

Lincoln County

Management's Discussion and Analysis

December 31, 2008

Our discussion and analysis of Lincoln County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2008, within the limitations of the County's modified cash basis of accounting. Please read it in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- The County's total expenditures of \$16,317,206.59, which included expenditures of \$2,894,633.26 for the construction of the new courthouse addition, exceeded total revenue of \$12,579,633.26, on the modified cash basis of accounting, by \$3,738,032.05 for the year, received insurance proceeds of \$38,388.03, received \$125.00 from the sale of county property and issued Long Term Debt in the amount of \$500,000.00 for a Tax Increment Financing District, resulting in a decrease in total net assets of \$3,199,530.02.
- The County's General Fund ended the year with an undesignated fund balance of \$3,798,635.30, a decrease of \$854,742.00 from 2007.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the County's modified cash basis of accounting.

Report Components

This annual report consists of four parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities provide information about the activities of the County using a government-wide focus (or "as a whole").

Fund Financial Statements: Fund financial statements focus on the individual parts of County government. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. For fiduciary funds, these statements reflect the balance of flow-thru type funds at the end of the year.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedules represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund

financial statements, and notes (referred to as “the basic financial statement”). The Budgetary Comparison Schedule is presented on a budgetary basis of accounting whereby capital outlay expenditures are reported within the respective functions rather than as a separate capital outlay function.

Basis of Accounting

The County has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the County’s modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses of goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the County as a Whole

The County’s Reporting Entity Presentation

This annual report includes all activities for which the County Board is fiscally responsible. These activities, defined as the County’s reporting entity make up the primary government.

The Government-Wide Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the County’s finances is, “Is the County as a whole better off or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all of the County’s assets resulting from the use of the modified cash basis of accounting.

These two statements report the County’s net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the County’s net assets as 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 its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County’s assessed valuation and the condition of the County’s roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities the following is reported:

Governmental activities. Most of the County’s basic services are reported here, including the law enforcement, fire, general government, roads and courts. Property taxes and state and federal grants finance most of these activities.

Reporting the County's Most Significant Funds

The Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the County as a whole. Some funds are required to be established by State law and by bond covenants. However, the County Board establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County has two kinds of funds – government and fiduciary.

Governmental funds –Most of the County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The County considers the General Fund, Capital Projects New Courthouse Building Fund and the Road Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled non-major funds.

Fiduciary funds – Fiduciary funds are used to account for assets that are primarily flow-thru in nature. These funds are used to account for revenues for which the county has the fiduciary responsibility to apportion, such as, property taxes and license plates revenues.

