

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**LYON COUNTY
MARSHALL, MINNESOTA**

For the Year Ended December 31, 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

**ORGANIZATION
2013**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Charles Sanow	January 2017
2nd District	Stephen Ritter	January 2015
3rd District	Mark Goodenow	January 2015
4th District	Rodney Stensrud	January 2017
5th District	Rick Anderson ^{1, 2}	January 2017
Officers		
Elected		
Attorney	Rick Maes	January 2015
Auditor/Treasurer	E.J. Moberg*	January 2015
Recorder	Mona Hammer	January 2015
Sheriff	Mark Mather	January 2015
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	December 2016
Environmental Administrator	Paul Henriksen	Indefinite
Highway Engineer	Aaron VanMoer	October 2017
Veterans Service Officer	Terry Wing	September 2014

¹Chair 2013

²Chair 2014

*E.J. Moberg was appointed as Auditor/Treasurer effective October 29, 2012, to fill the remaining term of Paula VanOverbeke, who resigned effective September 4, 2012.

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Minnesota, as of and for the year ended December 31, 2013, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a

required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 25, 2014, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lyon County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2013, by \$109,277,943 (net position). Of this amount, \$15,815,163 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$5,313,272 in 2013. This is attributable primarily to an increase in capital assets of \$4,293,681 and the effect of the decrease in long-term liabilities of \$689,958.
- The net cost of governmental activities for the current fiscal year was \$9,450,747. The net cost was funded by general revenues and other items totaling \$14,033,038.
- As of the close of 2013, the County's governmental funds reported combined ending fund balances of \$18,301,621, an increase of \$1,475,071 in comparison with 2012 combined ending fund balances. Of the 2013 balance, \$12,723,565 was unrestricted and, thus, available for spending at the government's discretion.
- At the end of 2013, the unrestricted fund balance for the General Fund was \$9,076,031, or 80.7 percent, of the total General Fund expenditures for the year. This represents an increase from 2012, in which the unrestricted fund balance for the General Fund represented 66.2 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will also need to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from those that are intended to recover all or a significant portion of their costs through fees and charges (business-type activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Lyon County has only the landfill reported as a business-type activity.

The government-wide statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

Fund level financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. Budgetary comparison schedules have been provided as required supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

The business-type fund accounts for the Landfill Enterprise Fund. The financial statements for this fund provide the same type of information as the government-wide financial statements-- only in more detail.

The basic business-type fund financial statements are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on Exhibits 10 and 11.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 70 of this report.

Other Information

Other information is provided as supplementary information regarding Lyon County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$109,277,943 at the close of 2013. The largest portion of Lyon County's net position (76.8 percent) reflects the County's net investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Position

	2013			2012
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 22,736,924	\$ 8,700,672	\$ 31,437,596	\$ 30,718,204
Capital assets	<u>84,871,887</u>	<u>5,052,527</u>	<u>89,924,414</u>	<u>85,630,733</u>
Total Assets	<u>\$ 107,608,811</u>	<u>\$ 13,753,199</u>	<u>\$ 121,362,010</u>	<u>\$ 116,348,937</u>
Liabilities				
Long-term liabilities	\$ 8,939,009	\$ 1,364,143	\$ 10,303,152	\$ 10,993,110
Other liabilities	<u>1,714,926</u>	<u>65,989</u>	<u>1,780,915</u>	<u>1,391,156</u>
Total Liabilities	<u>\$ 10,653,935</u>	<u>\$ 1,430,132</u>	<u>\$ 12,084,067</u>	<u>\$ 12,384,266</u>
Net Position				
Net investment in capital assets	\$ 78,822,664	\$ 5,052,527	\$ 83,875,191	\$ 78,955,598
Restricted	6,118,603	3,468,986	9,587,589	8,631,386
Unrestricted	<u>12,013,609</u>	<u>3,801,554</u>	<u>15,815,163</u>	<u>16,377,687</u>
Total Net Position	<u>\$ 96,954,876</u>	<u>\$ 12,323,067</u>	<u>\$ 109,277,943</u>	<u>\$ 103,964,671</u>

Unrestricted net position (in the amount of \$15,815,163)--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 14.5 percent of the net position.

Governmental Activities

Lyon County's activities increased net position during 2013 by \$5,313,272, representing a 5.1 percent increase. Key elements in this increase in net position are as follows for 2013, with comparative data for 2012.

Changes in Net Position

	2013			2012
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 2,734,783	\$ 2,217,409	\$ 4,952,192	\$ 5,037,593
Operating grants and contributions	4,840,496	-	4,840,496	4,680,800
Capital grants and contributions	3,384,185	-	3,384,185	4,340,099
General revenues				
Property taxes	12,088,027	-	12,088,027	12,068,299
Other	1,945,011	(111,734)	1,833,277	2,508,512
Total Revenues	\$ 24,992,502	\$ 2,105,675	\$ 27,098,177	\$ 28,635,303
Expenses				
General government	\$ 3,864,962	\$ -	\$ 3,864,962	\$ 3,880,959
Public safety	5,452,061	-	5,452,061	7,490,258
Highways and streets	5,816,301	-	5,816,301	6,223,405
Sanitation	584,580	1,374,694	1,959,274	2,152,560
Human services	2,619,258	-	2,619,258	2,587,848
Health	224,454	-	224,454	224,454
Culture and recreation	566,513	-	566,513	516,815
Conservation of natural resources	913,311	-	913,311	899,533
Economic development	50,155	-	50,155	57,668
Interest	318,616	-	318,616	322,136
Total Expenses	\$ 20,410,211	\$ 1,374,694	\$ 21,784,905	\$ 24,355,636
Increase in Net Position	\$ 4,582,291	\$ 730,981	\$ 5,313,272	\$ 4,279,667
Net Position - January 1	92,372,585	11,592,086	103,964,671	99,685,004
Net Position - December 31	\$ 96,954,876	\$ 12,323,067	\$ 109,277,943	\$ 103,964,671

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances left at year-end available for spending. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18,301,621, an increase of \$1,475,071 in comparison with the prior year. Of the ending fund balance, \$6,802,151 represents unassigned fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, restricted, assigned, or is in nonspendable form.

The General Fund is the chief operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$9,076,031. Fund balance in the General Fund increased \$314,170 from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 80.7 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,647,534 at year-end. In total, fund balance for the Road and Bridge Special Revenue Fund increased \$1,177,824 over the previous year.

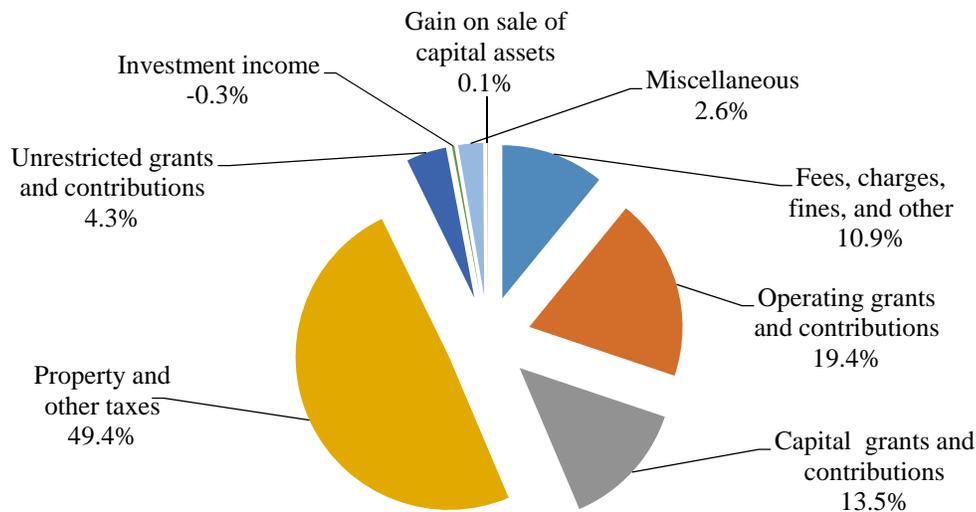
The human services function for Lyon County is performed through a joint powers agreement between multiple counties and is known as Southwest Health and Human Services. Lyon County participates in this joint powers authority and annually levies a human service levy on Lyon County property as required by the Joint Health and Human Services Board. Detailed financial information of the activities of Southwest Health and Human Services can be addressed to Southwest Health and Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had a restricted ending balance of \$1,140,837. This ending balance represents a \$63,044 decrease in fund balance from the prior year. The restricted fund balance amount at fiscal year-end was 279.9 percent of the annual expenditures for the fund.

