

# **Financial Section**

# BRAY, DRAKE, LILES & RICHARDSON LLP

KARL E. DRAKE, CPA  
CURTIS D. LILES, CPA  
R. NEIL RICHARDSON, CPA

*Certified Public Accountants*  
1606 N. Willow View Road, Suite 1E  
Urbana, Illinois 61802-7446

Phone 217/337-0004  
Fax 217/337-5822

-----  
JAMES P. BRAY, CPA (Retired)

June 30, 2009

Champaign County Board  
Urbana, IL

## Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Champaign County, Illinois, as of and for the year ended November 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents under "Basic Financial Statements". These financial statements are the responsibility of Champaign County, Illinois's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Champaign County, Illinois, as of November 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Major Special Revenue Funds and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report, dated June 30, 2009, on our consideration of Champaign County, Illinois's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 accessing the results of our audit.

The management's discussion and analysis on pages 22 through 32 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Champaign County, Illinois' basic financial statements. The introductory section, combining and individual non-major fund financial statements, combined and individual department statements, statistical section, and appendix, listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Champaign County, Illinois. The combining and individual non-major fund financial statements, combined and individual department statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, and appendix have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



**BRAY, DRAKE, LILES & RICHARDSON LLP**

MANAGEMENT'S DISCUSSION  
AND ANALYSIS

## County of Champaign, Illinois

### Management's Discussion and Analysis

November 30, 2008

---

As management of the County of Champaign, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the County of Champaign for the fiscal year ended November 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-5 of this report.

#### Financial Highlights

- The assets of the County of Champaign exceeded its liabilities at the close of the most recent fiscal year by \$78,542,281 (*net assets*). The County's total net assets remained fairly constant from 2007 to 2008, with an increase of just under \$150,000 from the previous year to the present.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$41,227,921. The majority of this amount, \$33,355,661, is *available for spending* at the government's discretion (*unreserved fund balance*). The 2008 ending fund balance represents a decrease of \$8,735,053 over the prior year, despite an increase in governmental fund revenues of \$2,951,276. Expenditures increased by \$10,133,309 over the previous year, with increased expenditures in all major funds and for all governmental purposes – with the exception of education and social services, which saw slight decreases.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,137,360, or 6.0% of total general fund expenditures.
- Champaign County's total bonded debt decreased by \$2,629,053 during the current fiscal year.

#### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Champaign County's basic financial statements. Champaign County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Champaign County's finances, in a manner similar to a private-sector business.

- The *statement of net assets* presents information on all of Champaign County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Champaign County is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County of Champaign include general government, justice and public safety, health, education, social services, development, and highways and bridges. The business-type activities of the County of Champaign include the Champaign County Nursing Home. The government-wide financial statements do not include funds classified as Fiduciary Funds (discussed further below), because the resources of those funds are not available to support the County's programs.

The government-wide financial statements can be found on pages 33-34 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Champaign, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County of Champaign can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County of Champaign maintains fifty-five individual governmental funds. 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 the General Fund, Mental Health Fund, Developmental Disability Fund, and County Motor Fuel Tax Fund, all of which are considered to be major funds. Data from the other fifty-one governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County of Champaign adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 35-40 of this report.

***Proprietary funds.*** The County of Champaign maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County of Champaign uses one enterprise fund to account for its Nursing Home. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County of Champaign uses internal service funds to account for its self-funded insurance and employee health insurance. Because both of these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the County Nursing Home, which is considered to be a major fund of the County of Champaign. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 41-44 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are *not* available to support the County of Champaign's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 45-46 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-78 of this report.

***Other information.*** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County of Champaign's progress in funding its obligation to provide pension benefits to its employees. This required supplementary information can be found in Exhibit XI on pages 72-73 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 79-102 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Champaign, assets exceeded liabilities by \$78,542,281 at the close of the most recent fiscal year.

The largest portion of the County of Champaign's net assets (81.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The County of Champaign uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County of Champaign's investment in its 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 used to liquidate these liabilities. The table **County of Champaign's Net Assets** reflects the condensed Statement of Net Assets.

An additional portion of the County of Champaign's net assets (45.1%) represents resources that are subject to external restrictions on how they may be used. This leaves a deficit balance of *unrestricted net assets* (\$20,679,581), or money that may be used to meet the government's ongoing obligations to citizens and creditors. This deficit balance



is due mainly to the completion of the Champaign County Nursing Home facility in 2007. The asset of the new building was transferred from the County's governmental activities funds to a business-type activities fund (the Nursing Home), while the liability of bonded debt incurred to pay for the facility remains with the government funds, resulting in the deficit in unrestricted assets.

