

## **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

-----  
CONSULTANT:  
JAMES P. BRAY, CPA

May 17, 2007

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, 2006, 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 opinion.

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, 2006, 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 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 May 17, 2007, 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 23 through 33 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.

**Champaign County Board  
Urbana, IL  
May 17, 2007**

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 nonmajor 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 nonmajor 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**

**BRAY, DRAKE, LILES & RICHARDSON LLP**  
Certified Public Accountants

MANAGEMENT'S DISCUSSION  
AND ANALYSIS

**County of Champaign, Illinois**  
**Management's Discussion and Analysis**

**November 30, 2006**

---

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, 2006. 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 \$78,383,307 (*net assets*). Of this amount, \$1,856,653 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets decreased by \$9 million.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$44,235,471, a decrease of \$353,810 in comparison with the prior year. The vast majority of this amount, \$39,974,382, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,893,045, or 10% of total general fund expenditures.
- Champaign County's total bonded debt increased by \$3,975,891 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 35-36 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 37-42 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 43-46 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 47-48 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 49-80 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 74-76 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 81-105 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 \$78,383,307 at the close of the most recent fiscal year.

The largest portion of the County of Champaign's net assets (51 percent) 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 (46.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$1,856,653) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets; for the government as a whole, as well as for the governmental activities. Unrestricted net assets for business-type activities recorded a deficit for the second consecutive year.

The County's net assets decreased by \$9 million during the current fiscal year, due largely to a decrease in net assets for governmental activities.

**County of Champaign's Net Assets**  
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	\$ 75,390	\$ 75,779	\$ 1,545	\$ 2,049	\$ 76,935	\$ 77,828
Capital Assets	92,326	88,478	2,070	1,892	94,396	90,370
Total Assets	\$ 167,716	\$ 164,257	\$ 3,615	\$ 3,941	\$ 171,331	\$ 168,198
Long-term Liabilities	55,859	60,779	340	411	56,199	61,190
Other Liabilities	26,508	26,840	1,236	1,785	27,744	28,625
Total Liabilities	\$ 82,367	\$ 87,619	\$ 1,576	\$ 2,196	\$ 83,943	\$ 89,815
Net Assets:						
Invested in Capital Assets	44,410	38,192	2,070	1,875	46,480	40,067
Restricted	34,005	36,459	-	-	34,005	36,459
Unrestricted	6,934	1,987	(31)	(130)	6,903	1,857
Total Net Assets	85,349	76,638	2,039	1,745	87,388	78,383

**Governmental Activities.** Governmental activities decreased Champaign County's net assets by \$8,711,273. For the most part, increases in expenses and revenues closely paralleled inflation and growth in the demand for services. However, with construction of the Highway Fleet Maintenance Facility and several major road projects, expenses for Highways & Bridges alone jumped over \$6.2 million over the course of the year.

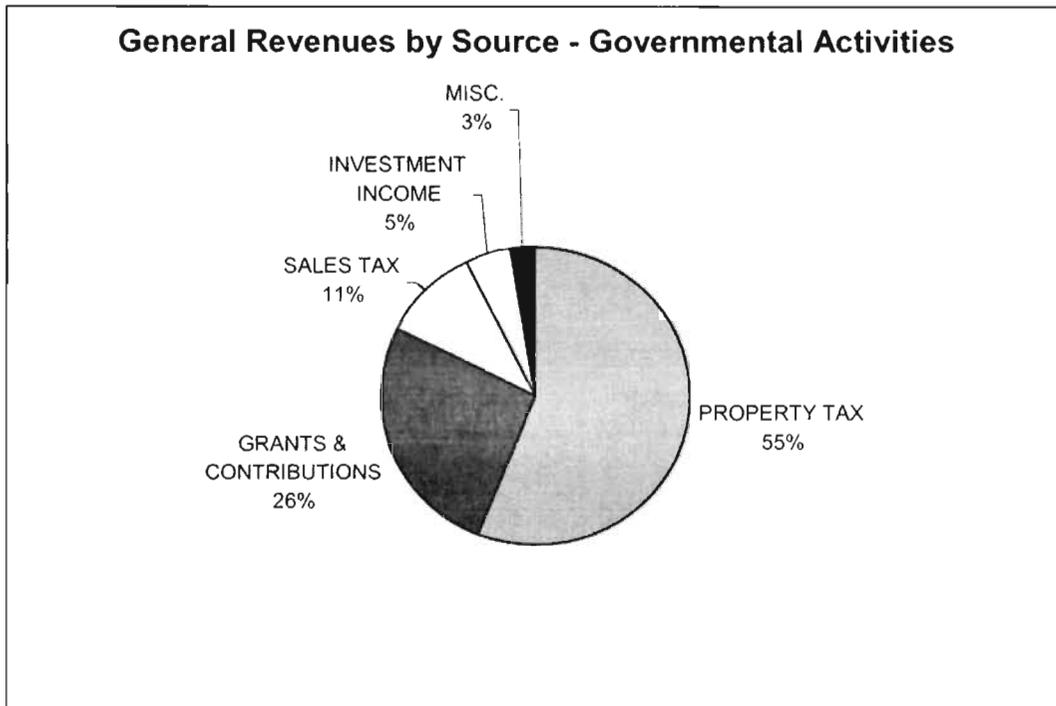
**Business-type Activities.** Business-type activities decreased Champaign County's net assets by \$293,529. The Champaign County Nursing Home alone saw expenses outstrip revenues by \$1,461,460; but for a transfer of \$1.2 million into the Nursing Home Fund, the decrease for business-type activities would have been much greater.

