

LINCOLN COUNTY

AUDIT REPORT

For the Year Ended December 31, 2015

LINCOLN COUNTY
COUNTY OFFICIALS
December 31, 2015

Board of Commissioners:
James Schmidt, Chairman
David Gillespie
Dan King
Dale Long
Michael Poppens

Auditor:
Marlene Sweeter

Treasurer:
Debra Turner

State's Attorney:
Thomas Wollman

Register of Deeds:
Becky Mathiesen

Sheriff:
Dennis Johnson

LINCOLN COUNTY
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427 SOUTH CHAPELLE
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PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

County Commission
Lincoln County
Canton, South Dakota

We have audited, 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, the modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln County, South Dakota (County), as of December 31, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on

the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

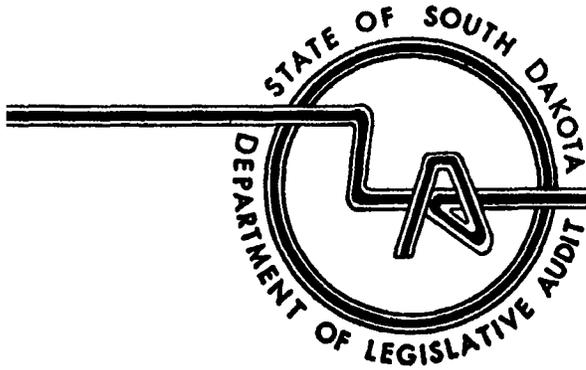
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Martin L. Guindon, CPA
Auditor General

September 20, 2016



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

County Commission
Lincoln County
Canton, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Lincoln County, South Dakota (County), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the County's compliance.

Opinion on Each Major Federal Program

In our opinion, Lincoln County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Martin L. Guindon, CPA
Auditor General

September 20, 2016

LINCOLN COUNTY
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Audit Findings:

The prior audit report contained no written federal audit findings.

Prior Other Audit Finding:

Finding No. 2014-001:

Internal accounting controls over financial reporting for the years 2014 and 2013 were inadequate resulting in inaccurate information being presented to the users of the annual financial report. This finding has been resolved.

SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

Summary of the Independent Auditor's Results:

Financial Statements

- a. An unmodified opinion was issued on the financial statements of each opinion unit
- b. No material weaknesses or significant deficiencies were disclosed by our audit of the financial statements.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

Federal Awards

- d. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- e. Our audit did not disclose any audit findings that need to be disclosed in accordance with 2 CFR 200.516(a).
- f. The federal award tested as a major program was:

Hazard Mitigation Grant	CFDA # 97.039
-------------------------	---------------
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. Lincoln County did not qualify as a low-risk auditee.

Current Federal Audit Findings:

There are no written current federal compliance audit findings to report.

Current Other Audit Findings:

There are no written current other audit findings to report.



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

County Commission
Lincoln County
Canton, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln County, South Dakota (County), as of December 31, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The County's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln County as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

We draw attention to Note 1.c. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

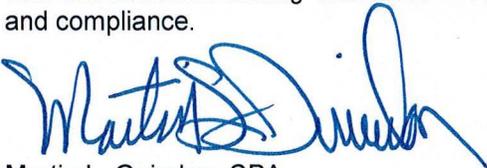
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Budgetary Comparison Schedules, the Schedule of the County's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of Changes in Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the County's internal control over financial reporting and compliance.



Martin L. Guindon, CPA
Auditor General

September 20, 2016

LINCOLN COUNTY
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2015

	Primary Government Governmental Activities
ASSETS:	
Cash and Cash Equivalents	\$ 7,795,876.79
Investments	5,000,000.00
TOTAL ASSETS	\$ 12,795,876.79
NET POSITION:	
Restricted For: (See Note 7)	
Road and Bridge Purposes	\$ 2,314,874.99
Debt Service Purposes	478,026.03
Other Purposes	167,890.55
Unrestricted	9,835,085.22
TOTAL NET POSITION	\$ 12,795,876.79

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 11,059,901.14	\$ 1,226,719.20	\$ 55,324.62	\$	\$ (9,777,857.32)
Public Safety	4,325,280.86	484,047.69	531,446.89		(3,309,786.28)
Public Works	7,562,702.74	498,746.81	3,771,306.63	408,864.46	(2,883,784.84)
Health and Welfare	476,225.72	75,563.82			(400,661.90)
Culture and Recreation	235,868.45				(235,868.45)
Conservation of Natural Resources	180,954.23				(180,954.23)
Urban and Economic Development	1,140,289.71	169,094.05			(971,195.66)
Intergovernmental	483,231.55				(483,231.55)
*Interest on Long-Term Debt	466,878.88				(466,878.88)
Total Primary Government	\$ 25,931,333.28	\$ 2,454,171.57	\$ 4,358,078.14	\$ 408,864.46	(18,710,219.11)
General Revenues:					
Taxes:					
					10,514,859.15
					974,102.23
					367,390.25
					1,447.00
					69,317.84
					65,915.29
					2,935,245.00
					<u>14,928,276.76</u>
					(3,781,942.35)
					<u>16,577,819.14</u>
					<u>\$ 12,795,876.79</u>

