\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ COUNTY

# MANAGEMENT’S DISCUSSION AND ANALYSIS

DECEMBER 31, 20YY

This section of \_\_\_\_\_\_\_\_\_ County’s (County) financial report presents our discussion and analysis of the County’s financial performance during the fiscal year ended on December 31, 20YY. Please read it in conjunction with the County’s financial statements, which follow this section.

# FINANCIAL HIGHLIGHTS

* During the year, the County’s revenues generated from taxes and other revenues of the governmental programs were $642,956 more than the $13,465,199 governmental program expenditures. This is an improvement over the prior year when revenues exceeded expenditures by $151,627.
* The total cost of the County’s programs increased by less than 2% which primarily due to a hiring and overtime freeze implemented by the county commission.
* The general fund reported a $55,460 current year deficit due to an increase in transfers to the road fund for road projects.

# OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

* The first two statements are government-wide financial statements that provide both long-term and short-term information about the County’s overall financial status.
* The remaining statements are fund financial statements that focus on individual parts of the County government, reporting the County’s operations in more detail than the government-wide statements.
* The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
* Proprietary fund statements offer short-and long-term financial information about the activities that the County operates like a business. The County has one proprietary fund for solid waste.
* Fiduciary fund statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Figure A-2 | | | | | | | | |
|  | | | | | | | | |
| Major Features of County's Government-wide and Fund Financial Statements | | | | | | | | |
|  | | | | | | | | |
| Fund Statements | | | | | | | | |
|  |  | Government-Wide Statements | Governmental Funds |  | Proprietary Funds |  | Fiduciary Funds |  |
| Scope |  | Entire County government  (except fiduciary funds) | The activities of the County that are not proprietary or fiduciary, such as public safety and highway maintenance |  | Activities the County operates similar to private business, solid waste fund |  | Instances in which the County is the trustee or agent for someone else's resources. |
| Required Financial Statements |  | \*Statement of Net Position  \*Statement of Activities | \*Balance Sheet  \*Statement of Revenues,  Expenditures and Changes in Fund Balances |  | \*Statement of Net Position  \*Statement of Revenues, Expenses and Changes in Net Position  \*Statement of Cash Flow |  | \*Statement of Fiduciary Net Position  \*Statement of Changes in Fiduciary Net Position |  |
| Accounting Basis and Measurement Focus |  | Accrual accounting and  economic resources focus | Modified accrual accounting and current financial resources focus |  | Accrual accounting and economic resources focus |  | Accrual accounting and  economic resources focus |  |
| Type of Asset/Liability Information |  | All assets and liabilities, both financial and capital, and short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included |  | All assets and liabilities, both financial and capital, and short term and long-term |  | All assets and liabilities, both short-term and long-term; the County's funds do not contain capital assets |  |
| Type of Inflow/Outflow Information |  | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is  due during the year or soon thereafter |  | All revenues and expenses during year, regardless of when cash is received or paid |  | All revenues and expenses during year, regardless of when cash is received or paid |  |

Government-wide Statements

The government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the County’s net position and how it has changed. Net position – the difference between the County’s assets and liabilities – is one way to measure the County’s financial health or position.

* Over time, increases or decreases in the County’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
* To assess the overall health of the County you need to consider additional nonfinancial factors such as changes in the County’s property tax base and the conditions of the County’s roads.

The government-wide financial statements of the County are reported in two categories:

* Governmental Activities - This category include the County’s basic services, such as general government services (auditor office, treasurer’s office, etc.), public safety department, public works department, health and welfare services, culture and recreation services, conservation and natural resource services, urban and economic development programs, and payments to local educational agencies. Property taxes, state shared revenue, federal grants and interest earnings finance most of these activities.
* Business-type Activities – The County charges fees to customers and residents to help cover the costs of certain services it provides. The Solid Waste Fund is included here.

# Fund Financial Statements

The fund financial statements provide more detailed information about the County’s most significant funds – not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes.

* State Law requires some of the funds.
* The County Commission establishes other funds to control and manage money for particular purposes (like the Wetlands Trust).