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

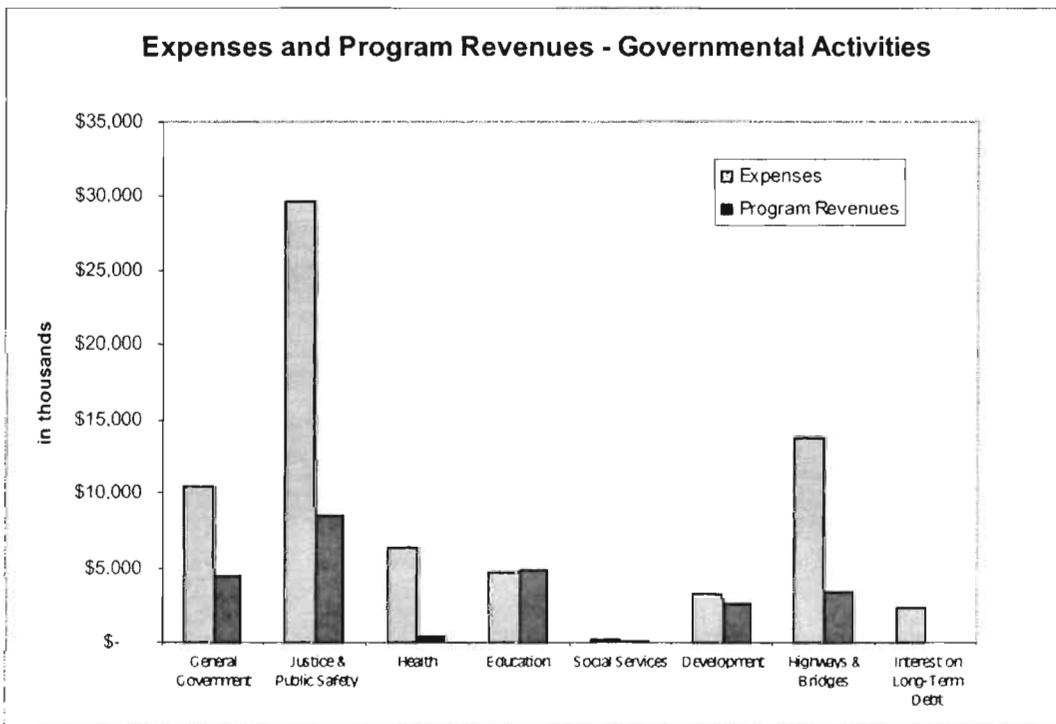
**County of Champaign's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Revenues:</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 8,291,264	\$ 8,661,646	\$ 9,555,457	\$ 10,488,071	\$ 17,846,721	\$ 19,149,717
Operating Grants & Contributions	13,955,084	15,606,621	48,496	-	14,003,580	15,606,621
<b>General Revenues:</b>						
Property Taxes	20,492,425	21,624,968	740,487	783,877	21,232,912	22,408,845
Public Safety Sales Taxes	4,069,752	4,240,855	-	-	4,069,752	4,240,855
Hotel/Motel & Auto Rental Taxes	31,199	32,027	-	-	31,199	32,027
<b>Grants &amp; Contributions</b>						
Not Restricted to Specific Programs	10,358,136	10,547,157	-	-	10,358,136	10,547,157
Investment Earnings	1,481,065	1,814,557	12,741	14,255	1,493,806	1,828,812
Miscellaneous	1,049,111	1,014,781	10,145	19,849	1,059,256	1,034,630
<b>Total Revenues</b>	<b>59,728,036</b>	<b>63,542,612</b>	<b>10,367,326</b>	<b>11,306,052</b>	<b>70,095,362</b>	<b>74,848,664</b>
<b>Expenses:</b>						
General Government	9,599,277	10,508,915	-	-	9,599,277	10,508,915
Justice & Public Safety	26,149,299	29,726,343	-	-	26,149,299	29,726,343
Health	5,778,022	6,360,141	-	-	5,778,022	6,360,141
Education	4,295,978	4,703,406	-	-	4,295,978	4,703,406
Social Services	280,925	280,956	-	-	280,925	280,956
Development	3,292,533	3,314,966	-	-	3,292,533	3,314,966
Highways & Bridges	7,548,937	13,777,351	-	-	7,548,937	13,777,351
Interest on Long-Term Debt	2,037,431	2,413,876	-	-	2,037,431	2,413,876
Nursing Home	-	-	11,555,306	12,767,512	11,555,306	12,767,512
<b>Total Expenses</b>	<b>58,982,402</b>	<b>71,085,954</b>	<b>11,555,306</b>	<b>12,767,512</b>	<b>70,537,708</b>	<b>83,853,466</b>
<b>Increase in Net Assets</b>						
Before Transfers	745,634	(7,543,342)	(1,187,980)	(1,461,460)	(442,346)	(9,004,802)
Transfers	5,917	(1,167,931)	(5,917)	1,167,931	-	-
<b>Increase in Net Assets</b>	<b>751,551</b>	<b>(8,711,273)</b>	<b>(1,193,897)</b>	<b>(293,529)</b>	<b>(442,346)</b>	<b>(9,004,802)</b>
<b>Beginning Net Assets</b>	<b>84,597,822</b>	<b>85,349,373</b>	<b>3,232,633</b>	<b>2,038,736</b>	<b>87,830,455</b>	<b>87,388,109</b>
<b>Ending Net Assets</b>	<b>85,349,373</b>	<b>76,638,100</b>	<b>2,038,736</b>	<b>1,745,207</b>	<b>87,388,109</b>	<b>78,383,307</b>