* The County does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Courthouse Debt Service Fund</u>	<u>Highway Building Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Cash and Cash Equivalents	\$ 3,209,579.61	\$ 1,810,929.76	\$ 478,026.03	\$ 1,810,581.63	\$ 486,759.76	\$ 7,795,876.79
Investments	<u>5,000,000.00</u>					<u>5,000,000.00</u>
TOTAL ASSETS	<u>\$ 8,209,579.61</u>	<u>\$ 1,810,929.76</u>	<u>\$ 478,026.03</u>	<u>\$ 1,810,581.63</u>	<u>\$ 486,759.76</u>	<u>\$ 12,795,876.79</u>
FUND BALANCES: (See Note 1.j.)						
Restricted	\$	\$ 504,293.36	\$ 478,026.03	\$ 1,810,581.63	\$ 167,890.55	\$ 2,960,791.57
Assigned	3,950,444.00	1,306,636.40			334,223.69	5,591,304.09
Unassigned	<u>4,259,135.61</u>				<u>(15,354.48)</u>	<u>4,243,781.13</u>
TOTAL FUND BALANCES	<u>\$ 8,209,579.61</u>	<u>\$ 1,810,929.76</u>	<u>\$ 478,026.03</u>	<u>\$ 1,810,581.63</u>	<u>\$ 486,759.76</u>	<u>\$ 12,795,876.79</u>

The notes to the financial statements are an integral part of this statement.

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LINCOLN COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Road and Bridge Fund	Courthouse Debt Service Fund	Highway Building Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
General Property Taxes--Current	\$ 9,651,552.71	\$	\$ 647,739.34	\$	\$ 77,275.70	\$ 10,376,567.75
General Property Taxes--Delinquent	79,550.16		5,977.71		814.18	86,342.05
Penalties and Interest	18,664.10		1,388.94		231.31	20,284.35
Telephone Tax (Outside)	6,412.94					6,412.94
Mobile Home Tax	23,495.13		1,572.48		184.45	25,252.06
Wheel Tax		974,102.23				974,102.23
Licenses and Permits	187,104.05					187,104.05
Intergovernmental Revenue:						
Federal Grants	60,782.27	484,386.54			426,631.08	971,799.89
Federal Payments in Lieu of Taxes		1,447.00				1,447.00
State Grants	48,963.26	468,891.28			33,308.81	551,163.35
State Shared Revenue:						
Bank Franchise	124,530.02		8,334.62		3,268.56	136,133.20
Motor Vehicle Licenses		2,217,692.84				2,217,692.84
Prorate License Fees		113,496.12				113,496.12
63 3/4% Mobile Home		7,451.17				7,451.17
Telecommunications Gross Receipts Tax	231,257.05					231,257.05
Motor Vehicle 1/4%	12,224.62					12,224.62
Motor Fuel Tax		12,253.08				12,253.08
911 Remittances					471,997.07	471,997.07
Charges for Goods and Services:						
General Government:						
Treasurer's Fees	74,325.30					74,325.30
Register of Deeds' Fees	904,722.50				43,714.30	948,436.80
Legal Services	117,013.97				5,619.00	122,632.97
Clerk of Courts Fees	34,623.17					34,623.17
Other Fees	27,154.68					27,154.68
Public Safety:						
Law Enforcement	286,417.32					286,417.32
Sobriety Testing					49,151.00	49,151.00
Other					64,689.24	64,689.24
Public Works:						
Road Maintenance Contract Charges		88,381.11				88,381.11
Other	35,694.47				374,671.23	410,365.70

