

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007



**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
2007

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Rodney Stensrud	January 2011
2nd District	Robert Fenske	January 2011
3rd District	Philip Nelson	January 2011
4th District	Steve Ritter	January 2009
5th District	Mark Goodenow*	January 2009
Officers		
Elected		
Attorney	Rick Maes	January 2011
Auditor/Treasurer	Paula Van Overbeke	January 2011
County Recorder	Jeanine Barker	January 2011
Sheriff	Joel Dahl	January 2011
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	Indefinite
Public Works Director/ Highway Engineer	Anita Benson	Indefinite
Environmental Administrator	Paul Henriksen	Indefinite
Veterans Service Officer	Jim Hubley	Indefinite

*Chair 2007 and 2008

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Lyon County. The statement and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Lyon County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 31, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

As management of Lyon County, Minnesota, we offer the readers of the Lyon County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2007, by \$82,516,347 (net assets). Of this amount, \$17,854,033 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Lyon County's total net assets increased by \$3,144,564 in 2007. This is attributable primarily to an increase in cash and capital assets of \$2,989,853 which was offset by a decrease in liabilities of \$352,501 and a decrease in investments of \$494,367.
- As of the close of 2007, Lyon County's governmental funds reported combined ending fund balances of \$14,844,302, a decrease of \$1,128,915 in comparison with 2006 combined ending fund balances. Of this balance amount, \$8,414,306 was unreserved and undesignated by Lyon County and thus, available for spending at the government's discretion.
- At the end of 2007, unreserved fund balance for the General Fund was \$8,029,887, or 86 percent, of the total General Fund expenditures for that year. This represents a slight decrease from 2006, which had 90 percent of the total General Fund expenditures.
- Lyon County's total debt for governmental activities decreased by \$920,143 during 2007 due primarily to the scheduled payment of long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Lyon County basic financial statements. Lyon County's financial statements are composed of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

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

The statement of net assets presents information on all of Lyon County's assets and liabilities, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Lyon County is improving or deteriorating.

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

Lyon County's 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 Lyon County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Lyon County has only one business-type activity known as the Lyon County Landfill.

Fund level statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Lyon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Lyon County can be divided into three categories: governmental funds, business-type funds, and fiduciary funds.

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 near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Lyon County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and Ditch Special Revenue Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Business-type funds are maintained by Lyon County to account for the Lyon County Landfill. 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 can be found on Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Lyon County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support Lyon County's own programs or activities. The accounting for fiduciary funds is much like that used for business-type funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 58 of this report.

Other information is provided as supplementary information regarding Lyon County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lyon County's assets exceeded liabilities by \$82,516,347 at the close of 2007. The largest portion of Lyon County's net assets (70 percent) reflects the County's 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 Assets

	2007			2006 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 19,819,569	\$ 10,898,184	\$ 30,717,753	\$ 29,765,429
Capital assets	62,821,646	1,090,331	63,911,977	62,072,238
Total Assets	\$ 82,641,215	\$ 11,988,515	\$ 94,629,730	\$ 91,837,667
Liabilities				
Long-term liabilities	\$ 8,409,020	\$ 2,597,081	\$ 11,006,101	\$ 11,746,276
Other liabilities	1,006,041	101,241	1,107,282	719,608
Total Liabilities	\$ 9,415,061	\$ 2,698,322	\$ 12,113,383	\$ 12,465,884
Net Assets				
Invested in capital assets, net of related debt	\$ 56,691,876	\$ 1,090,331	\$ 57,782,207	\$ 56,344,493
Restricted	3,950,196	2,929,911	6,880,107	5,347,340
Unrestricted	12,584,082	5,269,951	17,854,033	17,679,950
Total Net Assets	\$ 73,226,154	\$ 9,290,193	\$ 82,516,347	\$ 79,371,783

The unrestricted net assets amount of \$17,854,033 as of December 31, 2007, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Lyon County's activities increased Lyon County's net assets during 2007 by \$3,144,564, representing a 4.0 percent increase, primarily because of the County's investment in capital assets. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2007			2006 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 1,751,594	\$ 2,129,696	\$ 3,881,290	\$ 3,593,463
Operating grants and contributions	3,962,017	-	3,962,017	2,542,156
Capital grants and contributions	621,681	-	621,681	2,239,401
General revenues				
Property taxes	9,298,234	-	9,298,234	8,718,927
Other	3,763,564	157,268	3,920,832	4,046,345
Total Revenues	\$ 19,397,090	\$ 2,286,964	\$ 21,684,054	\$ 21,140,292

	2007			2006 (Restated)
	Governmental Activities	Business-Type Activities	Total	
Expenses				
General government	\$ 3,658,391	\$ -	\$ 3,658,391	\$ 3,234,118
Public safety	3,328,640	-	3,328,640	3,145,255
Highways and streets	5,487,364	-	5,487,364	4,290,989
Sanitation	458,887	1,584,302	2,043,189	1,777,596
Human services	2,424,875	-	2,424,875	2,191,590
Health	225,895	-	225,895	224,957
Culture and recreation	498,570	-	498,570	441,107
Conservation of natural resources	531,686	-	531,686	598,480
Economic development	54,155	-	54,155	52,985
Interest	286,725	-	286,725	324,586
Total Expenses	<u>\$ 16,955,188</u>	<u>\$ 1,584,302</u>	<u>\$ 18,539,490</u>	<u>\$ 16,281,663</u>
Increase in Net Assets	\$ 2,441,902	\$ 702,662	\$ 3,144,564	\$ 4,858,629
Net Assets - January 1, restated	<u>70,784,252</u>	<u>8,587,531</u>	<u>79,371,783</u>	<u>74,513,154</u>
Net Assets - December 31	<u>\$ 73,226,154</u>	<u>\$ 9,290,193</u>	<u>\$ 82,516,347</u>	<u>\$ 79,371,783</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Lyon County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of fiscal year 2007, Lyon County's governmental funds reported combined ending fund balances of \$14,844,302, a decrease of \$1,128,915 in comparison with the prior year. Of the ending fund balance, \$11,721,844 represents unreserved 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 for various reasons.

The General Fund is the chief operating fund for Lyon County. At the end of the current fiscal year, it had an unreserved fund balance of \$8,029,887, a \$34,105 decrease from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 86 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,018,792 at year-end, an increase of \$37,673 over the previous year.

The human services function for Lyon County is performed through a joint powers agreement between Lincoln, Lyon, and Murray Counties and is known as Lincoln, Lyon, & Murray 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 governing Human Services Board. Detailed financial information of the activities of Lincoln, Lyon, & Murray Human Services can be addressed to LLM Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had an unreserved ending balance of \$673,165. This ending balance represents a \$24,519 increase in fund balance from the prior year. The increase is attributed to an increase in special assessment collections held for future repairs to the various county ditches.

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and the final amended budget were experienced in 2007.

Actual General Fund revenues exceeded budgeted revenues by \$909,321 primarily due to a greater than expected return on investments and greater than expected intergovernmental revenues.

Actual expenditures were greater than budgeted expenditures by \$900,673. This is attributed to increased costs in operating the buildings, boarding prisoners in other counties, and the purchase of land to create Twin Lakes Park.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2007, totaled \$60,710,636 (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 \$1,243,002, or two percent, from the previous year. The increase is due primarily to the County's investment in equipment and infrastructure.