Governmental Activities

The County's total revenues for 2013 were \$24,992,502. Table 1 (below) provides a breakdown of the source of revenues for governmental activities for the year ended December 31, 2013.

**Table 1
Total Revenues - Governmental Activities**



(Unaudited)

Table 2 (below) presents the revenues and expenses of each of the County’s governmental activities, as well as the County’s revenues from other sources such as property taxes, interest, and unrestricted grants.

Total revenues for the County’s governmental activities were \$24,992,502, while total expenses were \$20,410,211. This corresponds to a \$4,582,291 increase in net position for the year ended December 31, 2013.

Table 2
Program Revenues, General Revenues, and Expenses
Governmental Activities

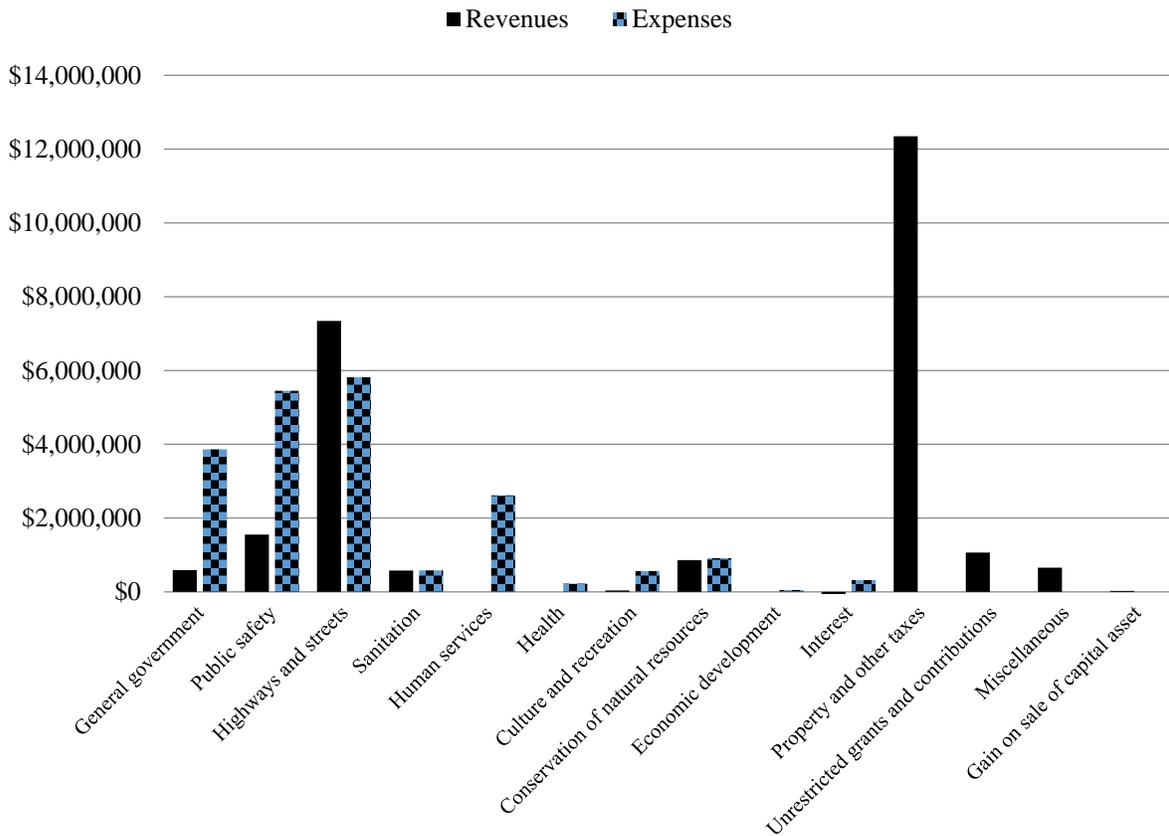


Table 3 displays the cost of each of the County’s four largest program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2013	Net Cost of Services 2013
Highways and streets	\$ 5,816,301	\$ (1,525,224)
Public safety	5,452,061	3,899,916
General government	3,864,962	3,274,970
Human services	2,619,258	2,619,258
All others	2,657,629	1,181,827
	<hr/>	<hr/>
Totals	\$ 20,410,211	\$ 9,450,747
	<hr/> <hr/>	<hr/> <hr/>

General Fund Budgetary Highlights

General Fund revenues exceeded budgeted revenues by \$1,064,193, primarily due to more intergovernmental revenue received than budgeted for.

General Fund expenditures were more than budgeted expenditures by \$750,023, primarily due to not budgeting amounts for Regional Emergency Communications Board transactions (ARMER radio system) or for principal and interest expenditures to the State of Minnesota for septic loan programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County’s depreciable capital assets for its governmental activities at December 31, 2013, totaled \$81,534,484 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County’s investment in depreciable capital assets increased \$2,752,440, or 3.5 percent, from the previous year.

Depreciable Governmental Capital Assets

	2013	2012
Capital assets depreciated		
Land improvements	\$ 522,540	\$ 504,797
Buildings	22,354,272	22,327,642
Machinery and equipment	6,746,720	6,441,675
Infrastructure	87,690,915	82,718,702
	<hr/>	<hr/>
Total capital assets depreciated	\$ 117,314,447	\$ 111,992,816
	<hr/> <hr/>	<hr/> <hr/>

	<u>2013</u>	<u>2012</u>
Less: accumulated depreciation for		
Land improvements	\$ 382,580	\$ 362,296
Buildings	5,106,863	4,676,975
Machinery and equipment	4,492,619	4,174,274
Infrastructure	<u>25,797,901</u>	<u>23,997,227</u>
Total accumulated depreciation	<u>\$ 35,779,963</u>	<u>\$ 33,210,772</u>
Total Capital Assets Depreciated, Net	<u>\$ 81,534,484</u>	<u>\$ 78,782,044</u>

Additional information on the County's capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$8,939,009 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	<u>2013</u>	<u>2012</u>
Special assessment debt	\$ 297,097	\$ 376,577
General obligation debt	6,049,223	6,703,576
Loans payable	572,370	674,841
Compensated absences	596,653	553,808
Net OPEB liability	<u>1,423,666</u>	<u>1,343,418</u>
Total	<u>\$ 8,939,009</u>	<u>\$ 9,652,220</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Marshall is the County seat for Lyon County. According to the 2010 census, Marshall has a population of 13,680 compared to the total County population of 25,857.

The County's elected and appointed officials considered many factors when setting the 2014 budget, tax rates, and fees that will be charged for the year.

The average unemployment rate for Lyon County for 2013 was 4.22 percent. This compares favorably with the state unemployment rate of 5.04 percent and shows a decrease from the County's 4.55 percent rate of one year ago. This could impact the level of services requested by County residents.