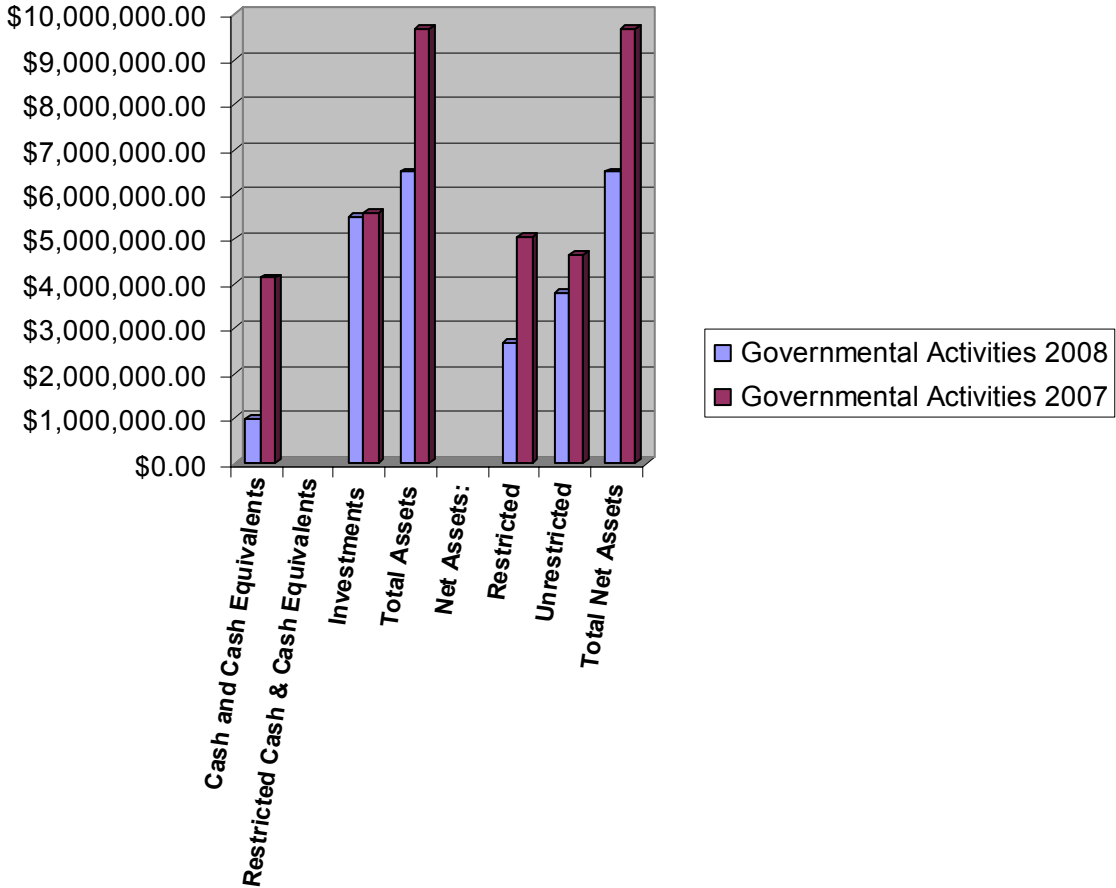
A FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets – Modified Cash Basis

	Governmental Activities 2007	2008	Percent Change
Cash and Cash Equivalents	4,131,984.39	1,000,000.00	-75.80%
Restricted Cash & Cash Equivalents	0	0	
Investments	5,562,507.50	5,494,961.87	-1.21%
Total Assets	9,694,491.89	6,494,961.87	-33.00%
Net Assets:			
Restricted	5,041,114.59	2,696,326.57	-46.51%
Unrestricted	4,653,377.30	3,798,635.30	-18.37%
Total Net Assets	9,694,491.89	6,494,961.87	-33.00%

Net assets of the County's governmental activities decreased 33.00 percent to \$6,494,961.87. However, \$2,696,326.57 of those net assets is restricted as to the purposes they can be used for. Consequently, unrestricted net assets showed only \$3,798,635.30 at the end of this year.