Depreciable Governmental Capital Assets

	2007	2006
Capital assets depreciated		
Land improvements	\$ 415,557	\$ 415,557
Buildings	12,687,415	12,687,415
Machinery and equipment	5,644,293	5,332,329
Infrastructure	65,132,487	62,453,906
 Total capital assets depreciated	 \$ 83,879,752	 \$ 80,889,207
 Less: accumulated depreciation for		
Land improvements	\$ 249,551	\$ 220,549
Buildings	3,084,402	2,865,878
Machinery and equipment	3,259,519	3,062,152
Infrastructure	16,575,644	15,272,994
 Total accumulated depreciations	 \$ 23,169,116	 \$ 21,421,573
 Total Capital Assets Depreciated, Net	 \$ 60,710,636	 \$ 59,467,634

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$8,409,020 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

	2007	2006
Special assessment debt	\$ 1,000,000	\$ 1,140,000
General obligation debt	4,345,000	4,815,000
Unamortized premium	21,031	24,536
Leases payable	1,784,770	2,230,059
Loans payable	641,040	530,418
Compensated absences	617,179	589,150
 Total	 \$ 8,409,020	 \$ 9,329,163

The County's debt related to special assessment obligation bonds and notes decreased by \$140,000 (12 percent) during the fiscal year due to repayment of principal.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Marshall is the county seat for Lyon County. According to the 2000 census, Marshall has a population of 12,735 compared to the total County population of 24,245.

The largest employer and the largest taxpayer is the Schwan Food Company. Schwan Food Company employs approximately 2,500 at its manufacturing facilities and world-wide headquarters located in Marshall.

County Tax Rate and Levy History

2008	50.353%	\$ 11,066,558
2007	49.282%	10,102,126
2006	52.794%	9,508,510
2005	55.560%	9,100,000

On December 16, 2008, the Lyon County Board of Commissioners approved the 2009 budget and adopted a property tax levy of \$12,164,341, which represents a 9.9 percent increase over the 2008 property tax levy of \$11,066,558.

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 Paula Van Overbeke, Lyon County Auditor/Treasurer, 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 ASSETS
DECEMBER 31, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 13,008,552	\$ 6,969,157	\$ 19,977,709
Investments	1,540,360	708,000	2,248,360
Receivables - net	4,794,722	291,412	5,086,134
Internal balances	296	(296)	-
Inventories	411,844	-	411,844
Prepaid items	39,663	-	39,663
Restricted assets			
Cash and pooled investments	-	76,419	76,419
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	15,437	15,437
Deferred debt issuance costs	24,132	-	24,132
Capital assets			
Non-depreciable capital assets	2,111,010	390,433	2,501,443
Depreciable capital assets - net of accumulated depreciation	60,710,636	699,898	61,410,534
Total Assets	\$ 82,641,215	\$ 11,988,515	\$ 94,629,730
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 896,010	\$ 101,241	\$ 997,251
Accrued interest payable	110,031	-	110,031
Long-term liabilities			
Due within one year	1,183,322	-	1,183,322
Due in more than one year	7,225,698	2,597,081	9,822,779
Total Liabilities	\$ 9,415,061	\$ 2,698,322	\$ 12,113,383
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 56,691,876	\$ 1,090,331	\$ 57,782,207
Restricted for			
Public safety	262,073	-	262,073
Highways and streets	2,168,320	-	2,168,320
Landfill postclosure	-	2,929,911	2,929,911
Debt service	1,217,771	-	1,217,771
Other purposes	302,032	-	302,032
Unrestricted	12,584,082	5,269,951	17,854,033
Total Net Assets	\$ 73,226,154	\$ 9,290,193	\$ 82,516,347

**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 3,658,391	\$ 634,286
Public safety	3,328,640	370,421
Highways and streets	5,487,364	347,570
Sanitation	458,887	36,313
Human services	2,424,875	-
Health	225,895	-
Culture and recreation	498,570	23,518
Conservation of natural resources	531,686	339,486
Economic development	54,155	-
Interest	286,725	-
	\$ 16,955,188	\$ 1,751,594
Business-type activities		
Landfill	1,584,302	2,129,696
	\$ 18,539,490	\$ 3,881,290

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning, as restated (Note 1.E.)

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 47,969	\$ -	\$ (2,976,136)	\$ -	\$ (2,976,136)
270,779	-	(2,687,440)	-	(2,687,440)
3,141,773	621,681	(1,376,340)	-	(1,376,340)
344,326	-	(78,248)	-	(78,248)
-	-	(2,424,875)	-	(2,424,875)
-	-	(225,895)	-	(225,895)
4,960	-	(470,092)	-	(470,092)
152,210	-	(39,990)	-	(39,990)
-	-	(54,155)	-	(54,155)
-	-	(286,725)	-	(286,725)
\$ 3,962,017	\$ 621,681	\$ (10,619,896)	\$ -	\$ (10,619,896)
-	-	-	545,394	545,394
\$ 3,962,017	\$ 621,681	\$ (10,619,896)	\$ 545,394	\$ (10,074,502)
		\$ 9,298,234	\$ -	\$ 9,298,234
		17,109	-	17,109
		132,573	-	132,573
		2,136,122	-	2,136,122
		968,206	157,268	1,125,474
		509,554	-	509,554
		\$ 13,061,798	\$ 157,268	\$ 13,219,066
		\$ 2,441,902	\$ 702,662	\$ 3,144,564
		70,784,252	8,587,531	79,371,783
		\$ 73,226,154	\$ 9,290,193	\$ 82,516,347

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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, 2007**

	<u>General</u>	<u>Special Revenue Funds</u>			<u>Road Bond Debt Service</u>	<u>Total</u>
		<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>		
Assets						
Cash and pooled investments	\$ 7,988,740	\$ 3,166,258	\$ -	\$ 450,270	\$ 943,342	\$ 12,548,610
Undistributed cash in agency fund	74,374	26,115	24,469	1,505	6,596	133,059
Petty cash and change funds	2,745	-	-	-	-	2,745
Cash with fiscal agent	324,138	-	-	-	-	324,138
Investments	1,128,721	-	-	411,639	-	1,540,360
Taxes receivable						
Prior	41,199	16,778	16,977	-	4,604	79,558
Special assessments receivable						
Prior	7,741	-	-	4,352	-	12,093
Noncurrent	425,915	-	-	1,174,096	-	1,600,011
Accounts receivable	28,019	30,068	-	-	-	58,087
Accrued interest receivable	76,908	-	-	931	-	77,839
Due from other funds	117,345	13,008	-	-	-	130,353
Due from other governments	123,705	2,552,619	-	3,930	-	2,680,254
Advance to other funds	73,865	-	-	-	-	73,865
Leases receivable	286,880	-	-	-	-	286,880
Inventories	-	411,844	-	-	-	411,844
Prepaid items	34,938	4,725	-	-	-	39,663
Total Assets	\$ 10,735,233	\$ 6,221,415	\$ 41,446	\$ 2,046,723	\$ 954,542	\$ 19,999,359