County Tax Rate and Levy History

2014	32.792%	\$ 12,676,566
2013	37.711	12,164,341
2012	42.396	12,164,341
2011	42.819	12,164,341
2010	45.449	12,164,341

On December 17, 2013, the Lyon County Board of Commissioners approved the 2014 budget and adopted a property tax levy of \$12,676,566, which represents a 4.2 percent increase over the 2013 property tax levy of \$12,164,341.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Lyon County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the County Auditor/Treasurer, E.J. Moberg, 607 West Main Street, Marshall, Minnesota 56258.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 16,425,962	\$ 4,252,281	\$ 20,678,243
Investments	2,811,290	708,726	3,520,016
Receivables - net	3,052,167	254,384	3,306,551
Inventories	381,326	-	381,326
Prepaid items	66,179	-	66,179
Restricted assets			
Cash and pooled investments	-	60,961	60,961
Investments	-	3,408,025	3,408,025
Accrued interest receivable	-	16,295	16,295
Capital assets			
Non-depreciable capital assets	3,337,403	390,433	3,727,836
Depreciable capital assets - net of accumulated depreciation	81,534,484	4,662,094	86,196,578
Total Assets	\$ 107,608,811	\$ 13,753,199	\$ 121,362,010
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,525,779	\$ 65,989	\$ 1,591,768
Accrued interest payable	114,147	-	114,147
Customer deposits - current	75,000	-	75,000
Long-term liabilities			
Due within one year	891,002	-	891,002
Due in more than one year	8,048,007	1,364,143	9,412,150
Total Liabilities	\$ 10,653,935	\$ 1,430,132	\$ 12,084,067
<u>Net Position</u>			
Net investment in capital assets	\$ 78,822,664	\$ 5,052,527	\$ 83,875,191
Restricted for			
Public safety	427,496	-	427,496
Highways and streets	2,558,903	-	2,558,903
Conservation of natural resources	1,533,606	-	1,533,606
Landfill closure/postclosure	-	3,468,986	3,468,986
Debt service	937,011	-	937,011
Other purposes	661,587	-	661,587
Unrestricted	12,013,609	3,801,554	15,815,163
Total Net Position	\$ 96,954,876	\$ 12,323,067	\$ 109,277,943

**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary Government		
Governmental activities		
General government	\$ 3,864,962	\$ 526,534
Public safety	5,452,061	630,223
Highways and streets	5,816,301	441,731
Sanitation	584,580	463,392
Human services	2,619,258	-
Health	224,454	-
Culture and recreation	566,513	25,954
Conservation of natural resources	913,311	646,949
Economic development	50,155	-
Interest	318,616	-
Total governmental activities	\$ 20,410,211	\$ 2,734,783
Business-type activities		
Landfill	1,374,694	2,217,409
Total	\$ 21,784,905	\$ 4,952,192

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to
specific programs
Interest income
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 53,458	\$ 10,000	\$ (3,274,970)	\$ -	\$ (3,274,970)
350,161	571,761	(3,899,916)	-	(3,899,916)
4,208,147	2,691,647	1,525,224	-	1,525,224
114,737	-	(6,451)	-	(6,451)
-	-	(2,619,258)	-	(2,619,258)
-	-	(224,454)	-	(224,454)
13,000	-	(527,559)	-	(527,559)
100,993	110,777	(54,592)	-	(54,592)
-	-	(50,155)	-	(50,155)
-	-	(318,616)	-	(318,616)
\$ 4,840,496	\$ 3,384,185	\$ (9,450,747)	\$ -	\$ (9,450,747)
-	-	-	842,715	842,715
\$ 4,840,496	\$ 3,384,185	\$ (9,450,747)	\$ 842,715	\$ (8,608,032)
		\$ 12,088,027	\$ -	\$ 12,088,027
		17,400	-	17,400
		244,991	-	244,991
		1,064,827	-	1,064,827
		(65,669)	(114,322)	(179,991)
		657,896	2,588	660,484
		25,566	-	25,566
		\$ 14,033,038	\$ (111,734)	\$ 13,921,304
		\$ 4,582,291	\$ 730,981	\$ 5,313,272
		92,372,585	11,592,086	103,964,671
		\$ 96,954,876	\$ 12,323,067	\$ 109,277,943

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
<u>Assets</u>						
Cash and pooled investments	\$ 8,301,180	\$ 5,902,364	\$ 68,449	\$ 1,119,198	\$ 1,034,771	\$ 16,425,962
Investments	2,661,136	-	-	150,154	-	2,811,290
Taxes receivable						
Prior	69,032	19,500	25,493	-	11,344	125,369
Special assessments receivable						
Prior	20,368	-	-	828	-	21,196
Noncurrent	481,663	-	-	709,016	-	1,190,679
Accounts receivable	19,809	4,344	-	-	-	24,153
Accrued interest receivable	11,710	-	-	183	-	11,893
Due from other governments	266,689	1,412,188	-	-	-	1,678,877
Inventories	-	381,326	-	-	-	381,326
Prepaid items	55,994	10,185	-	-	-	66,179
Total Assets	<u>\$ 11,887,581</u>	<u>\$ 7,729,907</u>	<u>\$ 93,942</u>	<u>\$ 1,979,379</u>	<u>\$ 1,046,115</u>	<u>\$ 22,736,924</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 127,678	\$ 66,065	\$ -	\$ 28,035	\$ -	\$ 221,778
Salaries payable	328,236	76,359	-	-	-	404,595
Contracts payable	-	664,179	-	-	-	664,179
Due to other governments	131,768	9,347	68,449	25,663	-	235,227
Customer deposits	-	-	-	75,000	-	75,000
Total Liabilities	<u>\$ 587,682</u>	<u>\$ 815,950</u>	<u>\$ 68,449</u>	<u>\$ 128,698</u>	<u>\$ -</u>	<u>\$ 1,600,779</u>
Deferred Inflows of Resources						
Unavailable revenue	<u>\$ 686,022</u>	<u>\$ 1,401,821</u>	<u>\$ 25,493</u>	<u>\$ 709,844</u>	<u>\$ 11,344</u>	<u>\$ 2,834,524</u>
Fund Balances						
Nonspendable	\$ 55,994	\$ 391,511	\$ -	\$ -	\$ -	\$ 447,505
Restricted	1,481,852	1,473,091	-	1,140,837	1,034,771	5,130,551
Committed	721,063	-	-	-	-	721,063
Assigned	1,552,817	3,647,534	-	-	-	5,200,351
Unassigned	6,802,151	-	-	-	-	6,802,151
Total Fund Balances	<u>\$ 10,613,877</u>	<u>\$ 5,512,136</u>	<u>\$ -</u>	<u>\$ 1,140,837</u>	<u>\$ 1,034,771</u>	<u>\$ 18,301,621</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,887,581</u>	<u>\$ 7,729,907</u>	<u>\$ 93,942</u>	<u>\$ 1,979,379</u>	<u>\$ 1,046,115</u>	<u>\$ 22,736,924</u>

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)		\$ 18,301,621
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		84,871,887
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,834,524
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (5,940,000)	
Special assessment bonds	(300,000)	
Compensated absences	(596,653)	
Net OPEB liability	(1,423,666)	
Loans payable	(572,370)	
Accrued interest payable	(114,147)	
Unamortized premium on general obligation bonds	(159,371)	
Unamortized discount on general obligation bonds	50,148	
Unamortized discount on special assessment bonds	2,903	
	(9,053,156)	(9,053,156)
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 96,954,876</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
Revenues						
Taxes	\$ 6,831,569	\$ 1,777,464	\$ 2,559,373	\$ -	\$ 949,474	\$ 12,117,880
Special assessments	389,392	-	-	290,567	-	679,959
Licenses and permits	43,388	-	-	-	-	43,388
Intergovernmental	2,384,064	9,160,558	59,885	26,748	15,872	11,647,127
Charges for services	1,042,278	19,930	-	-	-	1,062,208
Fines and forfeits	375	-	-	-	-	375
Gifts and contributions	13,000	-	-	-	-	13,000
Investment earnings	(67,039)	-	-	1,370	-	(65,669)
Miscellaneous	924,558	442,730	-	25,858	-	1,393,146
Total Revenues	\$ 11,561,585	\$ 11,400,682	\$ 2,619,258	\$ 344,543	\$ 965,346	\$ 26,891,414
Expenditures						
Current						
General government	\$ 3,412,356	\$ -	\$ -	\$ -	\$ -	\$ 3,412,356
Public safety	5,220,383	-	-	-	-	5,220,383
Highways and streets	-	10,044,065	-	-	-	10,044,065
Sanitation	579,667	-	-	-	-	579,667
Culture and recreation	730,558	-	-	-	-	730,558
Conservation of natural resources	643,135	-	-	309,794	-	952,929
Economic development	50,155	-	-	-	-	50,155
Intergovernmental	496,219	356,587	2,619,258	-	-	3,472,064
Debt service						
Principal	101,971	-	-	80,000	640,000	821,971
Interest	12,971	-	-	14,318	274,650	301,939
Administrative (fiscal) fees	-	-	-	3,475	4,575	8,050
Total Expenditures	\$ 11,247,415	\$ 10,400,652	\$ 2,619,258	\$ 407,587	\$ 919,225	\$ 25,594,137