The County has three kinds of funds:

* Governmental Funds – Most of the County’s basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
* Proprietary Funds – Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The County’s enterprise fund (one type of proprietary fund) is the same as its business-type activities, but provides more detail and additional information, such as cash flow.
* Fiduciary Funds – The County is the trustee, or fiduciary, for various external and internal parties. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County’s fiduciary activities are reported in a separate statement of net position and a statement of changes in net position. We exclude these activities from the County’s government-wide financial statements because the County cannot use these assets to finance its operations.

# FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

# Net Position

The County’s combined net position increased by 5.2% between fiscal year 20XX and 20YY – increasing to $1,028,832.

Table A-1

### Sample County’s Net Position

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Governmental  Activities  20XX | Governmental  Activities  20YY | Business-Type  Activities  20XX | Business-Type  Activities  20YY | Total  20XX | Total  20YY | Total Percentage Change 20XX-20YY |
|  |  |  |  |  |  |  |  |
| Current and Other Assets | 4,653,467 | 5,444,465 | 3,662,610 | 4,112,491 | 8,316,077 | 9,556,957 | 14.9% |
| Capital Assets | 8,027,174 | 7,720,740 | 1,978,757 | 1,921,600 | 10,005,931 | 9,632,339 | (3.7%) |
| Total Assets | 12,680,641 | 13,165,205 | 5,641,367 | 6,034,091 | 18,322,008 | 19,199,296 | 4.8% |
|  |  |  |  |  |  |  |  |
| Long-term Liabilities Outstanding | 691,405 | 669,881 | 659,438 | 709,601 | 1,350,843 | 1,379,482 | 2.1% |
| Other Liabilities | 463,559 | 284,519 | 24,980 | 23,837 | 488,539 | 308,356 | (36.9%) |
| Total Liabilities | 1,154,964 | 954,400 | 684,418 | 733,438 | 1,839,382 | 1,687,838 | (8.2%) |
|  |  |  |  |  |  |  |  |
| Net Position: |  |  |  |  |  |  |  |
| Net Investment in Capital Assets | 7,752,638 | 7,499,819 | 1,978,757 | 1,921,600 | 9,731,395 | 9,421,418 | (3.2%) |
| Restricted | 1,929,598 | 2,307,237 | 427,513 |  | 2,357,111 | 2,307,237 | (2.1%) |
| Unrestricted | 1,843,442 | 2,403,749 | 2,550,678 | 3,379,053 | 4,394,120 | 5,782,802 | 31.6% |
| Total Net Position | 11,525,678 | 12,210,805 | 4,956,948 | 5,300,653 | 16,482,626 | 17,511,458 | 6.2% |
|  |  |  |  |  |  |  |  |
| Beginning Net Position | 11,322,577 | 11,525,678 | 4,798,792 | 4,956,948 | 16,121,369 | 16,482,626 |  |
| Increase (Decrease) in Net  Position | 203,101 | 685,127 | 158,156 | 343,705 | 361,257 | 1,028,832 |  |
| Percentage of Increase  (Decrease) in Net Position for  20YY | 1.8% | 5.9% | 3.3% | 6.9% | 2.2% | 5.2% |  |

The Statement of Net Position reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The only long-term liability of the county is for compensated absences. The difference between the county’s assets and liabilities is its net position.

The County’s net position reflect its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in the invested in capital assets, net of related debt relates to the County’s purchase of a new motor grader for use by the Highway Department.

The County’s restricted net positions represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to additional state shared revenues restricted by statute to road and bridge purposes.

The remaining balance of net position is unrestricted and may be used to meet the County’s ongoing obligations to citizens and creditors.

At the end of the current year, the County is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

[INSERT AN ANALYSIS OF THE CHANGES IN NET POSITION – WHY DID THE NET POSITON CHANGE]

# Changes in Net Position

The County’s total revenues totaled $15,714,388. (See Table A-2.) Well over half of the County’s revenue comes from property and other taxes, and 52 cents of every dollar raised comes from some type of tax. (See Figure A-3). Another 15% comes from state shared revenues, such as bank franchise fee and motor license fees, and most of the rest comes from grants and contributions and interest earnings.