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Special Revenue Funds			Road Bond	Total
		Road and Bridge	Human Services	Ditch	Debt Service	
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 222,624	\$ 56,520	\$ -	\$ 1,079	\$ 1,250	\$ 281,473
Salaries payable	157,263	59,122	-	-	-	216,385
Contracts payable	5,054	247,640	-	-	-	252,694
Due to other funds	12,712	89	-	117,256	-	130,057
Due to other governments	115,017	3,062	24,469	2,910	-	145,458
Deferred revenue - unavailable	497,314	2,357,782	16,977	1,178,448	4,604	4,055,125
Advance from other funds	-	-	-	73,865	-	73,865
Total Liabilities	\$ 1,009,984	\$ 2,724,215	\$ 41,446	\$ 1,373,558	\$ 5,854	\$ 5,155,057
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 948,688	\$ 948,688
Encumbrances	-	61,839	-	-	-	61,839
Advance to other funds	73,865	-	-	-	-	73,865
Inventories	-	411,844	-	-	-	411,844
Prepaid items	34,938	4,725	-	-	-	39,663
Missing heirs	2,483	-	-	-	-	2,483
Law library	83,431	-	-	-	-	83,431
Recorder's technology fund	126,670	-	-	-	-	126,670
Recorder's compliance fund	146,975	-	-	-	-	146,975
E-911	242,242	-	-	-	-	242,242
Sheriff's contingency	3,946	-	-	-	-	3,946
Sheriff's forfeited property	5,541	-	-	-	-	5,541
Attorney's forfeited property	16,307	-	-	-	-	16,307
Canteen fund	11,205	-	-	-	-	11,205
Gun permit fees	10,344	-	-	-	-	10,344
Leases receivable	286,880	-	-	-	-	286,880
Governmental lease obligation	324,137	-	-	-	-	324,137
Fish and wildlife trust	52,725	-	-	-	-	52,725
Probation supervision fees	41,985	-	-	-	-	41,985
Septic/sewer loans	215,125	-	-	-	-	215,125
DARE program	6,966	-	-	-	-	6,966
Election equipment grant	9,597	-	-	-	-	9,597
Unreserved						
Designated for						
Future expenditures	3,123,405	-	-	-	-	3,123,405
County road projects	-	184,133	-	-	-	184,133
Undesignated	4,906,482	2,834,659	-	673,165	-	8,414,306
Total Fund Balances	\$ 9,725,249	\$ 3,497,200	\$ -	\$ 673,165	\$ 948,688	\$ 14,844,302
Total Liabilities and Fund Balances	\$ 10,735,233	\$ 6,221,415	\$ 41,446	\$ 2,046,723	\$ 954,542	\$ 19,999,359

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$	14,844,302
Amounts reported for governmental activities in the statement of net assets 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.		62,821,646
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,055,125
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (5,345,000)	
Capital leases	(1,784,770)	
Compensated absences	(617,179)	
Loans payable	(641,040)	
Accrued interest payable	(110,031)	
Unamortized premium on general obligation bonds	(21,031)	
Deferred debt issuance costs	24,132	
	(8,494,919)	(8,494,919)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>73,226,154</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds				Road Bond Debt Service	Total
	General	Road and Bridge	Human Services	Ditch		
Revenues						
Taxes	\$ 4,854,903	\$ 1,992,864	\$ 1,966,107	\$ -	\$ 535,604	\$ 9,349,478
Special assessments	329,709	59,310	-	220,954	-	609,973
Licenses and permits	26,160	-	-	-	-	26,160
Intergovernmental	1,713,903	3,684,465	458,768	-	120,096	5,977,232
Charges for services	849,548	17,171	-	-	-	866,719
Gifts and contributions	4,348	-	-	-	-	4,348
Investment earnings	912,774	-	-	11,661	36,397	960,832
Miscellaneous	656,853	313,794	-	46,497	-	1,017,144
Total Revenues	\$ 9,348,198	\$ 6,067,604	\$ 2,424,875	\$ 279,112	\$ 692,097	\$ 18,811,886
Expenditures						
Current						
General government	\$ 3,401,388	\$ -	\$ -	\$ -	\$ -	\$ 3,401,388
Public safety	3,455,016	-	-	-	-	3,455,016
Highways and streets	-	7,061,290	-	-	-	7,061,290
Sanitation	451,436	-	-	-	-	451,436
Culture and recreation	549,074	-	-	-	-	549,074
Conservation of natural resources	415,995	-	-	115,475	-	531,470
Economic development	54,155	-	-	-	-	54,155
Intergovernmental	464,637	243,907	2,424,875	-	-	3,133,419
Debt service						
Principal	467,004	-	-	140,000	470,000	1,077,004
Interest	88,377	-	-	56,465	150,228	295,070
Administrative (fiscal) fees	2,468	-	-	2,981	2,181	7,630
Total Expenditures	\$ 9,349,550	\$ 7,305,197	\$ 2,424,875	\$ 314,921	\$ 622,409	\$ 20,016,952
Excess of Revenues Over (Under) Expenditures	\$ (1,352)	\$ (1,237,593)	\$ -	\$ (35,809)	\$ 69,688	\$ (1,205,066)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ 60,328	\$ -	\$ 60,328
Transfers out	(60,328)	-	-	-	-	(60,328)
Loans issued	110,869	-	-	-	-	110,869
Total Other Financing Sources (Uses)	\$ 50,541	\$ -	\$ -	\$ 60,328	\$ -	\$ 110,869
Net Change in Fund Balances	\$ 49,189	\$ (1,237,593)	\$ -	\$ 24,519	\$ 69,688	\$ (1,094,197)
Fund Balances - January 1	9,676,060	4,769,511	-	648,646	879,000	15,973,217
Increase (decrease) in reserved for inventories	-	(34,718)	-	-	-	(34,718)
Fund Balances - December 31	\$ 9,725,249	\$ 3,497,200	\$ -	\$ 673,165	\$ 948,688	\$ 14,844,302

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,094,197)

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 revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 4,055,125	
Deferred revenue - January 1	(3,469,921)	585,204

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. In the statement of activities only the gain or loss on disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 4,103,533	
Net book value of the assets disposed of	(41,469)	
Current year depreciation	(2,009,064)	2,053,000

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; these amounts are deferred and amortized in the statement of activities.

Debt issued		
ISTS loans	\$ (110,869)	
Accumulated interest on loans made	(21,468)	(132,337)

Debt principal repayments		
General obligation bonds	\$ 610,000	
Capital leases	445,289	
Loans payable	21,715	1,077,004

Amortization of premiums and deferred issuance charges		(517)
--	--	-------

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

Change in accrued interest payable	\$ 16,492	
Change in compensated absences	(28,029)	
Change in inventories	(34,718)	(46,255)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,441,902

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PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2007**

Assets

Current assets	
Cash and pooled investments	\$ 6,968,957
Petty cash and change funds	200
Investments	708,000
Accounts receivable - net	278,918
Accrued interest receivable	2,273
Due from other governments	10,221
Restricted assets	
Cash and pooled investments	76,419
Investments	2,838,055
Accrued interest receivable	15,437
	<hr/>
Total current assets	\$ 10,898,480
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	699,898
	<hr/>
Total noncurrent assets	\$ 1,090,331
Total Assets	\$ 11,988,811

Liabilities

Current liabilities	
Accounts payable	\$ 80,823
Salaries payable	12,535
Due to other funds	296
Due to other governments	7,883
	<hr/>
Total current liabilities	\$ 101,537
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 28,023
Estimated liability for landfill closure/postclosure	2,569,058
	<hr/>
Total noncurrent liabilities	\$ 2,597,081
Total Liabilities	\$ 2,698,618

Net Assets

Invested in capital assets	\$ 1,090,331
Restricted for postclosure	2,929,911
Unrestricted	5,269,951
	<hr/>
Total Net Assets	\$ 9,290,193