**LYON COUNTY
MARSHALL, MINNESOTA**

***EXHIBIT 5
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
Excess of Revenues Over (Under) Expenditures	\$ 314,170	\$ 1,000,030	\$ -	\$ (63,044)	\$ 46,121	\$ 1,297,277
Other Financing Sources						
Proceeds from the sale of capital assets	-	25,566	-	-	-	25,566
Net Change in Fund Balance	\$ 314,170	\$ 1,025,596	\$ -	\$ (63,044)	\$ 46,121	\$ 1,322,843
Fund Balance - January 1	10,299,707	4,334,312	-	1,203,881	988,650	16,826,550
Increase (decrease) in inventories	-	152,228	-	-	-	152,228
Fund Balance - December 31	<u>\$ 10,613,877</u>	<u>\$ 5,512,136</u>	<u>\$ -</u>	<u>\$ 1,140,837</u>	<u>\$ 1,034,771</u>	<u>\$ 18,301,621</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,322,843

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in unavailable revenue.

Deferred inflows of resources - December 31	\$ 2,834,524	
Deferred inflows of resources - January 1	<u>(4,759,002)</u>	(1,924,478)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 7,098,822	
Net book value of assets disposed of	(500)	
Current year depreciation	<u>(2,757,375)</u>	4,340,947

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position.

Debt principal repayments		
General obligation bonds	\$ 640,000	
Special assessment bonds	80,000	
Loans payable	<u>102,471</u>	822,471

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 11,933	
Change in compensated absences	(42,845)	
Change in net OPEB liability	(80,248)	
Change in inventories	152,228	
Current year amortization of premiums, discounts, and issuance costs	<u>(20,560)</u>	<u>20,508</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 4,582,291

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PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2013**

Assets

Current assets	
Cash and pooled investments	\$ 4,252,281
Investments	708,726
Accounts receivable - net	237,319
Accrued interest receivable	84
Due from other governments	16,981
Restricted assets	
Cash and pooled investments	60,961
Investments	3,408,025
Accrued interest receivable	16,295
	8,700,672
Total current assets	\$ 8,700,672
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	4,662,094
	5,052,527
Total noncurrent assets	\$ 5,052,527
	\$ 13,753,199

Liabilities

Current liabilities	
Accounts payable	\$ 35,754
Salaries payable	20,954
Due to other governments	9,281
	65,989
Total current liabilities	\$ 65,989
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 43,105
Net OPEB obligation	59,640
Estimated liability for landfill closure/postclosure care	1,261,398
	1,364,143
Total noncurrent liabilities	\$ 1,364,143
	\$ 1,430,132

Net Position

Net investment in capital assets	\$ 5,052,527
Restricted for postclosure care	3,468,986
Unrestricted	3,801,554
	12,323,067
Total Net Position	\$ 12,323,067

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

Operating Revenues	
Charges for services	\$ 2,202,221
Miscellaneous	15,188
Dividends	2,588
	<hr/>
Total Operating Revenues	\$ 2,219,997
	<hr/>
Operating Expenses	
Personal services	\$ 384,825
Professional services	221,906
Administration and fiscal services	10,621
Other services and charges	575,900
Utilities	49,484
Depreciation	116,299
Landfill closure and postclosure care costs	15,659
	<hr/>
Total Operating Expenses	\$ 1,374,694
	<hr/>
Operating Income (Loss)	\$ 845,303
	<hr/>
Nonoperating Revenues (Expenses)	
Investment earnings	(114,322)
	<hr/>
Change in Net Position	\$ 730,981
	<hr/>
Net Position - January 1	11,592,086
	<hr/>
Net Position - December 31	\$ 12,323,067
	<hr/> <hr/>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 2,431,190
Payments to suppliers	(1,038,630)
Payments to employees	<u>(376,040)</u>
Net cash provided by (used in) operating activities	\$ 1,016,520
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(69,033)
Cash Flows from Investing Activities	
Investment earnings	2,502
Purchase of investments	<u>(703,654)</u>
Net cash provided by (used in) investing activities	\$ (701,152)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 246,335
Cash and Cash Equivalents - January 1	<u>4,066,907</u>
Cash and Cash Equivalents - December 31	<u>\$ 4,313,242</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7	
Cash and pooled investments	\$ 4,252,281
Restricted cash and pooled investments	<u>60,961</u>
Total Cash and Cash Equivalents - December 31	<u>\$ 4,313,242</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 845,303
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 116,299
(Increase) decrease in accounts receivable	7,963
(Increase) decrease in due from other governments	(119)
Increase (decrease) in accounts payable	23,324
Increase (decrease) in salaries payable	1,190
Increase (decrease) in due to other governments	(639)
Increase (decrease) in due to other funds	(54)
Increase (decrease) in landfill closure/postclosure care costs	15,659
Increase (decrease) in net OPEB liability, as restated	3,467
Increase (decrease) in compensated absences payable	4,127
Total adjustments	\$ 171,217
Net Cash Provided by (Used in) Operating Activities	\$ 1,016,520

FIDUCIARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	<u>Investment Trust Fund</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 6,734,434	\$ 711,677
Investments	939,610	-
Accrued interest receivable	2,161	-
Total Assets	\$ 7,676,205	\$ 711,677
<u>Liabilities</u>		
Due to other governments	-	\$ 711,677
<u>Net Position</u>		
Net position, held in trust for pool participants	\$ 7,676,205	

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 30,478,954
Investment earnings	<u>(49,843)</u>
Total Additions	\$ 30,429,111
<u>Deductions</u>	
Distributions to participants	<u>28,789,187</u>
Change in Net Position	\$ 1,639,924
Net Position - January 1	<u>6,036,281</u>
Net Position - December 31	<u><u>\$ 7,676,205</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.10. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

A. Financial Reporting Entity

Lyon County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Lyon County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator serves as clerk of the Board of Commissioners but has no vote.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The County participates in several joint ventures described in Note 5.D. The County also participates in jointly-governed organizations described in Note 5.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Lyon County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis that recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenue, including all taxes, are presented as general revenues.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Government-Wide Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental and proprietary funds as major funds.

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

The County reports the following major enterprise fund:

- The Landfill Fund is used to account for the operation, maintenance, and development of the County solid waste landfill.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Government-Wide Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

- The Investment Trust Fund is used to account for the external pooled investments held for Southwest Health and Human Services.
- Fiduciary funds - Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lyon County considers all revenue as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenue in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period of appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Lyon County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the Lyon County Landfill Enterprise Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2013 were \$43,832.

Lyon County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Deposits and Investments (Continued)

a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and deferred special assessments. All special assessments receivable are shown net of an allowance for uncollectibles.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

5. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' life are not capitalized.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 100
Improvements to land	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 20

Landfill cells are depreciated from 20 - 30 years based on use, which is calculated by dividing total capacity used by total available cell capacity.