Governmental Activities - Net Assets

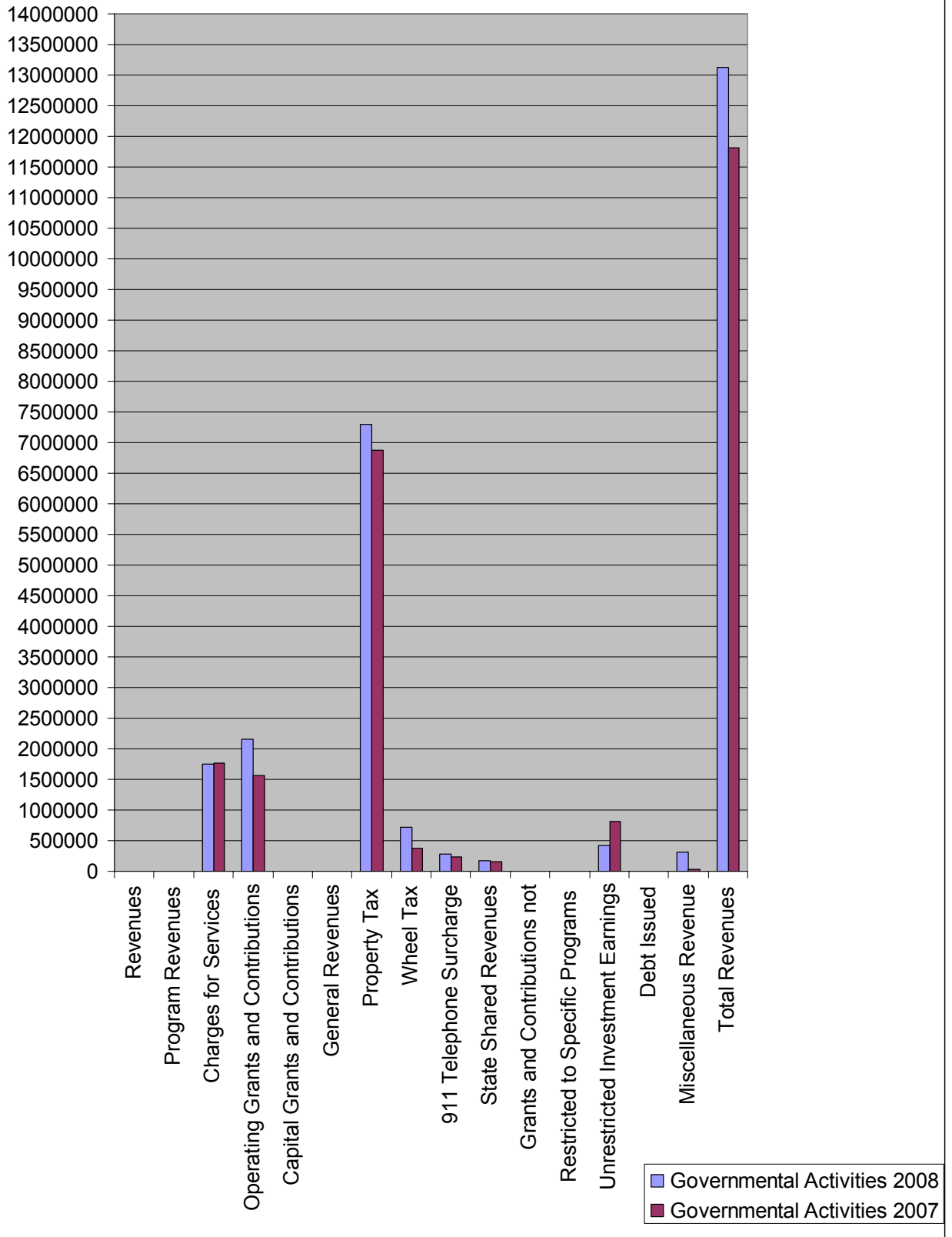


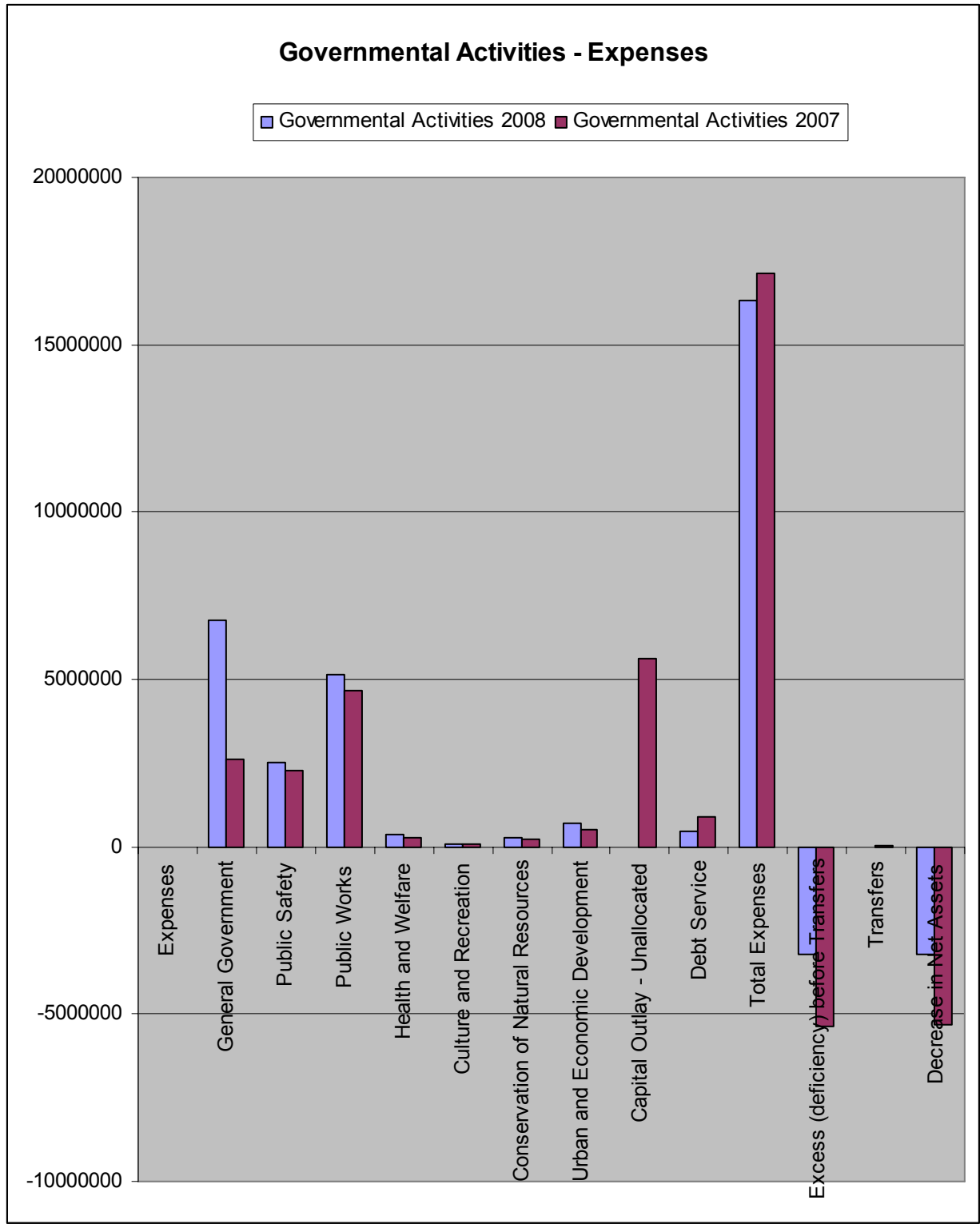
Changes in Net Assets – Modified Cash Basis

For the year ended December 31, 2008, net assets of the primary government (resulting from modified cash basis transactions) are as follows:

	Governmental Activities 2007	Governmental Activities 2008	Percent Change
Revenues			
Program Revenues			
Charges for Services	\$1,771,445.60	\$1,756,899.55	-82%
Operating Grants and Contributions	\$1,565,922.75	\$2,149,915.41	37.29%
Capital Grants and Contributions	\$0.00	\$0.00	
General Revenues			
Property Tax	\$6,872,102.46	\$7,303,465.95	6.28%
Wheel Tax	\$376,838.17	\$715,380.27	89.38%
911 Telephone Surcharge	\$227,415.73	\$279,846.17	23.05%
State Shared Revenues	\$154,605.76	\$171,694.69	11.05%
Grants and Contributions not Restricted to Specific Programs	\$1,824.00	\$1,763.00	-3.34%
Unrestricted Investment Earnings	\$808,201.95	\$418,606.18	-48.20%