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

Operating Revenues	
Charges for services	\$ 2,123,896
Miscellaneous	5,800
	<hr/>
Total Operating Revenues	\$ 2,129,696
Operating Expenses	
Personal services	\$ 332,551
Professional services	343,934
Administration and fiscal services	6,977
Other services and charges	501,719
Utilities	4,632
Depreciation	220,581
Landfill closure and postclosure costs	173,908
	<hr/>
Total Operating Expenses	\$ 1,584,302
Operating Income (Loss)	\$ 545,394
Nonoperating Revenues (Expenses)	
Investment earnings	157,268
	<hr/>
Change in Net Assets	\$ 702,662
Net Assets - January 1, as previously reported	\$ 8,235,961
Prior period adjustment (Note 1.E.)	351,570
	<hr/>
Net Assets - January 1, as restated	\$ 8,587,531
Net Assets - December 31	\$ 9,290,193
	<hr/> <hr/>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,087,844
Payments to suppliers	(873,360)
Payments to employees	(324,145)
	<u>\$ 890,339</u>
Net cash provided by (used in) operating activities	
Cash Flows From Noncapital Financing Activities	
Investment earnings	\$ 161,203
Purchase of investments	(300,000)
	<u>\$ (138,797)</u>
Net cash provided by (used in) noncapital financing activities	
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	\$ (7,320)
	<u>\$ (7,320)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	
	<u>\$ 744,222</u>
Cash and Cash Equivalents - January 1	<u>6,301,354</u>
Cash and Cash Equivalents - December 31	<u>\$ 7,045,576</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 6,968,957
Petty cash and change funds	200
Restricted cash and pooled investments	76,419
	<u>\$ 7,045,576</u>
Total Cash and Cash Equivalents - December 31	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 545,394</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 220,581
(Increase) decrease in accounts receivable	(44,441)
(Increase) decrease in due from other governments	2,589
Increase (decrease) in accounts payable	10,850
Increase (decrease) in salaries payable	2,346
Increase (decrease) in contracts payable	(24,205)
Increase (decrease) in due to other funds	(6,075)
Increase (decrease) in due to other governments	3,332
Increase (decrease) in landfill closure costs	173,908
Increase (decrease) in compensated absences payable	6,060
	<u>\$ 344,945</u>
Total adjustments	<u>\$ 344,945</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 890,339</u>

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FIDUCIARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

	Investment Trust Fund	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 4,102,403	\$ 321,309
Accrued interest receivable	6,128	-
Total Assets	\$ 4,108,531	\$ 321,309
<u>Liabilities and Net Assets</u>		
Liabilities		
Due to other governments	\$ -	\$ 321,309
Net Assets		
Net assets held in trust for pool participants	4,108,531	-
Total Liabilities and Net Assets	\$ 4,108,531	\$ 321,309

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 12,779,330
Investment earnings	<u>84,448</u>
Total Additions	\$ 12,863,778
<u>Deductions</u>	
Distributions to participants	<u>12,272,473</u>
Change in net assets	\$ 591,305
Net Assets - Beginning of the Year	<u>3,517,226</u>
Net Assets - End of the Year	<u>\$ 4,108,531</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

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. ch. 373. 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 participates in several joint ventures described in Note 4.D. The County also participates in jointly-governed organizations described in Note 4.E.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. 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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

supported by taxes and intergovernmental revenues, 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 assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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 revenue. Direct expenses are those clearly identifiable with a specific function or activity. Program revenue 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. Revenue not classified as program revenue, including all taxes, is presented as general revenue.

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 a separate column in the fund financial statements. The County reports all of its governmental and proprietary funds as major funds. 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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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 required to be accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenue and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.
- The Road Bond Debt Service Fund is used to account for the financial resources to be used for payment of long-term debt 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. Basic Financial 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 Lincoln, Lyon, & Murray Human Services.
- 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. Revenue are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 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.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets 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, 2007, 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 2007 were \$862,940.

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 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). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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).

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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. 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.

5. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets 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' lives are not capitalized.

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 - 40
Improvements to land	20 - 35
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual 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. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

9. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

10. 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 assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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 an other financing source. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity (Continued)

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

12. 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 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.

E. Prior Period Adjustment

During 2007, the County determined that it had previously incorrectly recorded capital assets in the Landfill Enterprise Fund as the various cells had been omitted from capital assets and accumulated depreciation. The effect on beginning net assets for business-type activities and for the Landfill Enterprise Fund is:

	<u>Business-Type Activities/Landfill Enterprise Fund</u>
Beginning Net Assets	\$ 8,235,961
Correction of an error - capital assets	<u>351,570</u>
Net Assets, Restated	<u>\$ 8,587,531</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. 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 assets	
Governmental activities	
Cash and pooled investments	\$ 13,008,552
Investments	1,540,360
Business-type activities	
Cash and pooled investments	6,969,157
Investments	708,000
Cash and pooled investments - restricted assets	76,419
Investments - restricted assets	2,838,055
Statement of fiduciary net assets	
Cash and pooled investments	
Investment trust fund	4,102,403
Agency funds	321,309
Total Cash and Investments	\$ 29,564,255

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, 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**

2. 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, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (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;

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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
- (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 minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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.

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 that are in the possession of an outside party. The County's policy is to minimize

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2007, the County's investments were not exposed 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 diversify the investment portfolio so that the impact of potential losses from one type of security will be minimized.

The following table presents the County's deposits and investment balances at December 31, 2007, along with information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 1,153,269
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Prime Investment Money Market Fund	AAA	Standard & Poor's	N/A	N/A	1,400,000
Total investment pools/mutual funds					\$ 2,555,701
Checking					11,531,202
Savings					10,800,269
Petty cash and change funds					2,945
Certificates of deposit					4,350,000
Cash with fiscal agent					324,138
Total Cash and Investments					\$ 29,564,255

N/A - Not Applicable
N/R - Not Rated

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, 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	\$ 79,558	\$ -
Special assessments	1,612,104	1,600,011
Accounts	58,087	-
Interest	77,839	-
Leases	286,880	144,079
Due from other governments	2,680,254	-
Total Governmental Activities	\$ 4,794,722	\$ 1,744,090

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	\$ 278,918	\$ -
Interest	2,273	-
Due from other governments	10,221	-
Total Business-Type Activities	\$ 291,412	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 790,846	\$ 189,602	\$ -	\$ 980,448
Right-of-way	510,166	-	-	510,166
Work in progress	-	620,396	-	620,396
Total capital assets not depreciated	<u>\$ 1,301,012</u>	<u>\$ 809,998</u>	<u>\$ -</u>	<u>\$ 2,111,010</u>
Capital assets depreciated				
Land improvements	\$ 415,557	\$ -	\$ -	\$ 415,557
Buildings	12,687,415	-	-	12,687,415
Machinery and equipment	5,332,329	614,954	302,990	5,644,293
Infrastructure	62,453,906	2,678,581	-	65,132,487
Total capital assets depreciated	<u>\$ 80,889,207</u>	<u>\$ 3,293,535</u>	<u>\$ 302,990</u>	<u>\$ 83,879,752</u>
Less: accumulated depreciation for				
Land improvements	\$ 220,549	\$ 29,002	\$ -	\$ 249,551
Buildings	2,865,878	218,524	-	3,084,402
Machinery and equipment	3,062,152	458,888	261,521	3,259,519
Infrastructure	15,272,994	1,302,650	-	16,575,644
Total accumulated depreciation	<u>\$ 21,421,573</u>	<u>\$ 2,009,064</u>	<u>\$ 261,521</u>	<u>\$ 23,169,116</u>
Total capital assets depreciated, net	<u>\$ 59,467,634</u>	<u>\$ 1,284,471</u>	<u>\$ 41,469</u>	<u>\$ 60,710,636</u>
Governmental Activities Capital Assets, Net	<u>\$ 60,768,646</u>	<u>\$ 2,094,469</u>	<u>\$ 41,469</u>	<u>\$ 62,821,646</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance, as restated	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Capital assets depreciated				
Buildings	\$ 132,947	\$ -	\$ -	\$ 132,947
Machinery and equipment	1,337,442	7,320	22,419	1,322,343
Landfill cells	3,069,520	-	-	3,069,520
Total capital assets depreciated	\$ 4,539,909	\$ 7,320	\$ 22,419	\$ 4,524,810
Less: accumulated depreciation for				
Buildings	\$ 49,923	\$ 4,432	\$ -	\$ 54,355
Machinery and equipment	858,877	89,584	22,419	926,042
Landfill cells	2,717,950	126,565	-	2,844,515
Total accumulated depreciation	\$ 3,626,750	\$ 220,581	\$ 22,419	\$ 3,824,912
Total capital assets depreciated, net	\$ 913,159	\$ (213,261)	\$ -	\$ 699,898
Business-Type Activities Capital Assets, Net	\$ 1,303,592	\$ (213,261)	\$ -	\$ 1,090,331