The total cost of all programs and services was virtually unchanged. The County’s expenses cover a range of services, with over half related to public safety and public works. (See Figure A-4)

Table A-2

SAMPLE COUNTY

Changes in Net Position

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Total | | | Total | |  |  | Total |
|  | Governmental | | | Business-Type | |  |  | Percent |
|  | Activities | | | Activities | | Total | | Change |
|  | 20XX | 20YY | | 20XX | 20YY | 20XX | 20YY | 20XX-20YY |
| Revenues |  |  | |  |  |  |  |  |
| Program Revenues |  |  | |  |  |  |  |  |
| Charges for Services | 1,543,498 | 1,458,512 | | 1,545,302 | 1,491,741 | 3,088,800 | 2,950,253 | -4.5% |
| Operating Grants and Contributions | 1,001,543 | 1,795,538 | |  | 30,000 | 1,001,543 | 1,825,538 | 82.3% |
| Capital Grants and Contributions | - | - | |  | - | - | - |  |
| General Revenues |  |  | |  |  | - |  |  |
| Taxes | 7,721,712 | 8,092,887 | |  | - | 7,721,712 | 8,092,887 | 4.8% |
| State Shared Revenues | 2,347,227 | 2,235,898 | |  | - | 2,347,227 | 2,235,898 | -4.7% |
| Grants and Contributions – Unrestricted | 48,717 | 91,905 | |  | - | 48,717 | 91,905 | 88.7% |
| Unrestricted Investment Earnings | 88,111 | 82,413 | | 75,337 | 65,400 | 163,448 | 147,813 | -9.6% |
| Miscellaneous | 395,270 | 351,002 | | 2,101 | 19,092 | 397,371 | 370,094 | -6.9% |
| Total Revenues | 13,146,078 | 14,108,155 | | 1,622,740 | 1,606,233 | 14,768,818 | 15,714,388 | 6.4% |
|  |  |  | |  |  |  |  |  |
| Expenses |  |  | |  |  |  |  |  |
| General Government | 2,656,951 | 3,141,645 | |  | - | 2,656,951 | 3,141,645 | 18.2% |
| Public Safety | 3,359,856 | 4,058,570 | |  | - | 3,359,856 | 4,058,570 | 20.8% |
| Public Works | 4,179,183 | 3,927,245 | | 1,413,110 | 1,220,356 | 5,592,293 | 5,147,601 | -8.0% |
| Health and Welfare | 1,114,777 | 1,007,554 | |  | - | 1,114,777 | 1,007,554 | -9.6% |
| Culture and Recreation | 1,257,736 | 960,698 | |  | - | 1,257,736 | 960,698 | -23.6% |
| Conservation of Natural Resources | 186,989 | 232,220 | |  | - | 186,989 | 232,220 | 24.2% |
| Urban and Economic Development | 192,235 | 97,766 | |  | - | 192,235 | 97,766 | -49.1% |
| Payments to Local Education Agencies | 28,977 | 19,961 | |  | - | 28,977 | 19,961 | -31.1% |
| Depreciation (Unallocated) | 10,329 | 10,329 | |  | - | 10,329 | 10,329 | 0.0% |
| Interest on Long-term Debt | 7,418 | 9,211 | |  | - | 7,418 | 9,211 | 24.2% |
| Total Expenses | 12,994,451 | 13,465,199 | | 1,413,110 | 1,220,356 | 14,407,561 | 14,685,555 | 1.9% |
|  |  |  | |  |  |  |  |  |
| Excess (Deficiency) Before Special  Items and Transfers | 151,627 | 642,956 | | 209,630 | 385,877 | 361,257 | 1,028,833 | 184.8% |
| Special Items |  | - | |  | - | - | - |  |
| Transfers | 51,474 | 42,172 | | (51,474) | (42,172) | - | - |  |
| Increase (Decrease) in Net Position | 203,101 | 685,128 | | 158,156 | 343,705 | 361,257 | 1,028,833 | 184.8% |
| Ending Net Position | 11,525,678 | 12,210,805 | | 4,956,948 | 5,300,653 | 16,482,626 | 17,511,458 | 6.2% |
|  |  | |  |  |  |  |  |  |

# Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities.

Revenues for the County’s government activities (excluding the sale of fixed assets) increased by 6.4%, while total expenses increased by less than 1.9%. The county’s management implemented a hiring freeze and controlled overtime policy that is the primary reason for the small increase in expenditures. The main reason for the increase in the revenues is do to an increase in the property tax base, which resulted in a 4.8% increase in property tax revenue.