Debt Issued	\$0.00	\$0.00	
Miscellaneous Revenue	\$28,478.98	\$320,105.35	102.40%
Total Revenues	\$11,806,835.40	\$13,117,676.57	11.10%
Governmental Activities			
	2007	2008	
Expenses			
General Government	\$2,611,784.72	\$6,756,190.46	158.68%
Public Safety	\$2,292,731.24	\$2,520,431.09	9.93%
Public Works	\$4,644,645.79	\$5,152,710.82	10.94%
Health and Welfare	\$285,888.53	\$367,644.37	28.60%
Culture and Recreation	\$62,876.09	\$66,218.32	5.32%
Conservation of Natural Resources	\$223,192.42	\$279,446.57	25.20%
Urban and Economic Development	\$506,621.96	\$696,085.44	37.40%
Capital Outlay – Unallocated	\$5,632,196.45		-100%
Debt Service	\$893,383.76	\$478,479.52	-46.44%
Total Expenses	\$17,153,320.96	\$16,317,206.59	-4.87%
Excess (deficiency) before Transfers	\$-5,346,485.56	-\$3,199,530.02	40.16%
Transfers	\$14,513.77		-100%
Increase (Decrease) in Net Assets	\$-5,331,971.79	-\$3,199,530.02	39.99%