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

Governmental Activities	
General government	\$ 235,511
Public safety	109,057
Highways and streets, including depreciation of infrastructure assets	1,633,175
Culture and recreation	23,962
Sanitation	7,359
Total Depreciation Expense - Governmental Activities	<u>\$ 2,009,064</u>
Business-Type Activities	
Landfill	<u>\$ 220,581</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund Ditch Special Revenue Fund	\$ 89 117,256
Road and Bridge Special Revenue Fund	General Fund Landfill Enterprise Fund	12,712 296
Total Due To/From Other Funds		\$ 130,353

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 73,865

The advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

3. Interfund Transfers

During 2007, the General Fund transferred \$60,328 to the Ditch Special Revenue Fund for Joint Ditch No. 15 L & R Imp.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 281,473	\$ 80,823
Salaries	216,385	12,535
Contracts	252,694	-
Due to other governments	145,458	7,883
Total Payables	\$ 896,010	\$ 101,241

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Road and bridge projects	\$ 2,368,362	\$ 242,727

3. Retired Officials' and Employees' Health Insurance Benefits

The 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

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Retired Officials' and Employees' Health Insurance Benefits (Continued)

behalf of active employees. 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's contributions for the year ended December 31, 2007, were:

	Number of Participants	Contribution
Governmental Activities		
Elected officials	5	\$ 21,290
Employees	19	81,368
Totals	24	\$ 102,658

4. Capital Leases

The County has entered into lease agreements with the Economic Development Authority of the City of Marshall as lessee for financing of the construction of a joint jail and law enforcement center and construction of a public works building. In 2005, the County entered into a governmental lease purchase with Johnson Controls, Inc., financed by Citi Bank Mortgage, Inc., to retrofit the courthouse heating and cooling system. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2007:

Capital Leases	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
1998 joint jail and law enforcement center	2009	\$195,000 - \$280,000	4.05 to 4.60	\$ 2,115,000	\$ 545,000
Public works building	2012	\$135,000 - \$185,000	3.50 to 4.40	1,555,000	855,000
Heating and cooling retrofit project	2015	\$56,423	3.89	463,827	384,770
Total Capital Leases				\$ 4,133,827	\$ 1,784,770

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

Payments on the capital leases are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Year Ending December 31	Governmental Activities
2008	\$ 528,151
2009	534,265
2010	245,873
2011	248,433
2012	245,495
2013 - 2015	169,270
Total minimum lease payments	\$ 1,971,487
Less: amount representing interest	(186,717)
Present Value of Minimum Lease Payments	\$ 1,784,770

5. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2010	\$10,000 - \$45,000	4.20 to 6.00	\$ 385,000	\$ 30,000
1994 G.O. drainage bonds	2011	\$15,000 - \$25,000	5.80 to 6.70	310,000	100,000
1997 G.O. drainage bonds	2019	\$35,000	5.00 to 5.50	700,000	420,000
1998 G.O. drainage bonds	2010	\$30,000 - \$35,000	4.40 to 4.75	325,000	90,000
1999 G.O. drainage bonds	2015	\$45,000	4.00 to 5.00	675,000	360,000
Total Special Assessment Bonds With Government Commitment				\$ 2,395,000	\$ 1,000,000

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
General obligation bonds 2004 G.O. capital improvement bonds	2015	\$460,000 - \$615,000	3.00 to 3.75	<u>\$ 5,275,000</u>	\$ 4,345,000
Plus: unamortized premium					<u>21,031</u>
General Obligation Bonds, Net					<u>\$ 4,366,031</u>

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.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
Cottonwood River Restoration CWP Project	2017	\$14,828	2.00	\$ 284,407	\$ 248,060
Yellow Medicine River Watershed CWP Project	2015	\$3,667	2.00	172,070	156,740
Redwood Watershed Phosphorus CWP Project	2017	\$10,263	2.00	<u>236,240</u>	<u>236,240</u>
Total Loans Payable				<u>\$ 692,717</u>	<u>\$ 641,040</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 485,000	\$ 135,904	\$ 145,000	\$ 49,148
2009	495,000	120,894	145,000	41,586
2010	510,000	105,191	145,000	33,920
2011	530,000	88,941	105,000	27,188
2012	550,000	71,723	80,000	22,272
2013 - 2017	1,775,000	97,553	310,000	53,437
2018 - 2019	-	-	70,000	3,850
Total	<u>\$ 4,345,000</u>	<u>\$ 620,206</u>	<u>\$ 1,000,000</u>	<u>\$ 231,401</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2008	\$ 53,221	\$ 10,164
2009	59,148	10,105
2010	60,337	8,916
2011	61,549	7,703
2012	62,786	6,466
2013 - 2017	270,322	14,555
2018	5,810	58
Total	<u>\$ 573,173</u>	<u>\$ 57,967</u>

Clean water loans in the amount of \$16,827 for the Cottonwood River Restoration Project and of \$51,040 for the Redwood Watershed Project are not included in the debt service requirements because fixed repayment schedules are not available.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	\$ 1,140,000	\$ -	\$ 140,000	\$ 1,000,000	\$ 145,000
General obligation bonds	4,815,000	-	470,000	4,345,000	485,000
Unamortized premium	24,536	-	3,505	21,031	-
Leases payable	2,230,059	-	445,289	1,784,770	461,870
Loans payable	530,418	132,337	21,715	641,040	53,220
Compensated absences	589,150	28,787	758	617,179	38,232
	<u>9,329,163</u>	<u>161,124</u>	<u>1,081,267</u>	<u>8,409,020</u>	<u>1,183,322</u>
Governmental Activity Long-Term Liabilities	<u>\$ 9,329,163</u>	<u>\$ 161,124</u>	<u>\$ 1,081,267</u>	<u>\$ 8,409,020</u>	<u>\$ 1,183,322</u>

Additions to notes payable include interest payable of \$21,468 accrued on the loans before a payment schedule was effective.

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 2,395,150	\$ 173,908	\$ -	\$ 2,569,058	\$ -
Compensated absences	21,963	6,060	-	28,023	-
	<u>2,417,113</u>	<u>179,968</u>	<u>-</u>	<u>2,597,081</u>	<u>-</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 2,417,113</u>	<u>\$ 179,968</u>	<u>\$ -</u>	<u>\$ 2,597,081</u>	<u>\$ -</u>

8. 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

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

8. Landfill Closure and Postclosure Care Costs (Continued)

care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,569,058 landfill closure and postclosure care liability at December 31, 2007, represents the cumulative amount reported to date based on the use of 96.2 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$106,435 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2007. Based on the current permitted capacity, the landfill has an estimated operating life of 20 months. 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, 2007, restricted assets of \$2,929,911 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions. 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.

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

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 Public 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

Public 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. All 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.

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 and vest after three years of credited service. The 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.

Two methods are used to compute benefits for 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 year thereafter. 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 successive 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

For all Public 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. 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 Public 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.

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

2. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 234,225	\$ 217,410	\$ 188,641
Public Employees Police and Fire Fund	84,741	70,011	61,711
Public Employees Correctional Fund	42,277	39,838	36,344

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

B. Defined Contribution Plan

One Commissioner of Lyon County is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five 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, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,088	\$ 1,088
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The 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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$400,000 per claim in 2007. 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.