[INSERT AN ADDITIONAL ANALYSIS OF THE CHANGES IN REVENUES AND EXPENSES]

BUSINESS-TYPE ACTIVITIES

Revenue from the County’s business-type activities decreased by 1.0% or $16,508, due primarily to less waste subject to the tipping fee.

20XX 20YY

Tipping Fee $1,195,401 $1,128,489

Solid Waste Assessment $ 342,434 $ 349,772

Miscellaneous Charges $ 7,468 $ 13,480

Unrestricted Investment Earnings $ 75,337 $ 65,400

Operating Grant $ 0 $ 30,000

Miscellaneous Revenue $ 2,101 $ 19,092

Total Revenue $1,622,741 $1,606,233

Expenses from the County’s business-type activities decreased by 13.6% or $192,754, due primarily from the reassessment and expense of the closure and post closure cost. As per Commission policy, most unrestricted interest is general fund revenue, however 2003 was the first year the interest was entered in the individual funds and transferred to the General Fund at years end. The following expense recap will reflect the operating transfer out in amount of $42,172 for 20YY.

20XX 20YY

Expenses $1,413,110 $1,220,356

Operating Transfer – Interest $ 51,474 $ 42,172

Total Expenses $1,464,584 $1,262,528

[INSERT AN ADDITIONAL ANALYSIS OF THE CHANGES IN REVENUES AND EXPENSES]

# FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

The financial analysis of the county’s funds mirror those highlighted in the analysis of governmental and business-type activities presented above. Then County maintains the Solid Waste Fund as a business type fund, which had an increase in net position for the year in amount of $343,705. The governmental activities had a net increase in fund balance for the year in amount of $685,128, consisting of 1) an increase of $605,694 in the general fund because revenue and other revenue sources exceeded expenditures and transfers, 2) an increase in the road and bridge fund because the decrease in expenditures was less than the decrease in revenue.

The county made the following operating transfers:



Budgetary Highlights

Over the course of the year, the County Commission revised the County budget several times. These amendments, all insignificant, fall into three categories:

* Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
* Changes made to reflect the hiring and overtime freeze implemented by the county commission.
* Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

Cash applied to finance the General Fund budget rose from $300,000 in CYXX to $700,000 in CYYY.

CAPITAL ASSET ADMINISTRATION

At the end of 20YY, the County had invested $7,720,740 in a broad range of capital assets for the governmental funds, including, land and improvements, buildings, police equipment, highway maintenance equipment. The following comparison is for the capital assets for the governmental funds (net of depreciation):

20XX 20YY Change

Land $ 510,109 $ 397,571 $(112,538)

Buildings 4,134,850 4,092,038 ( 42,812)

Machinery and Equipment 3,382,215 3,231,131 (151,084)

Total (Net of Depreciation) $8,027,174 $7,720,740 (306,434)

The following comparison is for the capital assets for the County Solid Waste business-type fund (net of depreciation):

20XX 20YY Change

Land $ 196,770 $ 196,770 $ 0

Buildings 310,355 300,838 ( 9,517)

Equipment 745,394 707,243 ( 38,151)

Improvements Other than Buildings:

Dumpster Site Fairgrounds 153,017 171,691 18,674

Paved Area at Landfill 0 74,721 74,721

Cells 1-4 573,222 470,336 (102,886)

Total (Net of Depreciation) $1,978,758 $1,921,599 $( 57,159)

[INSERT AN ADDITIONAL ANALYSIS OF THE CHANGES IN CAPITAL ASSETS]

LONG-TERM DEBT

The county currently has no outstanding notes or bonds.

[INSERT AN ADDITIONAL ANALYSIS OF THE LONG-TERM DEBT]

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The county’s current economic position has shown little change. The county did experience an increase in total property valuation of $11,850,000 or 4% from the prior year. After applying the regulations relating to the property tax freeze, the county could increase the amount of revenue generated from property taxes by approximately $100,000. Under the state mandated property tax freeze. Property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower. This year property tax levy requests increased 2.22%. The county commissioners have chosen to hold the tax levy request at the current year level.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 information, contact the Sample County’s Auditors Office, 1st County Avenue, Sample, SD 57000.