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 \$29,726,343, or 42% of total expenses of \$71,085,954. General Government expenses were next largest at \$10,508,915 or 15% 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.

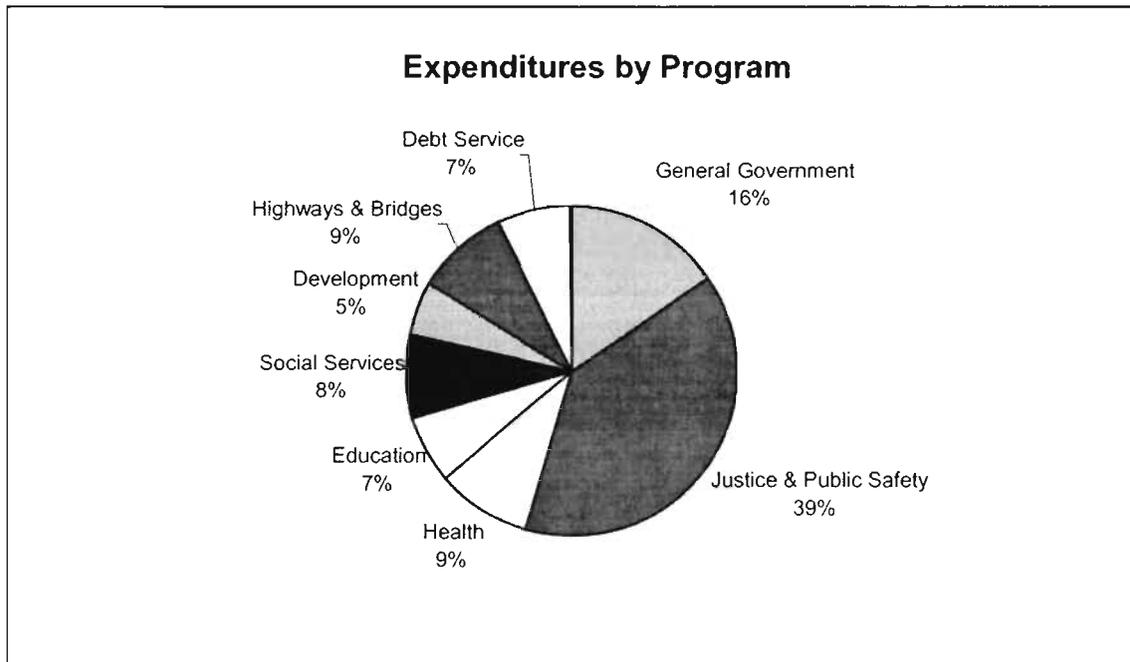
As of the end of the current fiscal year, the County of Champaign's governmental funds reported combined ending fund balances of \$44,235,471, a decrease of just \$353,810 in comparison with the prior year. Ninety percent of this amount constitutes *unreserved, undesignated fund balance*, which is available 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 (\$1,345,654) and long-term receivables (\$2,915,435).