Governmental Activities - Revenue





Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenue, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first

column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the County's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

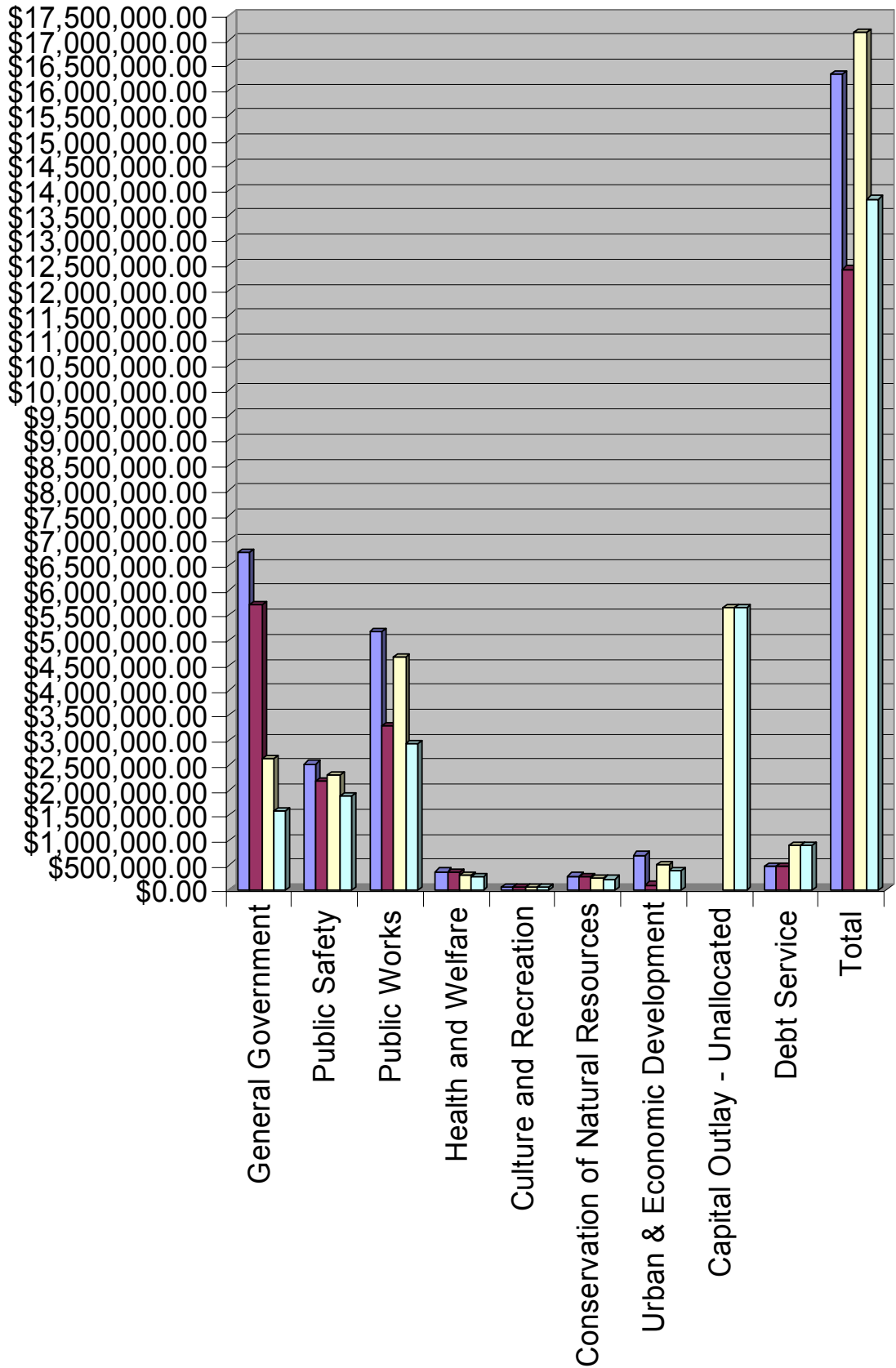
For the year ended December 31, 2008, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$16,317,206.59. Of these total expenses, taxpayers and other general revenues and transfers funded only \$9,210,861.61 while those directly benefiting from the program funded \$2,149,915.41 from grants and other contributions and \$1,756,899.55 from charges for services.