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation and sick leave.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Lyon County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classification of Fund Balances (Continued)

- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, or the County Auditor/Treasurer, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classification. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

Lyon County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

13. Minimum Fund Balance

Lyon County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

13. Minimum Fund Balance (Continued)

less than five months of operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2013, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2013:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 11,247,415	\$ 10,497,392	\$ 750,023
Special Revenue Fund			
Human Services	2,619,258	2,564,674	54,584

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 16,425,962
Investments	2,811,290
Business-type activities	
Cash and pooled investments	4,252,281
Investments	708,726
Cash and pooled investments - restricted assets	60,961
Investments - restricted assets	3,408,025
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	6,734,434
Agency funds	711,677
Investments	
Investment trust fund	939,610
Total Cash and Investments	\$ 36,052,966

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money markets, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

The County's exposure to credit risk as of December 31, 2013, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
S&P	AAA	\$ 1,359,703
S&P	AA+	3,404,494
S&P	AA	351,908
S&P	AA-	102,558
N/A	N/R	1,417,406
Total		<u>\$ 6,636,069</u>

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2013, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to minimize this risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in any one issuer that represent five percent or more of the County's investments are as follows.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

Issuer	Reported Amount
Bremer Trust	
Federal Home Loan Bank	\$ 556,583
Federal Home Loan Mortgage Corp	605,669
U.S. Treasury Notes	414,188
Federal National Mortgage Assn	622,452
Municipal Bonds	657,965
Wells Fargo Advisors	
Federal Home Loan Bank	3,228,045
MAGIC Fund	1,454,947

The following table presents the County's deposit and investment balances at December 31, 2013, along with information relating to maturities:

Investment Type	Less Than 2 Years	2-5 Years	5-10 Years	More Than 10 Years	Fair Value
Investments					
Federal Farm Credit Bank	\$ -	\$ -	\$ 146,596	\$ -	\$ 146,596
Federal Home Loan Bank	-	113,583	3,671,045	-	3,784,628
Federal Home Loan Mortgage Corp	-	105,669	240,581	259,419	605,669
Federal National Mortgage Assn	-	71,092	205,181	346,179	622,452
Government National Mrtg Assn	-	-	-	125,377	125,377
U.S. Treasury Notes	-	-	414,188	-	414,188
Federated Government Obligations	181,117	-	-	-	181,117
Municipal Bonds	78,653	202,592	376,720	-	657,965
Discover Bank CD	-	98,077	-	-	98,077
 Total investments					 \$ 6,636,069
Investment pools/mutual funds					
MAGIC Fund					1,454,947
Checking					13,198,419
Savings					14,554,756
Petty cash and change funds					8,775
Certificates of deposit					200,000
 Total Cash and Investments					 \$ 36,052,966

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 125,369	\$ -
Special assessments	1,211,875	614,229
Accounts receivable	24,153	-
Interest	11,893	-
Due from other governments	1,678,877	-
Total Governmental Activities	\$ 3,052,167	\$ 614,229

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts receivable	\$ 237,319	\$ -
Interest	84	-
Due from other governments	16,981	-
Total Business-Type Activities	\$ 254,384	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 983,850	\$ 317,610	\$ 500	\$ 1,300,960
Right-of-way	765,046	6,907	-	771,953
Construction in progress	-	1,264,490	-	1,264,490
Total capital assets not depreciated	<u>\$ 1,748,896</u>	<u>\$ 1,589,007</u>	<u>\$ 500</u>	<u>\$ 3,337,403</u>
Capital assets depreciated				
Land improvements	\$ 504,797	\$ 17,743	\$ -	\$ 522,540
Buildings	22,327,642	26,630	-	22,354,272
Machinery and equipment	6,441,675	493,229	188,184	6,746,720
Infrastructure	82,718,702	4,972,213	-	87,690,915
Total capital assets depreciated	<u>\$ 111,992,816</u>	<u>\$ 5,509,815</u>	<u>\$ 188,184</u>	<u>\$ 117,314,447</u>
Less: accumulated depreciation for				
Land improvements	\$ 362,296	\$ 20,284	\$ -	\$ 382,580
Buildings	4,676,975	429,888	-	5,106,863
Machinery and equipment	4,174,274	506,529	188,184	4,492,619
Infrastructure	23,997,227	1,800,674	-	25,797,901
Total accumulated depreciation	<u>\$ 33,210,772</u>	<u>\$ 2,757,375</u>	<u>\$ 188,184</u>	<u>\$ 35,779,963</u>
Total capital assets depreciated, net	<u>\$ 78,782,044</u>	<u>\$ 2,752,440</u>	<u>\$ -</u>	<u>\$ 81,534,484</u>
Governmental Activities Capital Assets, Net	<u>\$ 80,530,940</u>	<u>\$ 4,341,447</u>	<u>\$ 500</u>	<u>\$ 84,871,887</u>

Construction in progress of governmental activities consists of amounts completed on open road projects, a bike trail project, development and improvement for Twin Lakes Park, and the fairgrounds hoop barn.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Capital assets depreciated				
Buildings	\$ 187,823	\$ -	\$ -	\$ 187,823
Machinery and equipment	1,528,077	69,033	7,320	1,589,790
Landfill cells	7,431,890	-	-	7,431,890
Infrastructure	461,209	-	-	461,209
Total capital assets depreciated	\$ 9,608,999	\$ 69,033	\$ 7,320	\$ 9,670,712
Less: accumulated depreciation for				
Buildings	\$ 66,944	\$ 6,260	\$ -	\$ 73,204
Machinery and equipment	1,161,044	63,633	7,320	1,217,357
Landfill cells	3,599,908	15,659	-	3,615,567
Infrastructure	71,743	30,747	-	102,490
Total accumulated depreciation	\$ 4,899,639	\$ 116,299	\$ 7,320	\$ 5,008,618
Total capital assets depreciated, net	\$ 4,709,360	\$ (47,266)	\$ -	\$ 4,662,094
Business-Type Activities				
Capital Assets, Net	\$ 5,099,793	\$ (47,266)	\$ -	\$ 5,052,527

Depreciation expense was charged to functions/programs of the County as follows:

Governmental Activities	
General government	\$ 466,912
Public safety	206,044
Highways and streets, including depreciation of infrastructure assets	2,058,261
Sanitation	1,975
Culture and recreation	19,635
Conservation of natural resources	4,548
Total Depreciation Expense - Governmental Activities	\$ 2,757,375
Business-Type Activities	
Landfill	\$ 116,299

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 221,778	\$ 35,754
Salaries payable	404,595	20,954
Contracts payable	664,179	-
Due to other governments	235,227	9,281
Total Payables	\$ 1,525,779	\$ 65,989

2. Construction Commitments

The County has no active construction projects as of December 31, 2013.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Special assessment bonds with government commitment					
2008B G.O. drainage bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	\$ 715,000	\$ 300,000
Less: unamortized discounts					(2,903)
Special Assessment Bonds with Government Commitment, Net					\$ 297,097
General obligation bonds					
2008A G.O. jail bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	\$ 8,545,000	\$ 5,940,000
Plus: unamortized premium					159,371
Less: unamortized discounts					(50,148)
General Obligation Bonds, Net					\$ 6,049,223

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

3. Long-Term Debt (Continued)

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) projects. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Cottonwood River Restoration CWP Project	2022	\$24,662	2.00	\$ 445,043	\$ 215,825
Yellow Medicine River Watershed CWP Project	2018	\$9,535	2.00	172,070	61,053
Redwood Watershed Phosphorus CWP Project	2021	\$25,038	2.00	451,831	295,492
Total Loans Payable				<u>\$ 1,068,944</u>	<u>\$ 572,370</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 660,000	\$ 248,650	\$ 80,000	\$ 10,582
2015	680,000	221,850	80,000	7,463
2016	700,000	194,250	35,000	5,162
2017	725,000	165,750	35,000	3,719
2018	750,000	136,250	35,000	2,231
2019 - 2023	2,425,000	184,875	35,000	744
Total	<u>\$ 5,940,000</u>	<u>\$ 1,151,625</u>	<u>\$ 300,000</u>	<u>\$ 29,901</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2014	\$ 100,459	\$ 10,958
2015	98,811	8,938
2016	97,093	6,989
2017	87,745	5,037
2018	51,598	3,489
2019 - 2023	136,664	4,865
Total	<u>\$ 572,370</u>	<u>\$ 40,276</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 6,580,000	\$ -	\$ 640,000	\$ 5,940,000	\$ 660,000
Plus: unamortized premium	180,337	-	20,966	159,371	-
Less: unamortized discount	(56,761)	-	(6,613)	(50,148)	-
General obligation bonds, net	<u>\$ 6,703,576</u>	<u>\$ -</u>	<u>\$ 654,353</u>	<u>\$ 6,049,223</u>	<u>\$ 660,000</u>
Special assessment bonds with government commitment	\$ 380,000	\$ -	\$ 80,000	\$ 300,000	\$ 80,000
Less: unamortized discount	(3,423)	-	(520)	(2,903)	-
Special assessment bonds with government commitment, net	<u>\$ 376,577</u>	<u>\$ -</u>	<u>\$ 79,480</u>	<u>\$ 297,097</u>	<u>\$ 80,000</u>
Total bonds payable	<u>\$ 7,080,153</u>	<u>\$ -</u>	<u>\$ 733,833</u>	<u>\$ 6,346,320</u>	<u>\$ 740,000</u>
Loans payable	674,841	-	102,471	572,370	100,459
Compensated absences	553,808	536,665	493,820	596,653	50,543
Net OPEB liability	<u>1,343,418</u>	<u>279,791</u>	<u>199,543</u>	<u>1,423,666</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 9,652,220</u>	<u>\$ 816,456</u>	<u>\$ 1,529,667</u>	<u>\$ 8,939,009</u>	<u>\$ 891,002</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,245,739	\$ 15,659	\$ -	\$ 1,261,398	\$ -
Compensated absences	38,978	20,684	16,557	43,105	-
Net OPEB liability	56,173	12,088	8,621	59,640	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,340,890</u>	<u>\$ 48,431</u>	<u>\$ 25,178</u>	<u>\$ 1,364,143</u>	<u>\$ -</u>

6. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,261,398 landfill closure and postclosure care liability at December 31, 2013, represents the cumulative amount reported to date based on the use of 29.3 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of \$3,037,482 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. Based on the current permitted capacity, the landfill has an estimated operating life of 78.4 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2013, restricted assets of \$3,468,986 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities

6. Landfill Closure and Postclosure Care Costs (Continued)

However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

C. Fund Balance

Fund Balances	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Nonspendable						
Prepaid items	\$ 55,994	\$ 10,185	\$ -	\$ -	\$ -	\$ 66,179
Inventories	-	381,326	-	-	-	381,326
Restricted for						
DARE program	10,844	-	-	-	-	10,844
Law library	73,915	-	-	-	-	73,915
Recorder's technology	223,929	-	-	-	-	223,929
Recorder's compliance	315,173	-	-	-	-	315,173
Debt service	-	-	-	-	1,034,771	1,034,771
Ditch	-	-	-	1,140,837	-	1,140,837
Enhanced 911	244,496	-	-	-	-	244,496
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	16,159	-	-	-	-	16,159
Attorney's forfeited property	46,464	-	-	-	-	46,464
Sheriff's gun permits	64,215	-	-	-	-	64,215
Probation supervision fees	86,782	-	-	-	-	86,782
Septic/sewer loans	307,681	-	-	-	-	307,681
Rock Lake pier project	2,106	-	-	-	-	2,106
Fish and wildlife trust	84,088	-	-	-	-	84,088
Twin Lakes Park trees donation	1,000	-	-	-	-	1,000
Highway allotments	-	1,473,091	-	-	-	1,473,091
Committed to						
County septic systems program	98,455	-	-	-	-	98,455
Garvin Park trust	219,433	-	-	-	-	219,433
Aggregate - gravel pit	209,901	-	-	-	-	209,901
Recycling and household hazardous waste assessments	193,274	-	-	-	-	193,274
Assigned to						
Criminal justice contingency	153,566	-	-	-	-	153,566
Self-insurance	525,602	-	-	-	-	525,602
Capital projects	770,019	-	-	-	-	770,019
Elections	83,150	-	-	-	-	83,150
Technology	20,480	-	-	-	-	20,480
Road and bridge	-	3,647,534	-	-	-	3,647,534
Unassigned	6,802,151	-	-	-	-	6,802,151
Total Fund Balances	\$ 10,613,877	\$ 5,512,136	\$ -	\$ 1,140,837	\$ 1,034,771	\$ 18,301,621

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

1. Plan Description

All full-time and certain part-time employees of Lyon County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

1. Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (Continued)

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 285,143	\$ 274,451	\$ 278,864
Public Employees Police and Fire Fund	129,975	115,794	117,931
Public Employees Correctional Fund	81,917	77,744	75,270

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

One employee or Commissioner of Lyon County is covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,218	\$ 2,218
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

The County provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2012, (date of the most recent actuarial study) there were approximately 29 retirees receiving health benefits from the plan. The implicit rate subsidy amount was determined by an actuarial study to be \$59,717 for 2013.

In addition to the implicit rate subsidy, Lyon County pays the health and dental insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to May 1, 1997, and retiring while in active service shall be entitled to four percent per year of service towards the County dental and health insurance premium. To be eligible, employees and elected officials must have worked for Lyon County for a minimum of 15 years and be at least 55 years old; or the employee's age and years of service, added together, total 75 or more. The County-paid portion shall not exceed the amount currently paid by the County on behalf of active employees (\$625 per month during 2013), and the benefit continues until death. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County had 7 elected officials and 33 employees eligible for this benefit in 2013. The cost for this program totaled \$160,014 (\$21,999 for elected officials and \$138,015 for employees) in 2013.

During February 2009, the Lyon County Board of Commissioners reduced the maximum payment of retirement benefits to \$330 per month, prorated at four percent per year of service, and limited the payment period to ten years (120 monthly payments) after retirement or upon death of the retiree, whichever occurs first.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	319,252
Interest on net OPEB obligation		62,982
Adjustment to ARC		<u>(90,355)</u>
Annual OPEB cost (expense)	\$	291,879
Contributions made		<u>(208,164)</u>
Increase in net OPEB obligation	\$	83,715
Net OPEB Obligation - Beginning of Year		<u>1,399,591</u>
Net OPEB Obligation - End of Year	\$	<u><u>1,483,306</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2011, 2012, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 322,837	\$ 130,410	40.39%	\$ 1,288,113
December 31, 2012	286,860	175,382	61.14	1,399,591
December 31, 2013	291,879	208,164	71.32	1,483,306

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,330,764, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,330,764. The covered payroll (annual payroll of active employees covered by the plan) was \$4,858,831, and the ratio of the UAAL to the covered payroll was 68.6 percent.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Lyon County's implicit rate of return on the General Fund.

The annual health care cost trend is nine percent initially, reduced by decrements to an ultimate rate of five percent over 8 years. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2013, was 24 years.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

Lyon County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items (Continued)

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Lincoln-Pipestone Rural Water System

At December 31, 2013, the Lincoln-Pipestone Rural Water System had \$37,928,505 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted Board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

In 2013, Lincoln County and Nobles County issued General Obligation Water System Refunding Bonds, Series 2013A, for \$3,055,000 and General Obligation Water Revenue Refunding Bonds, Series 2013A, for \$2,910,000, respectively, on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2005 and 2007.

C. Subsequent Event

On October 15, 2013, Lyon County entered into a joint powers agreement with three local counties and Southwest Health and Human Services to self-insure health insurance as of January 1, 2014, in effect leaving the Southwest/West Central Service Cooperative. Premiums will be withheld from employees and transferred into an internal service fund. Claims will be managed and paid by a third party, and the County will be billed weekly, in aggregate, for claims incurred.

D. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is provided by the member counties based on consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County and Pipestone County petitioned to join SWHHS. Redwood County's health and human service functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwest Health and Human Services (Continued)

SWHHS is governed by the:

- Joint Health and Human Services Board (“Joint Board”) - responsible for financial, personnel, budget and general administration of the agency and is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board; and one County Commissioner (or alternate) serving on the Human Services Board.
- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties set forth in Minn. Stat. ch. 145A and made up of one County Commissioner and one alternate from each member county unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates.

Financing is provided by state and federal grants and appropriations from member counties. Lyon County’s contribution in 2013 for the human services function was \$2,619,258, and its contribution to the health services function was \$220,000.

Complete financial statements of Southwest Health and Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Lyon County, along with Jackson, Lac qui Parle, Lincoln, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The Rural Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System is governed by a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2013, were \$37,928,505.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Lyon County, the City of Marshall, the City of Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner and one City Council member for each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee.

Financing is provided by the appropriations from member parties and by state and federal grants.

Marshall-Lyon County Library

The Marshall-Lyon County Library is governed by a nine-member board, with six members appointed by the City of Marshall and three members appointed by Lyon County.