Health and Welfare:						
Economic Assistance:						
Poor Lien Recoveries	25,491.07					25,491.07
Health Assistance:						
Women, Infants and Children				4,799.94		4,799.94
Mental Health Services	45,272.81					45,272.81
Fines and Forfeits:						
Fines	8,357.20					8,357.20
Costs	24,342.02					24,342.02
Forfeits	45,054.00					45,054.00
Other	1,816.91					1,816.91
Miscellaneous Revenue:						
Investment Earnings	36,153.53	9,152.87	17,916.40	728.64	5,366.40	69,317.84
Rent	5,756.28					5,756.28
Special Assessments					408,864.46	408,864.46
Contributions and Donations	100.00					100.00
Refund of Prior Year's Expenditures		65,815.29				65,815.29
Total Revenues	12,116,831.54	4,443,069.53	682,929.49	728.64	1,970,586.73	19,214,145.93
Expenditures:						
General Government:						
Legislative:						
Board of County Commissioners	237,364.04					237,364.04
Elections	12,168.99					12,168.99
Judicial System	517,250.59					517,250.59
Financial Administration:						
Auditor	304,355.63					304,355.63
Treasurer	485,982.50					485,982.50
Legal Services:						
State's Attorney	888,292.30					888,292.30
Other Administration:						
General Government Building	642,987.47					642,987.47
Director of Equalization	778,952.03					778,952.03
Register of Deeds	240,749.07				25,356.28	266,105.35
Veterans Service Officer	21,729.07					21,729.07
Predatory Animal	3,453.87					3,453.87
Other	64,861.72					64,861.72
Geographic Information System	177,507.87					177,507.87
Information Technology	372,767.21					372,767.21
Human Resources	58,207.50					58,207.50
Public Safety:						
Law Enforcement:						
Sheriff	2,177,879.54					2,177,879.54
Coroner	26,986.01					26,986.01
Juvenile Detention	95,897.00					95,897.00
Other Law Enforcement					59,877.76	59,877.76

LINCOLN COUNTY
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 For the Year Ended December 31, 2015
 (Continued)

	General Fund	Road and Bridge Fund	Courthouse Debt Service Fund	Highway Building Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Protective and Emergency Services:						
Fire Protection					77,000.00	77,000.00
Emergency and Disaster Services					126,791.36	126,791.36
Flood Control	13,982.79				1,027,625.23	1,041,608.02
Communication Center					719,093.37	719,093.37
Public Works:						
Highways and Bridges:						
Highways, Roads and Bridges		5,985,982.19		1,125,392.01		7,111,374.20
Sanitation:						
Solid Waste					374,185.13	374,185.13
Transportation:						
Airport					78,860.41	78,860.41
Health and Welfare:						
Economic Assistance:						
Support of Poor	156,540.68					156,540.68
Public Welfare	227.31					227.31
Health Assistance:						
Health Services	15,500.00					15,500.00
Women, Infants and Children					6,303.53	6,303.53
Social Services:						
Domestic Abuse					6,000.00	6,000.00
Mental Health Services:						
Mentally Ill	244,956.20					244,956.20
Drug Abuse	1,870.00					1,870.00
Mental Health Centers	44,828.00					44,828.00
Culture and Recreation:						
Culture:						
Public Library	25,600.00					25,600.00
Recreation:						
Parks	15,000.00					15,000.00
Exhibition Building	6,241.25					6,241.25
County Fair	132,998.16					132,998.16
Senior Center	56,029.04					56,029.04
Conservation of Natural Resources:						
Soil Conservation:						
Soil Conservation Districts	20,000.00					20,000.00
Weed and Pest Control	163,011.37					163,011.37

Urban and Economic Development:						
Urban Development:						
Planning and Zoning	232,288.71					232,288.71
Economic Development:						
Tourism, Industrial or Recreational Development	8,175.00					8,175.00
Intergovernmental Expenditures	32,000.00	146,115.34			305,116.21	483,231.55
Debt Service			6,585,651.26		1,011,227.62	7,596,878.88
Total Expenditures	<u>8,276,640.92</u>	<u>6,132,097.53</u>	<u>6,585,651.26</u>	<u>1,125,392.01</u>	<u>3,817,436.90</u>	<u>25,937,218.62</u>
Excess of Revenues Over (Under) Expenditures	<u>3,840,190.62</u>	<u>(1,689,028.00)</u>	<u>(5,902,721.77)</u>	<u>(1,124,663.37)</u>	<u>(1,846,850.17)</u>	<u>(6,723,072.69)</u>
Other Financing Sources (Uses):						
Transfers In		2,000,000.00			1,162,936.00	3,162,936.00
Transfers Out	(3,162,936.00)					(3,162,936.00)
Insurance Proceeds	3,722.20					3,722.20
Sale of County Property	2,163.14					2,163.14
Total Other Financing Sources (Uses)	<u>(3,157,050.66)</u>	<u>2,000,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>1,162,936.00</u>	<u>5,885.34</u>
Special Items (See Note 11)				2,935,245.00		2,935,245.00
Net Change in Fund Balance	683,139.96	310,972.00	(5,902,721.77)	1,810,581.63	(683,914.17)	(3,781,942.35)
Fund Balance - Beginning	<u>7,526,439.65</u>	<u>1,499,957.76</u>	<u>6,380,747.80</u>	<u>1,170,673.93</u>	<u>16,577,819.14</u>	<u>16,577,819.14</u>
FUND BALANCE - ENDING	<u>\$ 8,209,579.61</u>	<u>\$ 1,810,929.76</u>	<u>\$ 478,026.03</u>	<u>\$ 1,810,581.63</u>	<u>\$ 486,759.76</u>	<u>\$ 12,795,876.79</u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY
STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2015