The County's net assets remained fairly stable from 2007 to 2008, and as in the previous year, the County must report negative balances in all three categories of unrestricted net assets in 2008; for the government as a whole, as well as for governmental activities, and business-type activities.

### County of Champaign's Net Assets

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 78,062	\$ 83,776	\$ 575	\$ 2,323	\$ 78,637	\$ 86,099
Capital Assets	75,347	66,875	23,071	23,751	98,418	90,626
Total Assets	\$ 153,409	\$ 150,651	\$ 23,646	\$ 26,074	\$ 177,055	\$ 176,725
Long-term Liabilities	61,669	66,146	-	472	61,669	66,618
Other Liabilities	33,944	29,120	2,899	2,594	36,843	31,714
Total Liabilities	\$ 95,613	\$ 95,266	\$ 2,899	\$ 3,066	\$ 98,512	\$ 98,332
Net Assets:						
Invested in Capital Assets	40,723	34,867	23,071	23,741	63,794	58,609
Restricted	35,428	38,800	-	-	35,428	38,800
Unrestricted	(18,355)	(18,282)	(2,324)	(734)	(20,680)	(19,016)
Total Net Assets	57,796	55,385	20,747	23,007	78,542	78,393

**Governmental Activities.** While total net assets remained largely unchanged from 2007 to 2008, the County's investments decreased significantly over the year. The decrease in investment assets (\$10.9 million) was related to the national economic downturn and stock market devaluation. The decrease in investment assets was offset by increases in several areas, most notably capital assets, which saw an increase of \$8.5 million, thanks largely to the completion in 2008 of the County's new Highway Maintenance Facility. Otherwise, increases in expenses and revenues closely paralleled inflation and growth in the demand for services.

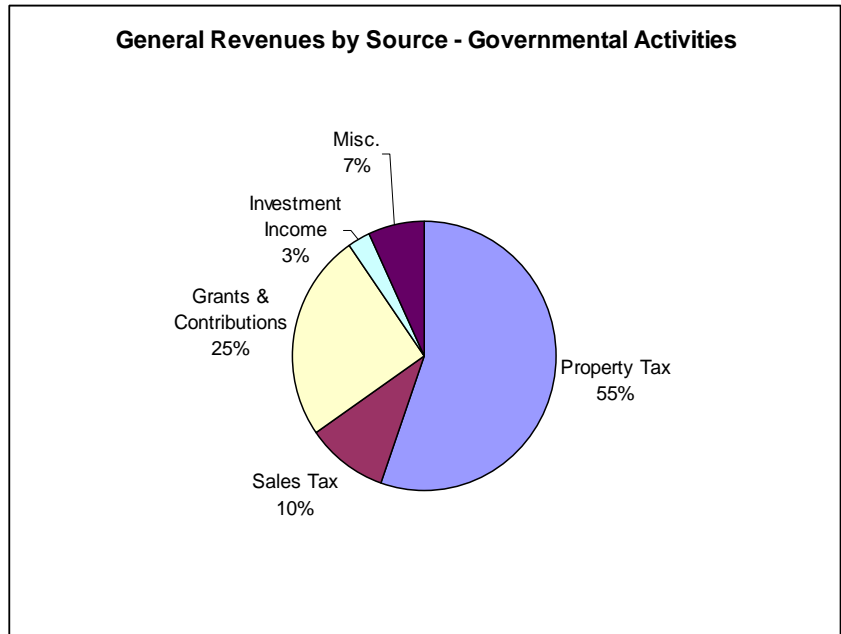
**Business-type Activities.** Business-type Activities saw little change overall from 2007 to 2008. As for the actual operations of the Nursing Home, expenses outstripped revenues by \$1.8 million.