The general fund is the chief operating fund of the County of Champaign. At the end of the current fiscal year, the total fund balance of the general fund was \$2,972,175, with all but \$79,130 of that amount (\$2,893,045) unreserved. Unreserved fund balance represents 10.3 percent of total general fund expenditures.

The fund balance of Champaign County's general fund decreased by \$1,541,282 during the fiscal year, due primarily to a one-time, \$1.2 million transfer to the County Nursing Home.

The County Motor Fuel Tax Fund decreased \$3.6 million during the current fiscal year. This reflects a decision to address deteriorating infrastructure with increased road improvement projects.

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.

Unrestricted net assets of the Champaign County Nursing Home at the end of the year amounted to \$100,667 (\$1,976,010 Total Net Assets, including investment in Capital Assets, net of related debt).

### General Fund Budgetary Highlights

During the year there was a \$1,321,211 increase in appropriations between the original and final amended budget. The increase was possible because of additional resources. Those revenues included an increase in intergovernmental revenue of \$371,492 and licenses and permits of \$300,000. At the end of the year revenues outpaced expenditures by \$60,546. After Other Financing Sources and Uses were added, the General Fund balance fell, decreasing a total of \$1,541,282 over the course of the year.

### 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, 2006, amounts to \$90,369,971 (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	
	2005	2006	2005	2006	2005	2006
Land	\$ 1,765	\$ 1,688	\$ -	\$ -	\$ 1,765	\$ 1,688
Construction in Progress	26,003	23,583	323	339	26,326	23,922
Infrastructure	22,333	22,668	-	-	22,333	22,668
Buildings and Improvements	38,169	36,321	1,448	1,283	39,617	37,604
Equipment	4,056	4,218	299	270	4,355	4,488
Total	\$ 92,326	\$ 88,478	\$ 2,070	\$ 1,892	\$ 94,396	\$ 90,370

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 \$61,190,146. 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	
	2005	2006	2005	2006	2005	2006
General Obligation Bonds	\$ 51,863	\$ 55,839	\$ -	\$ -	\$ 51,863	\$ 55,839
Intergovernmental Loans	549	497	-	-	549	497
Capital Lease Obligations	372	266	-	17	372	283
Estimated Claims Payable	932	1,831	-	-	932	1,831
Compensated Absences	2,143	2,346	340	394	2,483	2,740
Total	\$ 55,859	\$ 60,779	\$ 340	\$ 411	\$ 56,199	\$ 61,190

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 and Next Year's Budgets and Rates**

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, and has several new buildings under construction. This stability helps make Champaign County's revenues more stable than many other counties'.

The equalized assessed value (EAV) of taxable property in the County for 2005 levy year was \$2,801,111,358, which represents one-third market value. Residential properties make up 63.3% of the EAV for the 2005 levy year. Commercial development constitutes 30.3%, while farmland is 6.4%.

One of the County's largest sources of revenue is from the State. The State has experienced increased revenues over the last year, but continues to have budgetary problems. It appears that their contributions to the County, as a percentage of total revenues, will continue to decline. If this trend continues, the County will have to consider the possibility of enhancing revenue from local sources or committing to expenditure reductions.

### **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.