Premiums are paid by the General Fund, Road and Bridge Special Revenue Fund, and Landfill Enterprise Fund.

B. Subsequent Events

Debt Issued

On July 1, 2008, Lyon County issued General Obligation Jail Bonds, Series 2008A, in the amount of \$8,545,000, with interest rates of 4.00 percent to 5.00 percent, to finance the costs of constructing a new jail and law enforcement facility.

Refunding of Debt

On July 1, 2008, Lyon County issued General Obligation Drainage Refunding Bonds, Series 2008B, in the amount of \$715,000, with interest rates of 3.15 percent to 4.25 percent, to refund the following issues:

The \$700,000 General Obligation Drainage Bonds, Series 1997, dated July 1, 1997, maturing after August 1, 2008. The balance of the outstanding maturities to be refunded is \$385,000, and interest rates are 5.25 percent to 5.50 percent.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Subsequent Events

Refunding of Debt (Continued)

The \$675,000 General Obligation Drainage Bonds, Series 1999A, dated June 1, 1999, maturing after August 1, 2008. The balance of the outstanding maturities to be refunded is \$315,000, and interest rates are 4.70 percent to 5.00 percent.

Early Payment of Debt

On June 5, 2008, Lyon County made early repayment of \$700,000 in principal to US Bank on the original issue amount of \$1,555,000 for the capital lease for the public works building. On June 12, 2008, Lyon County made early repayment of \$280,000 in principal to US Bank on the original issue amount of \$2,115,000 for the capital lease for the 1998 joint jail and law enforcement center. The lessee for both leases was the Economic Development Authority of the City of Marshall. The early repayments were to satisfy the lease amounts in full.

C. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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

D. Joint Ventures

Lincoln, Lyon, & Murray Human Services

Lincoln, Lyon, & Murray Human Services (LLMHS) was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. LLMHS began official operation on July 1, 1974, and performs welfare functions formerly performed by the individual counties. Local financing is provided by the three member counties on the basis of each county's welfare expenditures in 1973:

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

LLMHS is governed by a Board made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. At least one lay Board member is to be a woman. Financing is provided by state grants and appropriations from member counties. Lyon County's contribution in 2007 was \$2,427,309.

At December 31, 2007, LLMHS reported a total fund balance of \$3,850,861. In addition, LLMHS reported total net assets of \$3,476,003. LLMHS's long-term debt at December 31, 2007, is composed of \$455,377 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services.

Complete financial statements of LLMHS can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, and Pipestone Public Health Services

Lyon County has joined with surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, and Pipestone Public Health Services and was established August 1, 1978. The governing board is composed of nine members: two Commissioners representing Lyon County, one member from each of

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln, Lyon, Murray, and Pipestone Public Health Services (Continued)

the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lyon County's contribution in 2007 was \$225,895.

Complete financial statements of the Lincoln, Lyon, Murray, and Pipestone Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Lyon County, along with Lincoln, Murray, Nobles, Rock, Pipestone, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The 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. The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System.

The Lincoln-Pipestone Rural Water System's 2007 financial report shows total net assets of \$38,079,073, including unrestricted of \$19,414,884. The decrease in net assets for the year ended December 31, 2007, is \$68,041. Outstanding obligations at December 31, 2007, were \$19,496,142.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share 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 Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2006 (the most recent information available), were \$11,145,000, and notes payable were \$259,310. Total net assets were \$17,470,194.

A complete financial report can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

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 River Basin Project

The Area II River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$19,885 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$15,400 of the County levy to the RCRCA.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. 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 of 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**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,822,873	\$ 4,822,873	\$ 4,854,903	\$ 32,030
Special assessments	137,850	137,850	329,709	191,859
Licenses and permits	21,205	21,205	26,160	4,955
Intergovernmental	1,577,622	1,577,622	1,713,903	136,281
Charges for services	718,300	718,300	849,548	131,248
Gifts and contributions	-	-	4,348	4,348
Investment earnings	504,861	504,861	912,774	407,913
Miscellaneous	656,166	656,166	656,853	687
Total Revenues	\$ 8,438,877	\$ 8,438,877	\$ 9,348,198	\$ 909,321
Expenditures				
Current				
General government				
Commissioners	\$ 161,000	\$ 161,000	\$ 184,795	\$ (23,795)
Courts	40,000	40,000	24,021	15,979
Law library	-	-	21,096	(21,096)
Administrator	150,750	150,750	148,400	2,350
Auditor/Treasurer	513,800	513,800	497,116	16,684
Assessor	181,425	181,425	175,675	5,750
Elections	52,997	52,997	2,180	50,817
Accounting and auditing	45,200	45,200	48,966	(3,766)
Information technology	122,970	122,970	106,422	16,548
Central services	326,210	326,210	326,717	(507)
Attorney	342,100	342,100	343,031	(931)
Recorder	287,250	287,250	292,575	(5,325)
Planning and zoning	192,950	192,950	182,220	10,730
Geographic information system	245,002	245,002	128,484	116,518
Buildings and plant	537,800	537,800	747,857	(210,057)
Veterans service officer	67,150	67,150	71,442	(4,292)
Other general government	-	-	100,391	(100,391)
Total general government	\$ 3,266,604	\$ 3,266,604	\$ 3,401,388	\$ (134,784)
Public safety				
Sheriff	\$ 1,798,465	\$ 1,798,465	\$ 1,769,078	\$ 29,387
Sheriff's contingency	-	-	8,000	(8,000)
Boat and water safety	-	-	676	(676)
Emergency services	55,980	55,980	61,915	(5,935)
Coroner	18,000	18,000	21,037	(3,037)
E-911 system	66,400	66,400	27,624	38,776
Law enforcement center	907,380	907,380	1,144,198	(236,818)
Criminal justice	-	-	37,710	(37,710)
Sentence to serve	42,000	42,000	33,050	8,950
Probation and parole	305,530	305,530	351,728	(46,198)
Total public safety	\$ 3,193,755	\$ 3,193,755	\$ 3,455,016	\$ (261,261)

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 110,080	\$ 110,080	\$ 273,383	\$ (163,303)
Hazardous waste	165,270	165,270	150,821	14,449
Environmental	26,350	26,350	27,232	(882)
Total sanitation	\$ 301,700	\$ 301,700	\$ 451,436	\$ (149,736)
Culture and recreation				
Fairgrounds	\$ 42,145	\$ 42,145	\$ 49,982	\$ (7,837)
Parks	224,412	224,412	472,896	(248,484)
Other	24,100	24,100	26,196	(2,096)
Total culture and recreation	\$ 290,657	\$ 290,657	\$ 549,074	\$ (258,417)
Conservation of natural resources				
Extension	\$ 103,328	\$ 103,328	\$ 110,025	\$ (6,697)
Agricultural inspection	14,980	14,980	13,287	1,693
Water quality loan program	-	-	110,869	(110,869)
Ditch inspector	31,145	31,145	22	31,123
Water planning	6,000	6,000	47,043	(41,043)
Other	152,277	152,277	134,749	17,528
Total conservation of natural resources	\$ 307,730	\$ 307,730	\$ 415,995	\$ (108,265)
Economic development				
Community development	\$ 54,155	\$ 54,155	\$ 54,155	\$ -
Intergovernmental				
Health	\$ 221,000	\$ 221,000	\$ 225,895	\$ (4,895)
Culture and recreation	\$ 236,957	\$ 236,957	\$ 238,742	\$ (1,785)
Debt service				
Principal	\$ 490,249	\$ 490,249	\$ 467,004	\$ 23,245
Interest	\$ 83,370	\$ 83,370	\$ 88,377	\$ (5,007)
Administrative (fiscal) fees	\$ 2,700	\$ 2,700	\$ 2,468	\$ 232
Total Expenditures	\$ 8,448,877	\$ 8,448,877	\$ 9,349,550	\$ (900,673)
Excess of Revenues Over (Under) Expenditures	\$ (10,000)	\$ (10,000)	\$ (1,352)	\$ 8,648

**LYON COUNTY
MARSHALL, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 10,000	\$ 10,000	\$ -	\$ (10,000)
Transfers out	-	-	(60,328)	(60,328)
Loans issued	-	-	110,869	110,869
Total Other Financing Sources (Uses)	\$ 10,000	\$ 10,000	\$ 50,541	\$ 40,541
Net Change in Fund Balance	\$ -	\$ -	\$ 49,189	\$ 49,189
Fund Balance - January 1	9,676,060	9,676,060	9,676,060	-
Fund Balance - December 31	\$ 9,676,060	\$ 9,676,060	\$ 9,725,249	\$ 49,189

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,451,367	\$ 2,451,367	\$ 1,992,864	\$ (458,503)
Special assessments	-	-	59,310	59,310
Intergovernmental	3,064,829	3,064,829	3,684,465	619,636
Charges for services	-	-	17,171	17,171
Miscellaneous	376,000	376,000	313,794	(62,206)
Total Revenues	\$ 5,892,196	\$ 5,892,196	\$ 6,067,604	\$ 175,408
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 332,643	\$ (332,643)
Public works	62,404	62,404	52,161	10,243
Maintenance	2,022,181	2,022,181	1,848,793	173,388
Construction	3,933,452	3,933,452	4,039,678	(106,226)
Equipment and maintenance shops	986,150	986,150	777,438	208,712
Other - highways and streets	1,300	1,300	10,577	(9,277)
Total highways and streets	\$ 7,005,487	\$ 7,005,487	\$ 7,061,290	\$ (55,803)
Intergovernmental				
Highways and streets	241,411	241,411	243,907	(2,496)
Total Expenditures	\$ 7,246,898	\$ 7,246,898	\$ 7,305,197	\$ (58,299)
Net Change in Fund Balance	\$ (1,354,702)	\$ (1,354,702)	\$ (1,237,593)	\$ 117,109
Fund Balance - January 1	4,769,511	4,769,511	4,769,511	-
Increase (decrease) in reserved for inventories	-	-	(34,718)	(34,718)
Fund Balance - December 31	\$ 3,414,809	\$ 3,414,809	\$ 3,497,200	\$ 82,391

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,402,720	\$ 2,402,720	\$ 1,966,107	\$ (436,613)
Intergovernmental	-	-	458,768	458,768
Total Revenues	\$ 2,402,720	\$ 2,402,720	\$ 2,424,875	\$ 22,155
Expenditures				
Intergovernmental				
Human services	2,402,720	2,402,720	2,424,875	(22,155)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 242,246	\$ 242,246	\$ 220,954	\$ (21,292)
Investment earnings	-	-	11,661	11,661
Miscellaneous	-	-	46,497	46,497
Total Revenues	\$ 242,246	\$ 242,246	\$ 279,112	\$ 36,866
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 152,055	\$ 152,055	\$ 115,475	\$ 36,580
Debt service				
Principal	140,000	140,000	140,000	-
Interest	55,656	55,656	56,465	(809)
Administrative (fiscal) fees	4,061	4,061	2,981	1,080
Total Expenditures	\$ 351,772	\$ 351,772	\$ 314,921	\$ 36,851
Excess of Revenues Over (Under) Expenditures	\$ (109,526)	\$ (109,526)	\$ (35,809)	\$ 73,717
Other Financing Sources (Uses)				
Transfers in	-	-	60,328	60,328
Net Change in Fund Balance	\$ (109,526)	\$ (109,526)	\$ 24,519	\$ 134,045
Fund Balance - January 1	648,646	648,646	648,646	-
Fund Balance - December 31	\$ 539,120	\$ 539,120	\$ 673,165	\$ 134,045

**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. 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 special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend any of its expenditure budgets during the year.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Final Budget	Excess
General Fund	\$ 9,349,550	\$ 8,448,877	\$ 900,673
Special Revenue Funds			
Road and Bridge	7,305,197	7,246,898	58,299
Human Services	2,424,875	2,402,720	22,155

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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.

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

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**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 42,974	\$ 82,550	\$ 87,087	\$ 38,437
<u>Liabilities</u>				
Due to other governments	\$ 42,974	\$ 82,550	\$ 87,087	\$ 38,437
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 65,158	\$ 677,004	\$ 688,200	\$ 53,962
<u>Liabilities</u>				
Due to other governments	\$ 65,158	\$ 677,004	\$ 688,200	\$ 53,962
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 377,154	\$ 28,072,566	\$ 28,220,810	\$ 228,910
<u>Liabilities</u>				
Due to other governments	\$ 377,154	\$ 28,072,566	\$ 28,220,810	\$ 228,910

**LYON COUNTY
MARSHALL, MINNESOTA**

Statement 1
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 485,286	\$ 28,832,120	\$ 28,996,097	\$ 321,309
<u>Liabilities</u>				
Due to other governments	\$ 485,286	\$ 28,832,120	\$ 28,996,097	\$ 321,309

OTHER SCHEDULE

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$ 3,235,484
PERA rate reimbursement	41,797
Disparity reduction aid	26,867
Police aid	67,910
Enhanced 911	103,630
Market value credit	837,855
County program aid	1,229,603

Total Shared Revenue **\$ 5,543,146**

Payments

Payments in lieu of taxes	\$ 132,573
Local grants	17,661

Total Payments **\$ 150,234**

Grants

State

Minnesota Department of Public Safety	\$ 5,720
Corrections	54,894
Natural Resources	31,055
Water and Soil Resources Board	41,027
Peace Officer Standards and Training Board	5,226
Office of Environmental Assistance	63,816
Pollution Control Agency	58,388

Total State **\$ 260,126**

Federal

Department of Justice	\$ 1,698
Transportation	9,842
Homeland Security	12,186

Total Federal **\$ 23,726**

Total State and Federal Grants **\$ 283,852**

Total Intergovernmental Revenue **\$ 5,977,232**

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Segregation of Duties

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

Due to the limited number of personnel within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of Lyon County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Some of the County's departments that collect fees have segregation of duties weaknesses. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

We recommend the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Lyon County management should be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

County management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Management remains cognizant of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

06-2 Controls Over the Accounting System Journal Entry Function

Journal entries made to the accounting system are not reviewed or approved by anyone. The ability to make journal entries on the accounting system is a powerful function because it allows employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report to ensure that no journal entries have been made that have not been submitted for review and approval.

Client's Response:

Accounting staff have the ability to make journal entries. One staff member will enter the data, and another staff member will review and approve each entry.

06-7 County Sheriff's Canteen Operations

The Sheriff's Department offers a canteen to inmates where they can purchase various items. During our review of the Sheriff's canteen operations, we noted the following:

- Canteen service is offered on Mondays, Wednesdays, and Fridays, so orders must be in on the day before. Inmate canteen orders are recorded on sheets and when filled are filed in the inmate's file. On any given day, these order forms should agree with the amount placed in the cash drawer. Since the order forms are not pre-numbered, there is no way of knowing if all the collections have been accounted for. The filled orders are logged into the computer.
- Periodically, the Jail Administrator takes the envelopes to his office to determine the amount to turn over to the County Auditor/Treasurer's Office. He prints a report from the computer system giving him the ending balance after the activity has been recorded. He then leaves that balance in the envelopes and turns over the remainder to the County and discards the report.
- No regular physical count is taken of the canteen inventory (due to shortage in staff). Controls, including periodic inventory counts and reconciliation to inventory records, should be established and maintained.