The following table summarizes the revenues and expenses of the County's activities:

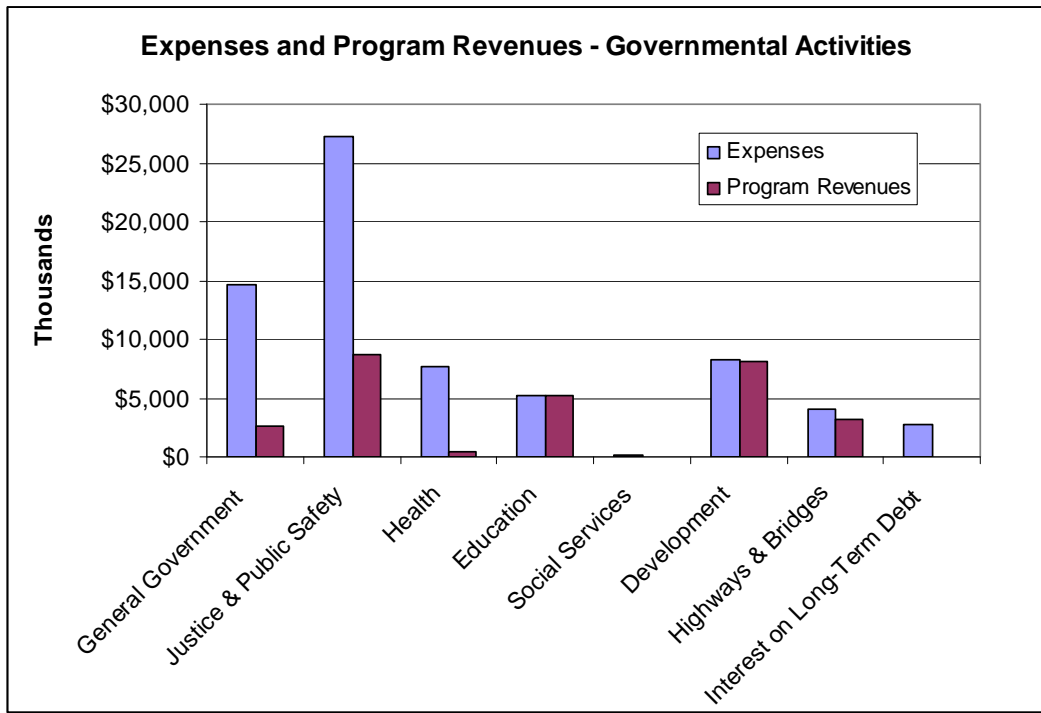
### County of Champaign's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues						
Charges for Services	\$ 8,906,162	\$ 9,486,599	\$ 12,939,472	\$ 13,722,500	\$ 21,845,634	\$ 23,209,099
Operating Grants & Contributions	19,266,759	18,054,418	5,583	-	19,272,342	18,054,418
General Revenues:						
Property Taxes	24,146,421	22,905,851	879,915	840,560	25,026,336	23,746,411
Public Safety Sales Taxes	4,501,359	4,359,205	-	-	4,501,359	4,359,205
Hotel/Motel & Auto Rental Taxes	47,486	26,376	-	-	47,486	26,376
Grants & Contributions						
Not Restricted to						
Specific Programs	11,377,690	10,841,170	-	-	11,377,690	10,841,170
Investment Earnings	1,284,285	1,957,841	10,645	27,610	1,294,930	1,985,451
Miscellaneous	3,107,641	1,914,765	6,551	4,308	3,114,192	1,919,073
Total Revenues	<u>72,637,803</u>	<u>69,546,225</u>	<u>13,842,166</u>	<u>14,594,978</u>	<u>86,479,969</u>	<u>84,141,203</u>
Expenses:						
General Government	14,606,360	10,627,760	-	-	14,606,360	10,627,760
Justice & Public Safety	27,317,391	28,373,837	-	-	27,317,391	28,373,837
Health	7,753,137	7,371,974	-	-	7,753,137	7,371,974
Education	5,236,017	5,195,843	-	-	5,236,017	5,195,843
Social Services	217,209	190,786	-	-	217,209	190,786
Development	8,242,203	6,356,022	-	-	8,242,203	6,356,022
Highways & Bridges	4,065,664	7,461,600	-	-	4,065,664	7,461,600
Interest on Long-Term Debt	2,778,834	2,554,227	-	-	2,778,834	2,554,227
Nursing Home	-	-	15,776,130	15,999,925	15,776,130	15,999,925
Total Expenses	<u>70,216,815</u>	<u>68,132,049</u>	<u>15,776,130</u>	<u>15,999,925</u>	<u>85,992,945</u>	<u>84,131,974</u>
Increase in Net Assets						
Before Transfers	2,420,988	1,414,176	(1,933,964)	(1,404,947)	487,024	9,229
Transfers	(1,167,931)	(22,667,321)	10,040	22,667,321	-	-
Increase in Net Assets	2,410,948	(21,253,145)	(1,923,924)	21,262,374	487,024	9,229
Beginning Net Assets	<u>55,384,955</u>	<u>76,638,100</u>	<u>22,670,302</u>	<u>1,745,207</u>	<u>78,055,257</u>	<u>78,383,307</u>
Ending Net Assets	<u>57,795,903</u>	<u>55,384,955</u>	<u>20,746,378</u>	<u>23,007,581</u>	<u>78,542,281</u>	<u>78,392,536</u>