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ 1,953,767.56
Investments	<u>5,000.00</u>
TOTAL ASSETS	<u><u>\$ 1,958,767.56</u></u>
NET POSITION:	
Net Position Held in Agency Capacity	<u>\$ 1,958,767.56</u>
TOTAL NET POSITION	<u><u>\$ 1,958,767.56</u></u>

The notes to the financial statements are an integral part of this statement.

LINCOLN COUNTY
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity:

The reporting entity of Lincoln County (County), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the County or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the County financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Road and Bridge Fund – to account for funds credited to the road and bridge fund pursuant to SDCL 32-11-4.2 to be used by the board of county commissioners for grading, constructing, planing, dragging, and maintaining county highways and also for dragging, maintaining, and grading secondary roads. Proper equipment for dragging, grading, and maintaining highways, such as graders, tractors, drags, maintainers, and planers may be purchased from the road and bridge fund. (SDCL 32-11-2 and 32-11-4.2) This is a major fund.

The remaining special revenue funds are not considered major funds: 911 Service, Fire Protection, Emergency Management, Domestic Abuse, Airport, Women, Infants and Children (WIC), Solid Waste, 24/7 Sobriety, and Modernization and Preservation Relief. These funds are reported on the fund financial statements as "Other Governmental Funds."

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Courthouse Debt Service Fund – to account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is a major fund.

The remaining debt service funds are not considered major funds: Hudson Ethanol Tax Increment District #3, Wilson Trailer Company Tax Increment District #4, and Canton Industrial Park Tax Increment District #7.

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Highway Building Capital Projects Fund – to account for financial resources to be used for the construction of a new highway building. This is a major fund.

The remaining capital projects fund is not considered a major fund: Spring Creek Tributary Capital Projects Fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The County’s basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the County in these financial statements is:

Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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 certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the County applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the County and the related depreciation are not reported on the financial statements of the County.

f. Long-Term Liabilities:

Long-term liabilities include Certificates of Participation and Financing (Capital Acquisition) Leases.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The County has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the County. The County does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The County has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the County's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Nonspendable”, “Restricted”, “Committed”, “Assigned”, and “Unassigned” components. Agency Funds have no fund equity. The Net Position is reported as Net Position Held in Agency Capacity.

i. Application of Net Position:

It is the County’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

j. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the County classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the County Commissioners.

- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The County uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

The Government *does not* have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund

Road and Bridge Fund

Revenue Source

Motor Vehicle License, Grants, Taxes, and Intergovernmental Revenue

A schedule of fund balances is provided as follows:

**LINCOLN COUNTY
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Courthouse Debt Service Fund</u>	<u>Highway Building Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Restricted For:						
Snow Removal Purposes	\$	\$ 405,316.17	\$	\$	\$	\$ 405,316.17
Highway and Bridge Reserve Purposes		98,977.19				98,977.19
Courthouse Building Debt Service Purposes			478,026.03			478,026.03
Highway Building Capital Project Purposes				1,810,581.63		1,810,581.63
Rural Fire Purposes					18,949.66	18,949.66
Domestic Abuse Purposes					8,556.65	8,556.65
Modernization and Preservation Relief Purposes					55,999.32	55,999.32
24-7 Purposes					30,691.80	30,691.80
Tax Increment #7 Debt Service Purposes					53,693.12	53,693.12
Assigned To:						
Applied to Next Year's Budget	3,950,444.00					3,950,444.00
Road and Bridge Purposes		1,306,636.40				1,306,636.40
Emergency Management Purposes					35,175.87	35,175.87
911 Service Purposes					62,352.96	62,352.96
Women, Infants and Children Purposes					4,699.79	4,699.79
Solid Waste Purposes					116,937.99	116,937.99
Airport Purposes					67,033.28	67,033.28
Spring Creek Tributary Capital Project Purposes					48,023.80	48,023.80
Unassigned	4,259,135.61				(15,354.48)	4,243,781.13
Total Fund Balances	<u>\$ 8,209,579.61</u>	<u>\$ 1,810,929.76</u>	<u>\$ 478,026.03</u>	<u>\$ 1,810,581.63</u>	<u>\$ 486,759.76</u>	<u>\$ 12,795,876.79</u>

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The County is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	Year Ended 12/31/2015
Courthouse Debt Service Fund:	
<u>Activity</u>	
Debt Service	\$ 5,963,501.26

In June of 2013, the County entered into an advance crossover refunding transaction to refund a portion of the Series 2006 Limited Tax General Obligation Certificates. The crossover date for the final payment of the Series 2006 Certificates was December 1, 2015. The County's 2015 adopted budget did not include the December 1, 2015 crossover refunding payment, although the County had agreed to make the payment through the approval of the refunding agreement.