We recommend that controls over the canteen's inventory be established and maintained and that inmate canteen order forms be pre-numbered. The forms should be reconciled to cash collected on a daily basis, then filed. Cash remitted to the Auditor/Treasurer's Office should be reconciled to these forms.

Client's Response:

The current canteen operation is due to be replaced by an automated vending and accounting system once the new jail is operational, hopefully by September 2009.

06-9 Accounting Policies and Procedures Manual

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of infrastructure), related depreciation, and the redetermination of useful lives];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data back-ups; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

A formalized manual will also enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, improve compliance with established policies, and provide a standard for management to monitor compliance against. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County is in the process of preparing an accounting policies and procedures manual.

06-13 Audit Adjustments and Restatements

A control deficiency 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 misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements including a material prior period adjustment. The prior period adjustment relates to the inclusion of landfill cells capital assets and corresponding accumulated depreciation. The County previously had not included such information in its financial statements. Other adjustments resulted from: errors were made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's modified accrual basis records overstating assets and fund

balance and understating liabilities, revenues, and expenditures, the client's full accrual basis records for governmental activities understating assets, liabilities, net assets, and revenues and overstating expenses, and the client's records for business-type activities understating assets, net assets, revenues, and expenses; and the County did not consider the need for control over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

The County will continue to review, design, and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. Various levels of staff will be involved in the review process to identify potential misstatements.

ITEM ARISING THIS YEAR

07-1 Claim Documentation - Public Purpose

Our review of County disbursements disclosed two travel claims that did not document the public purpose of the expenditure. In one instance, mileage was also summarized for the quarter and not by individual trip.

We recommend that the County document the public purpose of all expenditures. We also recommend all claims be properly itemized to help ensure the correct amount is paid.

Client's Response:

The County will comply.

PREVIOUSLY REPORTED ITEMS RESOLVED

Annual Adopted Budget and Budget Policy (02-5)

The detailed estimated revenue source by fund and the budgeted expenditures by fund, function, and department were not clearly documented in the Board minutes. Board-approved budgets did not agree with the recorded budget in the County's general ledger. Material audit adjustments were required in order to present the budgets in the financial statements.

Resolution

Improvements were made documenting the approved budget. The Board-approved budget could be reconciled to the general ledger for most funds.

Adding New Vendors to the Accounting System (06-1)

The County did not have any procedures for determining how new vendors were added to the accounts payable system or if the new vendors added were legitimate vendors.

Resolution

The County Auditor/Treasurer now reviews a listing of all new vendors and documents her review by signing off on the report.

Access to the Computer Systems (06-3)

Computer access was given to generic users "Auditor" and "Human Services." This allowed multiple users to access programs that may not have been required by those employees' job duties and responsibilities and caused an increased risk of access to the system by unauthorized individuals.

Resolution

The County eliminated access rights for generic users.

Internal Control Over Investments (06-4)

Investment transactions, interest revenue received, and monthly investment balances were not reviewed by anyone other than the person doing the investing.

Resolution

Oversight procedures were established and implemented. Investments are reviewed for both legality and appropriateness.

Internal Control Over Interest Receivable (06-5)

Review of interest receivable disclosed an overstatement of \$25,000 on a certificate of deposit for the Road Bond Debt Service Fund. Interest receivable was calculated for the wrong period.

Resolution

The County proofed and rechecked calculations as part of the process of preparing the financial statements. Errors in calculating amounts were not found while performing audit procedures.

Recorder's Remittances (06-6)

Collections in the Recorder's Office were not remitted to the County Auditor/Treasurer in a timely manner.

Resolution

Collections in the Recorder's Office were deposited with the Auditor/Treasurer in a more timely manner during 2007.

Antifraud Programs and Controls (06-8)

Responses of management and staff regarding the risks of fraud and how Lyon County responded to those risks indicated deficiencies in antifraud programs and controls.

Resolution

The County improved awareness of internal control over antifraud programs and controls.

Preparation of Financial Statements (06-11)

The County lacked internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution

The County continued to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of the governmental activities, the business-type activities, each major fund, and the budgetary comparison schedules for 2007.

Computer Risk Management (06-10), Capital Assets Policies and Procedures (06-12), and Fully Depreciated Capital Assets (06-18)

We recommended the County address risks associated with its computer system and that it develop policies and procedures for accounting for capital assets, including policies on estimating and reconsidering useful lives.

Resolution

These findings were combined with finding 06-9.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Ditch Fund Cash and Fund Deficits (03-1)

Three of the 97 individual ditch systems had deficit cash balances at December 31, 2006, totaling \$253,268.

Resolution

The County eliminated the ditch system cash balance deficits by loaning monies from the General Fund to ditch systems with insufficient cash to pay expenditures.

Depository Pledge Agreement (04-2)

The depository pledge agreement between the County and Minnwest Bank South - Tracy, Bank of the West, Bremer Bank, Minnwest Bank MV, and Wells Fargo stated that the County was required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County could collect the collateral from the custodian so the bank had time to cure the default.

Resolution

The County had the default language in the depository pledge agreements updated to comply with Minnesota statutory requirements.

Itemized Meal Receipts (06-14)

Three claims tested did not have itemized receipts for meals reimbursed for travel.

Resolution

No exceptions were noted in the County enforcing its travel policy as well as the requirements of Minnesota statutes.

Debt Service Levy (06-15)

The amount of gross tax levied by the County for the Road Bond Debt Service Fund for 2007 was \$6,348 less than an amount to satisfy the 105 percent requirement of Minn. Stat. § 475.61, subd. 1.

Resolution

The County levied the required amount for 2008.

**Lack of Security Interest in Collateral Assignments Documentation
(06-16)**

The County did not have documentation demonstrating a perfected interest in pledged collateral with Bank of the West, Bremer Bank, First Independent Bank, and Minnwest Bank South - Tracy.

Resolution

The County had evidence perfecting the security interest in the collateral pledged by all banks for 2007.

Assignment of Collateral - Safekeeping Receipts (06-17)

The County did not have safekeeping receipts identifying specific securities pledged from Bank of the West.

Resolution

The County had required information on file for all collateral pledged by banks at December 31, 2007.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

07-2 Disaster Recovery Plan

Lyon County does not have a disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County would need to continue to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

Client's Response:

In conjunction with a business continuity plan, a disaster recovery plan will be developed.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of the Annual Financial Report (02-3)

Various deficiencies prevented the accounting system from providing accurate modified accrual financial statements. The County should provide the necessary resources and staff time for the preparation and timely completion of the annual financial report.

Resolution

The County continued to provide training to staff assigned to prepare the annual financial statements. Staff made progress in fixing the deficiencies previously noted.

C. OTHER ITEMS FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under GASB Statement 45, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the County will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Lyon County for the year ended December 31, 2008.

Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, becomes effective beginning with the year ending December 31, 2008. This statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement 49 may require the accrual of a liability for future expenditures if certain obligating events have occurred. The County should evaluate the possible effect this accounting standard will have, if any, on the County's financial statements.



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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*

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2007, and have issued our report thereon dated March 31, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County's internal control over financial reporting as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 98-1, 06-2, 06-7, 06-9, 06-13, and 07-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lyon County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Lyon County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations are a management practices comment and two other items for consideration. We believe these recommendations and information to be of benefit to Lyon County, and they are reported for that purpose.

Lyon County's written responses to the significant deficiencies and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the County's responses and accordingly, do not express an opinion on them.

Pursuant to Minn. Stat. § 6.48, a special report pertaining to the County Sheriff's Office was issued to the County's management dated February 27, 2009.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within the County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 31, 2009