Revenues for the County are generated from a number of different sources and for the most part are dependent on different financial factors. The majority of revenue is derived from property taxes, as illustrated in the following chart, which provides long-term stability:



Justice and Public Safety expenses constituted the largest single category of expense within governmental activities totaling \$27,317,391, or 39% of total expenses of \$70,216,815. General Government expenses were next largest at \$14,606,360 or 21% of total expenses. A breakdown by program of expenses and program revenues follows:



**Financial Analysis of the Government's Funds**

As noted earlier, the County of Champaign uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County of Champaign's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County of Champaign's financing requirements. In particular, *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.

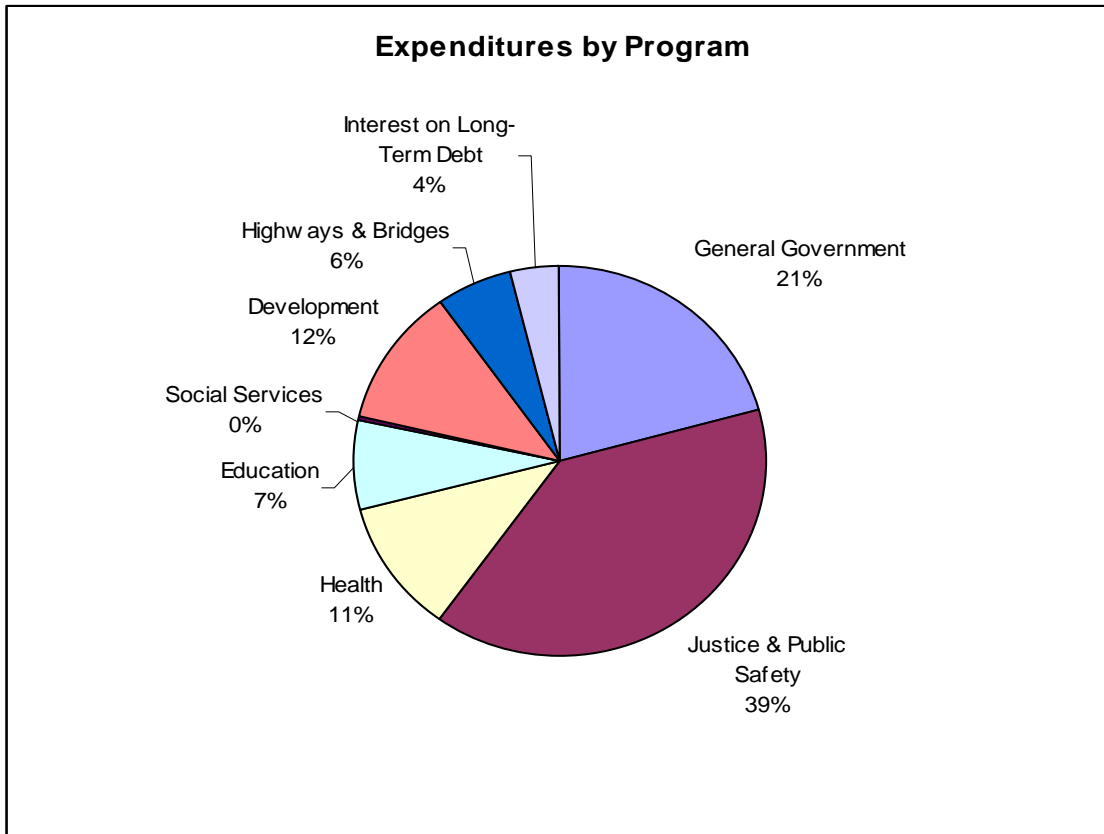
As of the end of the current fiscal year, the County of Champaign's governmental funds reported combined ending fund balances of \$41,227,921, an decrease of \$8,735,053 in comparison with the prior year. Nearly 81% of this amount constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for debt service (\$2,346,847) and long-term receivables (\$5,525,413).

The general fund is the chief operating fund of the County of Champaign. At the end of the 2008 fiscal year, the total fund balance of the general fund was \$2,397,754, with 89% of that amount (\$2,137,360) unreserved. Reserved fund balance (\$260,394) represents just 11% of total general fund expenditures.

The fund balance of Champaign County's general fund decreased from 2007 to 2008 a total of \$914,746. This decrease, representing a 28% loss to the general fund, can be attributed partly to significant loans made from the general fund to support the County Nursing Home, partly to increased expenditures to pay for governmental services, and partly to the general economic climate. Regardless the cause, the general fund cannot sustain continued losses of this magnitude for long.

Among other major governmental funds, the Mental Health Fund saw a modest increase from \$1,411,265 in 2007 to \$1,529,076 in 2008, while the Developmental Disability Fund saw a modest decrease from \$1,556,211 in 2007 to \$1,520,626 in 2008. The County Motor Fuel Tax Fund decreased by almost \$1 million during the current fiscal year.

The chart below illustrates the breakdown of expenditures by program for all governmental funds:



**Proprietary funds.** The only County of Champaign proprietary fund is the Champaign County Nursing Home. This fund provides the same type of information found in the government-wide financial statements, but in more detail.

The Champaign County Nursing Home ended the year with a deficit in unrestricted net assets of \$1,985,006. Total Net Assets for the Nursing Home came to \$21,085,737, but investment in Capital Assets, net of related debt, came to \$23,070,743.

**General Fund Budgetary Highlights**

During the year there was a \$2,172,223 increase in expenditures between the original and final amended budget. Revenues also saw an increase, although a smaller one, at \$449,926. At the end of the year, expenditures outpaced revenues by \$2,658,780, according to the final budget. That deficit rose to \$3,109,519 using an Actual (Budgetary Basis).

**Capital Asset and Debt Administration**

**Capital assets.** The County of Champaign's investment in capital assets for its governmental and business-type activities as of November 30, 2008, amounts to \$98,417,847 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges. Following is a Comparative Statement of Capital Assets, net of depreciation (in thousands):

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,688	\$ 1,688	\$ -	\$ -	\$ 1,688	\$ 1,688
Construction in Progress	6,649	5,986	-	-	6,649	5,986
Infrastructure	60,619	60,820	-	-	60,619	60,820
Buildings and Improvements	65,195	55,431	23,561	23,510	88,756	78,941
Equipment	12,909	12,552	978	1,115	13,887	13,667
<b>Total</b>	<b>\$ 147,060</b>	<b>\$ 136,477</b>	<b>\$ 24,539</b>	<b>\$ 24,625</b>	<b>\$ 171,599</b>	<b>\$ 161,102</b>

Additional information on the County of Champaign's capital assets can be found in Note 11 in the Notes to Financial Statements of this report.

**Long-term debt.** At the end of the current fiscal year, the County of Champaign had total long-term liabilities of \$61,669,055. The entire amount is backed by the full faith and credit of the County of Champaign. Following is a comparative statement of outstanding debt (in thousands):

	Governmental Activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 58,369	\$ 61,011	\$ -	\$ -	\$ 58,369	\$ 61,011
Intergovernmental Loans	392	444	-	-	392	444
Capital Lease Obligations	-	85	-	10	-	95
Estimated Claims Payable	2,555	1,860	-	-	2,555	1,860
<b>Total</b>	<b>\$ 61,316</b>	<b>\$ 63,400</b>	<b>\$ -</b>	<b>\$ 10</b>	<b>\$ 61,316</b>	<b>\$ 63,410</b>

Additional information on the County's long-term debt can be found in Note 17 in the Notes to Financial Statements of this report.

**Economic Factors**

The main campus of the University of Illinois lies in the center of Champaign County and it provides a great deal of stability to the area's economy, as the University is the area's largest employer (with over 20,000 employees), and is a major purchaser of various goods and services. This stability helps make Champaign County's revenues more stable than many other counties'. The local real estate market continues to expand locally, despite negative national trends, with several new buildings under construction throughout Champaign and Urbana, both through the University and in the commercial sector.

The equalized assessed value (EAV) of taxable property in the County for the 2008 levy year was approximately \$3.75 billion, which represents one-third market value. Residential properties make up 65% of the EAV for the 2008 levy year. Commercial development constitutes 28%, while farmland is 4%.

**Requests for Information**

This financial report is designed to provide a general overview of the County of Champaign's finances 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 addressed to the Office of the Auditor, 1776 E. Washington, Urbana, IL 61802.