Lyon County and the City of Marshall are responsible for the operating budget of the Library in a one-third to two-third split, respectively. Lyon County's contribution for 2013 was \$271,765.

A vote was taken on August 5, 2014, to terminate the County's contract with the Marshall-Lyon County Library. Effective December 31, 2014, the County is no longer a member of the Marshall-Lyon County Library.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Brown-Lyon-Redwood Drug Task Force

The Brown-Lyon-Redwood Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of New Ulm, Redwood Falls, Marshall pursuant to Minn. Stat. § 471.59. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations.

The Task Force is governed by an Advisory Board consisting of one appointed member from each party. Fiscal agent responsibilities for the Task Force are with the City of New Ulm. During the year, the County paid \$64,643 to the Task Force.

Southwest Regional Solid Waste Commission

Lyon County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation, pursuant to Minn. Stat. chs. 400 and 115A, to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one Board member from each of the participating counties. Financing the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 N. Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2013, Lyon County did not make a contribution to the Partnership as a contribution was made by Southwest Health and Human Services.

McLeod County acts as fiscal agent for the Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at 830 - 11th Street East, Glencoe, Minnesota 55336.

E. Jointly-Governed Organizations

Lyon County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services.

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$20,844 to the Project.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2013, Lyon County paid \$2,000 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, the County paid \$15,840 to the RCRCA.

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, and the City of Marshall and the City of Worthington under authority of Minn. Stat. § 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In 2013, Lyon County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Yellow Medicine River Watershed District

The County Board is responsible for appointing one member to the Board of Managers for the Yellow Medicine River Watershed District, but the County's responsibility does not extend beyond making the appointment.

REQUIRED SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,913,886	\$ 6,913,886	\$ 6,831,569	\$ (82,317)
Special assessments	309,021	309,021	389,392	80,371
Licenses and permits	13,100	13,100	43,388	30,288
Intergovernmental	1,478,485	1,478,485	2,384,064	905,579
Charges for services	958,950	958,950	1,042,278	83,328
Fines and forfeits	-	-	375	375
Gifts and contributions	-	-	13,000	13,000
Investment earnings	20,000	20,000	(67,039)	(87,039)
Miscellaneous	803,950	803,950	924,558	120,608
	<u>\$ 10,497,392</u>	<u>\$ 10,497,392</u>	<u>\$ 11,561,585</u>	<u>\$ 1,064,193</u>
Total Revenues				
Expenditures				
Current				
General government				
Commissioners	\$ 193,475	\$ 193,475	\$ 165,535	\$ 27,940
Courts	130,000	130,000	96,500	33,500
Law library	-	-	43,391	(43,391)
Administrator	283,525	283,525	269,172	14,353
Auditor/Treasurer	506,711	506,711	520,719	(14,008)
Information technology	75,000	75,000	115,295	(40,295)
Elections	27,500	27,500	19,374	8,126
Central services	273,000	273,000	357,778	(84,778)
Attorney	473,500	473,500	456,690	16,810
Recorder	343,350	343,350	317,825	25,525
Geographic information system	162,000	162,000	135,558	26,442
Assessor	208,400	208,400	208,899	(499)
Buildings and plant	763,727	763,727	605,389	158,338
Veterans service officer	143,800	143,800	100,231	43,569
	<u>\$ 3,583,988</u>	<u>\$ 3,583,988</u>	<u>\$ 3,412,356</u>	<u>\$ 171,632</u>
Total general government	\$ 3,583,988	\$ 3,583,988	\$ 3,412,356	\$ 171,632

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,245,143	\$ 2,245,143	\$ 2,240,365	\$ 4,778
Law enforcement center	1,864,910	1,864,910	1,735,311	129,599
Boat and water safety	-	-	1,485	(1,485)
Joint law enforcement center	226,475	226,475	152,543	73,932
Coroner	25,000	25,000	23,917	1,083
Sentence to serve	57,500	57,500	57,995	(495)
Criminal justice	-	-	9,642	(9,642)
Probation and parole	288,850	288,850	327,724	(38,874)
Emergency services	67,750	67,750	67,016	734
E-911 system	100,000	100,000	19,207	80,793
ARMER radio system	-	-	585,178	(585,178)
Total public safety	\$ 4,875,628	\$ 4,875,628	\$ 5,220,383	\$ (344,755)
Sanitation				
Environmental	\$ 44,650	\$ 44,650	\$ 44,893	\$ (243)
Hazardous waste	368,300	368,300	356,555	11,745
Recycling	179,721	179,721	178,219	1,502
Total sanitation	\$ 592,671	\$ 592,671	\$ 579,667	\$ 13,004
Culture and recreation				
Parks	\$ 285,359	\$ 285,359	\$ 696,417	\$ (411,058)
Other	44,100	44,100	34,141	9,959
Total culture and recreation	\$ 329,459	\$ 329,459	\$ 730,558	\$ (401,099)
Conservation of natural resources				
Extension	\$ 105,035	\$ 105,035	\$ 90,510	\$ 14,525
Soil and water conservation	327,750	327,750	262,096	65,654
Water quality loan program	-	-	76,433	(76,433)
Water planning	72,060	72,060	16,496	55,564
Other	60,931	60,931	197,600	(136,669)
Total conservation of natural resources	\$ 565,776	\$ 565,776	\$ 643,135	\$ (77,359)

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 58,155	\$ 58,155	\$ 50,155	\$ 8,000
Intergovernmental				
Health	\$ 220,000	\$ 220,000	\$ 224,454	\$ (4,454)
Culture and recreation	271,715	271,715	271,765	(50)
Total intergovernmental	\$ 491,715	\$ 491,715	\$ 496,219	\$ (4,504)
Debt service				
Principal	\$ -	\$ -	\$ 101,971	\$ (101,971)
Interest	-	-	12,971	(12,971)
Total debt service	\$ -	\$ -	\$ 114,942	\$ (114,942)
Total Expenditures	\$ 10,497,392	\$ 10,497,392	\$ 11,247,415	\$ (750,023)
Net Change in Fund Balance	\$ -	\$ -	\$ 314,170	\$ 314,170
Fund Balance - January 1	10,299,707	10,299,707	10,299,707	-
Fund Balance - December 31	\$ 10,299,707	\$ 10,299,707	\$ 10,613,877	\$ 314,170

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,799,556	\$ 1,799,556	\$ 1,777,464	\$ (22,092)
Intergovernmental	12,634,857	12,634,857	9,160,558	(3,474,299)
Charges for services	10,500	10,500	19,930	9,430
Miscellaneous	681,000	681,000	442,730	(238,270)
Total Revenues	\$ 15,125,913	\$ 15,125,913	\$ 11,400,682	\$ (3,725,231)
Expenditures				
Current				
Highways and streets				
Public works	\$ 64,032	\$ 64,032	\$ 18,557	\$ 45,475
Administration	338,786	338,786	283,524	55,262
Construction	11,798,861	11,798,861	6,576,009	5,222,852
Maintenance	1,816,321	1,816,321	1,901,298	(84,977)
Equipment and maintenance shops	1,064,913	1,064,913	1,264,677	(199,764)
County road improvements and maintenance	43,000	43,000	-	43,000
Total highways and streets	\$ 15,125,913	\$ 15,125,913	\$ 10,044,065	\$ 5,081,848
Intergovernmental				
Highways and streets	-	-	356,587	(356,587)
Total Expenditures	\$ 15,125,913	\$ 15,125,913	\$ 10,400,652	\$ 4,725,261
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 1,000,030	\$ 1,000,030
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	-	-	25,566	25,566
Net Change in Fund Balance	\$ -	\$ -	\$ 1,025,596	\$ 1,025,596
Fund Balance - January 1	4,334,312	4,334,312	4,334,312	-
Increase (decrease) in inventories	-	-	152,228	152,228
Fund Balance - December 31	\$ 4,334,312	\$ 4,334,312	\$ 5,512,136	\$ 1,177,824

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,564,674	\$ 2,564,674	\$ 2,559,373	\$ (5,301)
Intergovernmental	-	-	59,885	59,885
Total Revenues	\$ 2,564,674	\$ 2,564,674	\$ 2,619,258	\$ 54,584
Expenditures				
Intergovernmental				
Human services	<u>2,564,674</u>	<u>\$ 2,564,674</u>	<u>\$ 2,619,258</u>	<u>\$ (54,584)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	\$ -	\$ 9,480,606	\$ 9,480,606	0.0%	\$ 4,482,273	211.5%
January 1, 2009	-	4,103,917	4,103,917	0.0	4,942,611	83.0
January 1, 2012	-	3,330,764	3,330,764	0.0	4,858,831	68.6

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and the budgeted special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Budget

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 11,247,415	\$ 10,497,392	\$ 750,023
Human Services Special Revenue Fund	2,619,258	2,564,674	54,584

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance.