3. DEFICIT FUND BALANCES / NET POSITION OF INDIVIDUAL NONMAJOR FUNDS

As of December 31, 2015, the following individual nonmajor funds had deficit fund balance/net position in the amounts shown:

Hudson Ethanol Tax Increment District #3 Fund	\$ (15,354.48)
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The Board of County Commissioners plans to take the following actions to address the deficit fund balance/deficit net position:

The County will eliminate the deficit fund balance through subsequent tax collections.

4. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The County follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The County's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1, and 7-20-1.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits County funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the County, as discussed above. The County has no investment policy that would further limit its investment choices.

As of December 31, 2015, the County had the following investments.

Investment	Credit Rating	Fair Value
External Investment Pools:		
SDFIT	Unrated	\$ 41,616.57

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Concentration of Credit Risk – The County places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The County’s policy is to credit all income from investments to the fund making the investment.

5. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property, and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The County is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the County.

6. CONDUIT DEBT

In the past, the County has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the County, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2015, there were four series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$16,858,633.00.

7. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2015 was as follows:

Major Purposes:

Road and Bridge Purposes	\$ 2,314,874.99
Debt Service Purposes	<u>478,026.03</u>

Other Purposes:

Rural Fire Purposes	18,949.66
Domestic Abuse Purposes	8,556.65
24/7 Sobriety Purposes	30,691.80
Modernization and Preservation Relief Purposes	55,999.32
Tax Increment District #7 Purposes	<u>53,693.12</u>

Total Other Purposes	<u>167,890.55</u>
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Total Restricted Net Position **\$ 2,960,791.57**

These balances are restricted due to federal grant and statutory requirements.

8. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2015 were as follows:

<u>Transfers From:</u>	<u>Transfers To:</u>		<u>Total</u>
	Road and Bridge Fund	Other Governmental Funds	
Major Funds:			
General Fund	\$ 2,000,000.00	\$ 1,162,936.00	\$ 3,162,936.00

The County typically budgets transfers to the Road and Bridge Fund, 911 Service Fund, Emergency Management Fund, Solid Waste Fund, Airport Fund, and the Spring Creek Capital Project Fund (Other Governmental Funds) to conduct the indispensable functions of the County.

9. RETIREMENT PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The County's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$306,195.09, \$286,079.80, and \$270,088.09, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the County as of June 30, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 29,220,495.46
Less proportionate share of total pension liability	<u>28,070,473.80</u>
Proportionate share of net pension liability (asset)	<u>\$ (1,150,021.66)</u>

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the County's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the County's proportion was 0.2711493%, which is an increase of 0.0071191% from its proportion measured as of June 30, 2014.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the County's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the County's proportionate share of the net pension liability (asset) would be if it were calculated

using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
County's proportionate share of the net pension liability (asset)	\$ 2,894,591.64	\$ (1,150,021.66)	\$ (4,448,055.48)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

10. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2015, the County was involved in several lawsuits. No determination can be made at this time regarding the potential outcome of these lawsuits. However, as discussed in the Risk Management note, the County has liability coverage for itself and its employees with commercial carrier. Therefore, no material effects are anticipated to the County as a result of the potential outcome of these lawsuits.

11. SPECIAL ITEM

Special items are significant transactions within the control of management that are either unusual in nature or infrequent in occurrence. In 2015, the County entered into an agreement with the State of South Dakota (State) to accept the right-of-way ownership and jurisdiction of a portion of SD Highway 17. The County subsequently entered into a maintenance contract with the State to maintain the highway right-of-way and received \$2,935,245.00. As it is infrequent for the State to sell a portion of their highway for a minimal price and pay a maintenance contract subsequent to the sale, the proceeds were reported as a special item. The County Commission decided to dedicate the amount received from the State to be used to help fund the construction of a new highway building, as such, this amount is reflected in the Highway Building Capital Project Fund.

12. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the County managed its risks as follows:

Employee Health Insurance:

The County purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The County purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The County joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The County's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The County pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The County does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The County has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2015, one claim was filed for unemployment benefits. This claim resulted in the payment of benefits in the amount of \$7,024.00. At December 31, 2015, no claims had been filed and were outstanding.

SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes--Current	\$ 9,723,649.00	\$ 9,723,649.00	\$ 9,651,552.71	\$ (72,096.29)
General Property Taxes--Delinquent	59,700.00	59,700.00	79,550.16	19,850.16
Penalties and Interest	15,000.00	15,000.00	18,664.10	3,664.10
Telephone Tax (Outside)	4,000.00	4,000.00	6,412.94	2,412.94
Mobile Home Tax	20,200.00	20,200.00	23,495.13	3,295.13
Licenses and Permits	113,200.00	113,200.00	187,104.05	73,904.05
Intergovernmental Revenue:				
Federal Grants	30,300.00	33,116.46	60,782.27	27,665.81
State Grants	0.00	14,734.12	48,963.26	34,229.14
State Shared Revenue:				
Bank Franchise	80,000.00	80,000.00	124,530.02	44,530.02
Telecommunications Gross Receipts Tax	210,000.00	210,000.00	231,257.05	21,257.05
Motor Vehicle 1/4%	7,350.00	7,350.00	12,224.62	4,874.62
Charges for Goods and Services:				
General Government:				
Treasurer's Fees	54,500.00	54,500.00	74,325.30	19,825.30
Register of Deeds' Fees	735,000.00	735,000.00	904,722.50	169,722.50
Legal Services	85,000.00	85,000.00	117,013.97	32,013.97
Clerk of Courts Fees	33,500.00	33,500.00	34,623.17	1,123.17
Other Fees	19,000.00	19,000.00	27,154.68	8,154.68
Public Safety:				
Law Enforcement	272,000.00	272,000.00	286,417.32	14,417.32
Public Works:				
Other	21,000.00	21,000.00	35,694.47	14,694.47
Health and Welfare:				
Economic Assistance:				
Poor Lien Recoveries	6,000.00	6,000.00	25,491.07	19,491.07
Mental Health Services	30,000.00	30,000.00	45,272.81	15,272.81
Fines and Forfeits:				
Fines	0.00	0.00	8,357.20	8,357.20
Costs	15,000.00	15,000.00	24,342.02	9,342.02
Forfeits	10,000.00	10,000.00	45,054.00	35,054.00
Other	200.00	200.00	1,816.91	1,616.91
Miscellaneous Revenue:				
Investment Earnings	30,000.00	30,000.00	36,153.53	6,153.53
Rent	6,200.00	6,200.00	5,756.28	(443.72)
Contributions and Donations	0.00	0.00	100.00	100.00
Total Revenues	11,580,799.00	11,598,349.58	12,116,831.54	518,481.96
Expenditures:				
General Government:				
Legislative:				
Board of County Commissioners	252,093.00	252,093.00	237,364.04	14,728.96
Contingency	300,000.00	300,000.00		
Amount Transferred		(146,243.00)		153,757.00
Elections	16,275.00	16,275.00	12,168.99	4,106.01
Judicial System	610,265.00	610,265.00	517,250.59	93,014.41
Financial Administration:				
Auditor	326,430.00	326,430.00	304,355.63	22,074.37
Treasurer	512,391.00	512,391.00	485,982.50	26,408.50
Legal Services:				
State's Attorney	913,971.00	913,971.00	888,292.30	25,678.70
Other Administration:				
General Government Building	740,800.00	790,800.00	642,987.47	147,812.53
Director of Equalization	773,387.00	813,387.00	778,952.03	34,434.97
Register of Deeds	256,130.00	256,130.00	240,749.07	15,380.93
Veterans Service Officer	22,880.00	22,880.00	21,729.07	1,150.93
Predatory Animal	3,454.00	3,454.00	3,453.87	0.13
Other	68,250.00	68,250.00	64,861.72	3,388.28
Geographic Information System	208,621.00	208,621.00	177,507.87	31,113.13
Information Technology	324,600.00	373,600.00	372,767.21	832.79
Human Resources	58,618.00	58,618.00	58,207.50	410.50

SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Public Safety:				
Law Enforcement:				
Sheriff	2,342,672.00	2,360,222.58	2,177,879.54	182,343.04
Coroner	31,902.00	31,902.00	26,986.01	4,915.99
Juvenile Detention	139,013.00	139,013.00	95,897.00	43,116.00
Protective and Emergency Services:				
Flood Control	31,300.00	31,300.00	13,982.79	17,317.21
Health and Welfare:				
Economic Assistance:				
Support of Poor	242,220.00	242,220.00	156,540.68	85,679.32
Public Welfare	315.00	315.00	227.31	87.69
Health Assistance:				
Health Services	15,500.00	15,500.00	15,500.00	0.00
Mental Health Services:				
Mentally Ill	257,381.00	257,381.00	244,956.20	12,424.80
Drug Abuse	0.00	2,000.00	1,870.00	130.00
Mental Health Centers	44,828.00	44,828.00	44,828.00	0.00
Culture and Recreation:				
Culture:				
Public Library	25,600.00	25,600.00	25,600.00	0.00
Recreation:				
Parks	15,000.00	15,000.00	15,000.00	0.00
Exhibition Building	13,000.00	13,000.00	6,241.25	6,758.75
County Fair	151,008.00	151,008.00	132,998.16	18,009.84
Senior Center	58,029.00	58,029.00	56,029.04	1,999.96
Conservation of Natural Resources:				
Soil Conservation:				
Soil Conservation Districts	20,000.00	20,000.00	20,000.00	0.00
Weed and Pest Control	173,572.00	173,572.00	163,011.37	10,560.63
Urban and Economic Development:				
Urban Development:				
Planning and Zoning	271,872.00	271,872.00	232,288.71	39,583.29
Economic Development:				
Tourism, Industrial or Recreational Development	8,175.00	8,175.00	8,175.00	0.00
Intergovernmental Expenditures	0.00	32,000.00	32,000.00	0.00
Total Expenditures	<u>9,229,552.00</u>	<u>9,273,859.58</u>	<u>8,276,640.92</u>	<u>997,218.66</u>
Excess of Revenues Over (Under) Expenditures	<u>2,351,247.00</u>	<u>2,324,490.00</u>	<u>3,840,190.62</u>	<u>1,515,700.62</u>
Other Financing Sources (Uses):				
Transfers Out	(4,479,187.00)	(4,479,187.00)	(3,162,936.00)	1,316,251.00
Insurance Proceeds	0.00	0.00	3,722.20	3,722.20
Sale of County Property	0.00	0.00	2,163.14	2,163.14
Total Other Financing Sources (Uses)	<u>(4,479,187.00)</u>	<u>(4,479,187.00)</u>	<u>(3,157,050.66)</u>	<u>1,322,136.34</u>
Net Change in Fund Balance	(2,127,940.00)	(2,154,697.00)	683,139.96	2,837,836.96
Fund Balance - Beginning	<u>7,526,439.65</u>	<u>7,526,439.65</u>	<u>7,526,439.65</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>\$ 5,398,499.65</u>	<u>\$ 5,371,742.65</u>	<u>\$ 8,209,579.61</u>	<u>\$ 2,837,836.96</u>

**SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
ROAD AND BRIDGE FUND
For the Year Ended December 31, 2015**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Wheel Tax	\$ 900,000.00	\$ 900,000.00	\$ 974,102.23	\$ 74,102.23
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	484,386.54	484,386.54
Federal Payments in Lieu of Taxes	1,250.00	1,250.00	1,447.00	197.00
State Grants	0.00	468,891.28	468,891.28	0.00
State Shared Revenue:				
Motor Vehicle Licenses	1,918,750.00	1,918,750.00	2,217,692.84	298,942.84
Prorate License Fees	0.00	0.00	113,496.12	113,496.12
63 3/4% Mobile Home	8,000.00	8,000.00	7,451.17	(548.83)
Motor Fuel Tax	10,000.00	10,000.00	12,253.08	2,253.08
Charges for Goods and Services:				
Public Works:				
Road Maintenance Contract Charges	100,000.00	100,000.00	88,381.11	(11,618.89)
Miscellaneous Revenue:				
Investment Earnings	5,250.00	5,250.00	9,152.87	3,902.87
Other	0.00	0.00	65,815.29	65,815.29
Total Revenues	2,943,250.00	3,412,141.28	4,443,069.53	1,030,928.25
Expenditures:				
Public Works:				
Highways and Bridges:				
Highways, Roads and Bridges	6,818,486.00	7,287,377.28	5,985,982.19	1,301,395.09
Intergovernmental Expenditures	157,500.00	157,500.00	146,115.34	11,384.66
Total Expenditures	6,975,986.00	7,444,877.28	6,132,097.53	1,312,779.75
Excess of Revenues Over (Under) Expenditures	(4,032,736.00)	(4,032,736.00)	(1,689,028.00)	2,343,708.00
Other Financing Sources (Uses):				
Transfers In	4,032,736.00	4,032,736.00	2,000,000.00	(2,032,736.00)
Net Change in Fund Balance	0.00	0.00	310,972.00	310,972.00
Fund Balance - Beginning	1,499,957.76	1,499,957.76	1,499,957.76	0.00
FUND BALANCE - ENDING	\$ 1,499,957.76	\$ 1,499,957.76	\$ 1,810,929.76	\$ 310,972.00

LINCOLN COUNTY
NOTES TO THE SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund
and for each major Special Revenue Fund with a legally required budget

Note 1. Budgets and Budgetary Accounting:

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Between the fifteenth and thirtieth days of July in each year the Board of County Commissioners prepares and files with the County Auditor a provisional budget for the following year, containing a detailed estimate of cash balances, revenues, and expenditures.
2. Prior to the first Tuesday in September in each year a notice of budget hearing is published once each week for two successive weeks, and the text of the provisional budget is published with the first publication.
3. The Board of County Commissioners holds a meeting for the purpose of considering the provisional budget on or prior to the first Tuesday in September in each year. Such hearings must be concluded by October first. Changes made to the provisional budget are entered at length in the minutes of the Board of County Commissioners.
4. Before October first of each year the Board of County Commissioners adopts an annual budget for the ensuing year. The adopted budget is filed in the office of the County Auditor.
5. After adoption by the Board of County Commissioners, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 7.
6. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total county budget.
7. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
8. Unexpended appropriations lapse at year end unless encumbered by resolution of the Board of County Commissioners.
9. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.

**SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
SCHEDULE OF THE COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)**

South Dakota Retirement System

*Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset)	0.2711493%	0.2640302%
County's proportionate share of net pension liability (asset)	\$ (1,150,021.66)	\$ (1,902,229.61)
County's covered-employee payroll	\$ 4,707,575.36	\$ 4,386,098.20
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-24.43%	-43.37%
Plan fiduciary net position as a percentage of the total pension liability (asset)	104.1%	107.3%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the County will present information for those years for which information is available.

LINCOLN COUNTY
NOTES TO SUPPLEMENTARY INFORMATION
Schedule of the Proportionate Share of the Net Pension Liability (Asset)

Changes of benefit terms:

No significant changes.

Changes of assumptions:

No significant changes.

SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures 2015
US Department of Interior - Direct Programs:				
US Fish and Wildlife Service, National Wildlife Refuge Fund (Note 3)	15.659		\$	\$ 1,447.00
Total US Department of Interior			0.00	1,447.00
US Department of Justice - Pass-Through Programs:				
SD Department of Social Services, Recovery Act - Violence Against Women Formula Grant	16.588	STOP-P-15-168		22,083.10
SD Network Against Family Violence and Sexual Assault, Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2015-WE-AX-0059		28,687.10
Total US Department of Justice			0.00	50,770.20
Highway Planning and Construction Cluster:				
US Department of Transportation - Pass-Through Programs:				
SD Department of Transportation, Highway Planning and Construction	20.205	ER 6016, ER 6377, ER 3017		416,356.37
Highway Safety Cluster:				
US Department of Transportation - Pass-Through Programs:				
SD Department of Public Safety, State and Community Highway Safety	20.600	2015-27-24		5,782.58
Other Programs:				
US Department of Transportation - Pass-Through Programs:				
SD Department of Transportation, Airport Improvement Program	20.106	AIP-3-46-0078		11,330.63
Total US Department of Transportation			0.00	433,469.58
US Department of Homeland Security - Pass-Through Programs:				
SD Department of Public Safety - Office of Emergency Management, Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	PA-08-SD-4186		413,818.11
Hazard Mitigation Grant (Note 4)	97.039	DR-1887-10-R		769,373.36
Emergency Management Performance Grants	97.042	EMD-2015-EP-00001		42,548.09
Homeland Security Grant Program	97.067			2,816.46
Total US Department of Homeland Security			0.00	1,228,556.02
GRAND TOTAL			\$ 0.00	\$ 1,714,242.80

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the County under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The County has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Federal Reimbursement

Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 4: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

**SUPPLEMENTARY INFORMATION
LINCOLN COUNTY
SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2015</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2015</u>
Governmental Long-Term Debt:				
Bonds Payable	\$ 14,104,918.59	\$	\$ 7,130,000.00	\$ 6,974,918.59
Financing (Capital Acquisition) Leases	154,371.00		23,878.74	130,492.26
Total	<u>\$ 14,259,289.59</u>	<u>\$ 0.00</u>	<u>\$ 7,153,878.74</u>	<u>\$ 7,105,410.85</u>

Note 1 - Long-Term Debt:

Debt payable at December 31, 2015 is comprised of the following:

Certificate of Participation:

Limited Tax General Obligation - Series 2013, 0.40 to 2.25 Percent Interest, Final Maturity Date of December 2026, Retired by the Courthouse Debt Service Fund. \$ 6,155,000.00

Tax Increment Financing Bonds:

Tax Increment Financing Bonds - Series 2011, 4.00 to 4.375 Percent Interest, Final Maturity Date of December 2027, Retired By the TIF #7 Debt Service Fund. \$ 819,918.59

Financing (Capital Acquisition) Leases:

Capital Lease-2014 Caterpillar Motor Grader, 3.00 Percent Interest, Final Maturity Date of July 2020, Retired by the Road and Bridge Fund \$ 130,492.26