themselves reflect their willingness to be transparent with their decisions and their commitment to accountability. County government, like a private business, must use its limited resources effectively and efficiently. In most cases the revenue from the programs they are required by law to provide does not cover the cost of these programs. Thus they must rely on a variety of fees and taxes over which their control is limited. Likewise their control over costs in some cases is limited. However, the primary challenge is managing costs. The financial statements reflect how well these challenges were met.

The County provides services to the public in eight different categories called "activities." These are: general government activities such as collections, recording documents, holding elections, etc., and activities involving public safety, public works, assessment, judicial, health and welfare, parks and recreation and emergency management. Some of the revenue to finance these activities comes from special fees and grants called "program revenue" and some from taxes called "general revenue."

The government-wide statements together present a total view of all County activities. These statements provide both long-term and short-term information about the County's overall financial condition. 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 government wide statements are prepared using the full accrual basis of accounting, which is a basis slightly different than that followed in preparing the governmental fund statements. These differences are reconciled and shown as a reconciliation report following the governmental fund statements.

Following the government wide statements are governmental fund statements. The individual fund statements show a more detailed picture of activities than that reflected in the government wide statements. These include four "major" funds and 11 small or "minor" funds. Each fund is required by law and is designed to facilitate accounting for a special activity. The major funds are General Fund, Road and Bridge Fund, Sales Tax Fund, and Neighborhood Sinking Fund. Over 90 percent of the County's activities are accounted for in these four funds. About half the property tax revenue and most of the fees and grants go into the General Revenue Fund for general government activities including public safety and health, the two major expenditure activities of the County other than roads and bridges.

FINANCIAL HIGHLIGHTS

Financial reports reflect the County's performance in carrying out its mission of public service. Financial highlights point to the County's performance during 2006 in managing its financial resources while performing its functions and its ability to perform these activities in the future. Key financial highlights include:

- The County's net assets totaled \$42.0 million at year-end 2006.
- Total revenues for 2006 were approximately \$23.3 million
- The County's primary source of revenue is taxes. During 2006, total taxes collected from all sources amounted to \$14.9 million. About half this amount was property taxes (\$7.8 million). In addition to taxes, the County collected slightly over \$6.2 million in charges and grants referred to as "Program Revenues" including fees (\$4.0 million) and grants (\$2.2 million).
- During the year, the County received revenue from over 50 different fees, a large number of grants and seven different types of taxes.
- Expenses were about \$19.3 million producing an increase in net assets of about \$4.0 million.
- The budget priorities of the County are public safety, infrastructure, health and general government. Over one-third of the total budget is allocated to public safety.

This annual report consists of financial statements of the County prepared in two different formats. The government-wide format has a balance sheet (called statement of net assets) and a statement of revenue and expenses (called a statement of activities) for the County as a whole. A different format is used for the individual major funds and non-major funds. They are shown together with a balance sheet titled "balance sheet" and a statement of revenue and expenditures titled "statement of revenues and expenditures and changes in fund balances – governmental funds." The government-wide statement shows the County's financial position from a "long-term" view and the individual fund statements reflect more of a short-term view. The government wide balance sheet shows the "capital assets" of the County, including infrastructure assets, that are not shown in the individual funds as well as information on liabilities. Together these statements give a better indication of the County's financial position for future activities.

The fund financial statements are for each individual "major" fund and the smaller "non-major" funds lumped together. For governmental activities, these statements reflect the services the County provides its citizens and how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements. The activities accounted for in these statements are not discussed in the MD&A in detail.

The County engages in activities as an "agent" or "trustee" for other governmental units in the County and these activities are financed in part by general fund resources. However, collections for and disbursements to these governmental units are not shown in the County-wide statements. Also activities accounted for in these funds are not discussed in this part of the financial report.

REPORTING THE COUNTY AS A WHOLE

The Statement of Net Assets and the Statement of Activities together report the County's net assets and the changes in net assets that occurred during 2006. The County's net assets are the difference between assets and liabilities and are one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether the County's financial position is improving or deteriorating. There are non-financial factors, however, such as changes in the County's property tax base and condition of the County's roads that need to be considered in assessing the overall financial health of the County.

The Statement of Net Assets and Statement of Activities for Cole County include only governmental type activities such as sheriff activities, public works, public health and general administration. Cole County does not engage in any activity that would normally be considered business-type activities (such as providing utilities where the purpose is to be self-supporting), or a "component unit" of its general governmental activities (such as a landfill authority or school district over which it would exercise legal control), both of which would require additional reporting in the government-wide statements..

REPORTING THE COUNTY'S SIGNIFICANT FUNDS

The major individual funds are presented and analyzed elsewhere in the report. The four major funds are the General Fund, Road and Bridge Fund, Sales Tax Fund and Neighborhood Sinking Fund. State Law requires that these funds be established. The County has other funds, some required by law, to help it manage money for particular purposes like the Assessment Fund, Collector's Fund, Recorder's Fund, and others. In fact, there are 26 funds altogether including the major funds. Cole County has no funds that it would operate as a business type activity (called proprietary funds) such as a water or sewer system.

BASIS OF ACCOUNTING

The accounting approach to the individual major governmental funds is called the modified accrual approach. The modified accrual accounting approach measures cash and all other financial assets that can readily be converted to cash. Following generally accepted accounting practices (GAAP), the County recognizes only that revenue that is measurable and that it collects within 60 days, and it treats as "current expenditures" all payments for current activities including payments for capital projects, even though these projects will benefit the County for many years, and principal payments on long-term debt. See note 1 page 20 for a more detailed discussion of the basis of accounting.

The government-wide statements are prepared on a full accrual basis. Under the full accrual basis, revenues are recorded when earned and expenses when incurred, regardless of the timing of the related cash flows. Relationships and/or differences between the government-wide activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds statements are described in a reconciliation following the fund financial statements. The differences are due to the requirement (GAAP) that revenues and expenditures are treated differently in the two sets of statements (see Notes to the Financial statements).

THE COUNTY AS TRUSTEE

The County acts as a trustee, or fiduciary, for a number of different political subdivisions in the County to facilitate tax collections and disbursements. All of the County's fiduciary activities are reported in a separate statement called the Statement of Fiduciary Net Assets. These activities are excluded from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purpose.