Net Cost of County of Lincoln's Governmental Activities – Modified Cash Basis

	2007 Total Cost of Services	2008 Total Cost Of Services	2007 Net Cost of Services	2008 Net Cost Of Services
General Government	\$2,611,784.72	\$6,756,190.46	\$1,588,329.68	\$5,706,440.80
Public Safety	\$2,292,731.24	\$2,520,431.09	\$1,883,126.15	\$2,169,615.16
Public Works	\$4,644,645.79	\$5,152,710.82	\$2,923,308.37	\$3,274,627.09
Health and Welfare	\$285,888.53	\$367,644.37	\$252,911.69	\$343,947.07
Culture and Recreation	\$62,876.09	\$66,218.32	\$43,486.72	\$66,218.32
Conservation of Natural Resources	\$223,192.42	\$279,446.57	\$216,380.33	\$274,496.57
Urban & Economic Development	\$506,621.96	\$696,085.44	\$382,829.46	\$96,567.10
Capital Outlay – Unallocated	\$5,632,196.45		\$5,632,196.45	
Debt Service	\$893,383.76	\$478,479.52	\$893,383.76	\$478,479.52
Total	\$17,153,320.96	\$16,317,206.59	\$13,815,952.61	\$12,410,391.63

Cost of Services

■ 2008 Total Cost of Service ■ 2007 total Cost of Services
■ 2008 Net Cost of Services ■ 2007 Net Cost of Services



A FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS.

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

- On the modified cash basis of accounting, the General Fund reported revenues of \$8,413,067.51, Insurance proceeds of \$13,377.03, \$125.00 for sale of county property and expenditures and net transfers of \$9,281,311.54, resulting in a decrease in fund balance of \$854,742.00.
- An increase in property tax revenue in the General Fund of \$690,394.95 from the prior year was recognized. In analyzing this increase, a majority of the increase can be attributed to new growth of 6.14% in the County.
- Total taxes in the amount of \$718,464.25 were collected for payment of debt issued to finance the new courthouse addition.
- The Capital Projects-Courthouse Building Fund earned \$45,957.76 in interest on investments and realized expenditures of \$2,894,633.2645 for the construction of the new administration building which neared completion resulting in a decrease in fund balance of \$2,848,675.50.
- The Road and Bridge Fund realized an increase in Wheel Tax Revenue of \$338,542.10 as the County amended their Wheel Tax Ordinance from \$2.00 a wheel to \$4.00 a wheel.
- The County purchased a hangar at the Lincoln County Marv Skie Airport for \$237,500.00 and is leasing the building to the Fixed Based Operator for \$1,000.00 per month.
- The County purchased land in the City of Canton for \$37,000 to use as a parking lot for the Courthouse.
- A Tax Increment Financing District was created for infrastructure improvements in the City of Lennox. Long term debt was issued in the amount of \$500,000.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget at various times. Total budgetary supplements and contingency transfers totaled \$251,109.27. The following are included in this amount: \$114,200.00 contingency transfers; \$70,359.53 supplements from unanticipated revenue received in grant funds; and \$190,000.00 formal supplements to the budget. Other significant budgetary adjustments include \$6,750.00 to the Rural Fire budget for the disbursement of funds accumulated and \$215,000.00 to the Airport budget for unanticipated expenditures; \$410,000.00 to the Capital Projects Fund TIF #4 Budget; \$90,000.00 to the Debt Service Fund TIF #4 Budget; \$500.00 to the Debt Service TIF #3 Budget and \$2,000.26 to the Debt Service Courthouse Building Fund Budget.

For the year ended December 31, 2008, General Fund expenditures were \$546,128.73 below final appropriations, while actual resources available for appropriation were \$424,198.49 above the final budgeted amount.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year ending December 31, 2009, the County's budget is fairly consistent with this year.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This report is designated to provide our citizens, taxpayers, customers, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's office at 104 N. Main, Suite 110, Canton, SD 57013, County of Lincoln or telephone at (605) 764-2581.