5. Other Postemployment Benefits - Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**LYON COUNTY
MARSHALL, MINNESOTA**

6. Significant Actuarial Assumption Changes

2012

The County obtained an actuarial evaluation as of January 1, 2012. Since the last actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

- The assumed medical trend rates were reset to reflect updated health cost increase expectations.
- Mortality, withdrawal, and retirement rates were updated to the 2010 Public Employees Retirement Association rates (General, Police and Fire, and Correctional Employees Retirement Plan).

SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

AGENCY FUNDS

Enterprise Development - to account for the receipts and disbursements of the Enterprise Development Board.

Lyon County Ag Society - to account for the receipts and disbursements of the Lyon County Agricultural Society.

Lyon County Soil & Water Conservation District Projects - to account for the receipts and disbursements of the Soil & Water Conservation District project monies.

State Revenue - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes.

Southwest Minnesota Regional Emergency Communications Board - to account for the receipts and disbursements of the Southwest Minnesota Regional Emergency Communications Joint Powers Board.

Southwest Minnesota Regional Public Safety Board - to account for the receipts and disbursements of the Southwest Minnesota Regional Public Safety Board.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,223	\$ -	\$ -	\$ 1,223
<u>Liabilities</u>				
Due to other governments	\$ 1,223	\$ -	\$ -	\$ 1,223
 <u>LYON COUNTY AG SOCIETY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 39,386	\$ 21,629	\$ 17,757
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 39,386	\$ 21,629	\$ 17,757
 <u>LYON COUNTY SOIL & WATER CONSERVATION DISTRICT PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 242,920	\$ 34,596	\$ 208,324
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 242,920	\$ 34,596	\$ 208,324

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 39,715</u>	<u>\$ 679,792</u>	<u>\$ 668,009</u>	<u>\$ 51,498</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 39,715</u>	<u>\$ 679,792</u>	<u>\$ 668,009</u>	<u>\$ 51,498</u>
 <u>SOUTHWEST MINNESOTA REGIONAL EMERGENCY COMMUNICATIONS BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 230,369</u>	<u>\$ 1,854,774</u>	<u>\$ 2,009,778</u>	<u>\$ 75,365</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 230,369</u>	<u>\$ 1,854,774</u>	<u>\$ 2,009,778</u>	<u>\$ 75,365</u>
 <u>SOUTHWEST MINNESOTA REGIONAL PUBLIC SAFETY BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 22,753</u>	<u>\$ 5,670</u>	<u>\$ 17,083</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 22,753</u>	<u>\$ 5,670</u>	<u>\$ 17,083</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 385,039</u>	<u>\$ 24,917,841</u>	<u>\$ 24,962,453</u>	<u>\$ 340,427</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 385,039</u>	<u>\$ 24,917,841</u>	<u>\$ 24,962,453</u>	<u>\$ 340,427</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 656,346</u>	<u>\$ 27,757,466</u>	<u>\$ 27,702,135</u>	<u>\$ 711,677</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 656,346</u>	<u>\$ 27,757,466</u>	<u>\$ 27,702,135</u>	<u>\$ 711,677</u>

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OTHER SCHEDULES

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

Highway users tax	\$	6,261,107
County program aid		782,237
PERA rate reimbursement		40,500
Disparity reduction aid		26,855
Police aid		100,132
Enhanced 911		101,626
Local performance aid		3,593
Market value credit		157,758

Total shared revenue **\$ 7,473,808**

Reimbursement for Services

Minnesota Department of Human Services	\$	57,477
Local		178,044

Total reimbursement for services **\$ 235,521**

Payments

Local

Payments in lieu of taxes	\$	244,991
Local grants		28,088

Total payments **\$ 273,079**

Grants

State

Minnesota Department of Natural Resources	\$	118,427
Public Safety		444,384
Corrections		53,485
Transportation		380,447
Veterans Affairs		12,298
Peace Officer Standards and Training Board		4,785
Pollution Control Agency		114,737

Total state **\$ 1,128,563**

Federal

Department of Justice	\$	823
Transportation		2,322,961
Homeland Security		212,372

Total federal **\$ 2,536,156**

Total state and federal grants **\$ 3,664,719**

Total Intergovernmental Revenue **\$ 11,647,127**

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	<u>\$ 823</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 2,311,200
Passed Through City of Worthington		
State and Community Highway Safety	20.600	<u>11,761</u>
Total U.S. Department of Transportation		<u>\$ 2,322,961</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 19,356
Emergency Management Performance Grants	97.042	21,124
Interoperable Emergency Communications	97.055	36,308
Homeland Security Grant Program	97.067	<u>135,584</u>
Total U.S. Department of Homeland Security		<u>\$ 212,372</u>
Total Federal Awards		<u>\$ 2,536,156</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lyon County. The County's reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lyon County under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lyon County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Lyon County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

Of the expenditures presented in the schedule, Lyon County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
97.055	Interoperable Emergency Communications	\$ 28,966
97.067	Homeland Security Grant Program	114,221
	Total	\$ 143,187

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**LYON COUNTY
MARSHALL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Highway Planning and Construction

CFDA #20.205

The threshold for distinguishing between Types A and B programs was \$300,000.

Lyon County qualified as a low-risk auditee? **No**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties (1998-001)

Several of the County's departments that collect fees lacked proper segregation of duties. These departments generally had one staff person responsible for billing, collecting, recording, and depositing receipts.

Resolution

Lyon County departments implemented additional monitoring and review procedures to improve segregation of duties and increase controls over billing, collecting, recording, and depositing receipts.

Jail Inmate Account Bank Reconciliation (2009-004)

During the previous audit, it was noted Jail personnel had been unable to reconcile the amount in the Jail checking account to the bank statement.

Resolution

During the current audit, we noted Jail checking account bank reconciliations were being completed during 2013 by staff in the County Auditor/Treasurer Department.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2013-001

Criteria: County Board minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting.

Condition: We reviewed the affidavits of publication related to the publishing of a summary of the County Board minutes for 2013 and found that some of the summaries were not published in the County's official newspaper within the 30-day requirement.

Context: Of the 26 published summaries reviewed, 14 were not published within the 30-day requirement.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County Board minutes are not prepared and presented to the County Board for review and approval in time to meet the publication within the 30-day requirement.

Recommendation: We recommend the County publish its summaries of the County Board minutes in compliance with Minn. Stat. § 375.12.

Client's Response:

The County's official newspaper for 2013 was a weekly publication. Minutes are approved by Commissioners, generally at their next meeting, before summary minutes are published. Since there are two to three weeks between meetings and with newspaper deadlines, it has proven difficult at times to meet the 30-day statutory requirement. Of the 14 summaries noted not to have been published within the 30-day requirement, only 2 were for meetings that were held after the OSA brought the matter to the County's attention in early September 2013.

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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*

Independent Auditor's Report

Board of County Commissioners
Lyon County

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Minnesota, as of and for the year ended December 31, 2013, 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 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lyon County's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting 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 over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Lyon County's financial statements are free from 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*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Lyon County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Lyon County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2013-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Lyon County's Response to Findings

Lyon County's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This 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. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2014

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REBECCA OTTO
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Lyon County

Report on Compliance for the Major Federal Program

We have audited Lyon County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2013. Lyon County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Lyon County's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Lyon 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 the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Lyon County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Lyon 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 the attention of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 25, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR