

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009



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

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**LYON COUNTY
MARSHALL, MINNESOTA**

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MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

ORGANIZATION
2009

Office	Name	Term Expires
Commissioners		
1st District	Rodney Stensrud ¹	January 2011
2nd District	Robert Fenske	January 2011
3rd District	Philip Nelson	January 2011
4th District	Steve Ritter	January 2013
5th District	Mark Goodenow	January 2013
Officers		
Elected		
Attorney	Rick Maes	January 2011
Auditor/Treasurer	Paula VanOverbeke	January 2011
County Recorder	Jeanine Barker	January 2011
Sheriff	Mark Mather ²	January 2011
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	December 2012
Public Works Director/Highway Engineer	Suhail Kanwar	May 2013
Environmental Administrator	Paul Henriksen	Indefinite
Veterans Service Officer	Jim Hubley	May 2010

¹Chair 2009 and 2010

²Mark Mather was appointed as Sheriff effective October 1, 2008, to fill the remaining term of Joel Dahl, who resigned effective September 30, 2008.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2009, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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, 2009, 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 Schedules 1 through 5 as 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 schedules 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 September 29, 2010, 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

September 29, 2010

/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, 2009
(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, 2009. 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, 2009, by \$92,763,911 (net assets). Of this amount, \$16,804,493 (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 \$5,089,518 in 2009. This is attributable primarily to an increase in capital assets of \$7,375,057, which was offset by a decrease in investments of \$4,108,515 and the effect of the decrease in liabilities of \$1,496,043.
- As of the close of 2009, Lyon County's governmental funds reported combined ending fund balances of \$19,869,530, a decrease of \$3,043,683 in comparison with 2008 combined ending fund balances. Of this balance amount, \$13,857,954 was unreserved and undesignated by Lyon County and, thus, available for spending at the government's discretion.
- At the end of 2009, unreserved fund balance for the General Fund was \$8,840,118, or 68 percent, of the total General Fund expenditures for that year. This represents an increase from 2008, which had 51 percent of the total General Fund expenditures.

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, proprietary 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 balance 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, Ditch Special Revenue Fund, and the Debt Service 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.

Proprietary 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 proprietary 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 proprietary 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 30 through 68 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 \$92,763,911 at the close of 2009. The largest portion of Lyon County's net assets (72 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

	2009			2008
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 25,024,040	\$ 6,777,810	\$ 31,801,850	\$ 35,583,432
Capital assets	74,139,003	4,883,278	79,022,281	71,647,224
Total Assets	\$ 99,163,043	\$ 11,661,088	\$ 110,824,131	\$ 107,230,656
Liabilities				
Long-term liabilities	\$ 15,276,302	\$ 1,083,227	\$ 16,359,529	\$ 17,456,444
Other liabilities	1,458,023	242,668	1,700,691	2,099,819
Total Liabilities	\$ 16,734,325	\$ 1,325,895	\$ 18,060,220	\$ 19,556,263
Net Assets				
Invested in capital assets, net of related debt	\$ 62,365,804	\$ 4,883,278	\$ 67,249,082	\$ 64,072,076
Restricted	5,441,013	3,269,323	8,710,336	9,566,622
Unrestricted	14,621,901	2,182,592	16,804,493	14,035,695
Total Net Assets	\$ 82,428,718	\$ 10,335,193	\$ 92,763,911	\$ 87,674,393

The unrestricted net assets amount of \$16,804,493 as of December 31, 2009, 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 2009 by \$5,089,518, representing a 5.8 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

	2009			2008
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 2,380,958	\$ 2,013,983	\$ 4,394,941	\$ 4,472,722
Operating grants and contributions	3,866,193	20,000	3,886,193	3,729,663
Capital grants and contributions	1,569,567	-	1,569,567	2,105,161
General revenues				
Property taxes	11,369,013	-	11,369,013	10,334,285
Other	3,046,315	28,225	3,074,540	3,244,598
Total Revenues	\$ 22,232,046	\$ 2,062,208	\$ 24,294,254	\$ 23,886,429

	2009			2008
	Governmental Activities	Business-Type Activities	Total	
Expenses				
General government	\$ 2,702,921	\$ -	\$ 2,702,921	\$ 4,470,586
Public safety	3,979,009	-	3,979,009	3,826,846
Highways and streets	4,825,034	-	4,825,034	5,141,566
Sanitation	580,429	2,689,253	3,269,682	998,992
Human services	2,504,121	-	2,504,121	2,491,956
Health	225,988	-	225,988	225,963
Culture and recreation	520,752	-	520,752	546,600
Conservation of natural resources	634,570	-	634,570	564,125
Economic development	20,165	-	20,165	58,155
Interest	522,494	-	522,494	403,593
Total Expenses	<u>\$ 16,515,483</u>	<u>\$ 2,689,253</u>	<u>\$ 19,204,736</u>	<u>\$ 18,728,382</u>
Increase (Decrease) in Net Assets	\$ 5,716,563	\$ (627,045)	\$ 5,089,518	\$ 5,158,047
Net Assets - January 1	<u>76,712,155</u>	<u>10,962,238</u>	<u>87,674,393</u>	<u>82,516,346</u>
Net Assets - December 31	<u>\$ 82,428,718</u>	<u>\$ 10,335,193</u>	<u>\$ 92,763,911</u>	<u>\$ 87,674,393</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 2009, Lyon County's governmental funds reported combined ending fund balances of \$19,869,530, a decrease of \$3,043,683 in comparison with the prior year. Of the ending fund balance, \$16,928,305 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 \$8,840,118, a \$1,722,299 increase 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 68 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$5,071,863 at year-end, an increase of \$990,402 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 \$1,126,669. This ending balance represents a \$258,081 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

A \$4,461,693 difference between the original General Fund expenditure budget and the final amended budget was experienced in 2009 due to an amendment in the expenditure budget for building and plant.

Actual General Fund revenues exceeded budgeted revenues by \$550,751, primarily due to a greater than expected increase in miscellaneous revenues offset by less investment earnings than expected and more special assessments and intergovernmental revenue received than budgeted for.

Actual expenditures were less than budgeted expenditures by \$826,505, primarily due to the jail expansion project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2009, totaled \$64,446,694 (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 \$4,425,190, or 7.4 percent, from the previous year.

Depreciable Governmental Capital Assets

	2009	2008
Capital assets depreciated		
Land improvements	\$ 504,797	\$ 504,797
Buildings	12,687,415	12,687,415
Machinery and equipment	5,731,860	5,758,159
Infrastructure	72,509,791	66,087,444
 Total capital assets depreciated	 \$ 91,433,863	 \$ 85,037,815
 Less: accumulated depreciation for		
Land improvements	\$ 298,977	\$ 273,273
Buildings	3,518,383	3,301,392
Machinery and equipment	3,822,220	3,544,253
Infrastructure	19,347,589	17,897,393
 Total accumulated depreciation	 \$ 26,987,169	 \$ 25,016,311
 Total Capital Assets Depreciated, Net	 \$ 64,446,694	 \$ 60,021,504

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 \$15,276,302 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

	2009	2008
Special assessment debt	\$ 720,017	\$ 864,497
General obligation debt	11,940,657	12,603,515
Leases payable	299,386	342,900
Loans payable	774,495	738,381
Compensated absences	621,982	631,209
Net OPEB liability	919,765	766,714
 Total	 \$ 15,276,302	 \$ 15,947,216

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's Food Company. Schwan's Food Company employs approximately 2,500 at its manufacturing facilities and world-wide headquarters located in Marshall.

County Tax Rate and Levy History

2010	45.449%	\$ 12,164,341
2009	52.142	12,164,341
2008	50.353	11,066,558
2007	49.282	10,102,126
2006	52.794	9,508,510

On December 15, 2009, the Lyon County Board of Commissioners approved the 2010 budget and adopted a property tax levy of \$12,164,341, which represents a zero increase over the 2009 property tax levy of \$12,164,341.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Lyon County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Paula VanOverbeke, 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, 2009**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 18,137,338	\$ 2,479,313	\$ 20,616,651
Investments	2,384,901	708,000	3,092,901
Receivables - net	4,068,555	321,145	4,389,700
Internal balances	(29)	29	-
Inventories	328,499	-	328,499
Prepaid items	41,642	-	41,642
Restricted assets			
Cash and pooled investments	-	430,358	430,358
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	910	910
Deferred debt issuance costs	63,134	-	63,134
Capital assets			
Non-depreciable capital assets	9,692,309	390,433	10,082,742
Depreciable capital assets - net of accumulated depreciation	64,446,694	4,492,845	68,939,539
Total Assets	\$ 99,163,043	\$ 11,661,088	\$ 110,824,131
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,248,714	\$ 242,668	\$ 1,491,382
Accrued interest payable	209,309	-	209,309
Long-term liabilities			
Due within one year	1,402,035	-	1,402,035
Due in more than one year	13,874,267	1,083,227	14,957,494
Total Liabilities	\$ 16,734,325	\$ 1,325,895	\$ 18,060,220
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 62,365,804	\$ 4,883,278	\$ 67,249,082
Restricted for			
Public safety	462,083	-	462,083
Highways and streets	2,375,104	-	2,375,104
Landfill closure/postclosure	-	3,269,323	3,269,323
Debt service	1,709,604	-	1,709,604
Capital projects	417,554	-	417,554
Other purposes	476,668	-	476,668
Unrestricted	14,621,901	2,182,592	16,804,493
Total Net Assets	\$ 82,428,718	\$ 10,335,193	\$ 92,763,911

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,702,921	\$ 712,164
Public safety	3,979,009	396,706
Highways and streets	4,825,034	328,418
Sanitation	580,429	430,498
Human services	2,504,121	-
Health	225,988	-
Culture and recreation	520,752	278,461
Conservation of natural resources	634,570	234,711
Economic development	20,165	-
Interest	522,494	-
Total governmental activities	\$ 16,515,483	\$ 2,380,958
Business-type activities		
Landfill	2,689,253	2,013,983
Total	\$ 19,204,736	\$ 4,394,941

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

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
\$ 80,416	\$ -	\$ (1,910,341)	\$ -	\$ (1,910,341)
346,294	-	(3,236,009)	-	(3,236,009)
3,299,901	1,569,567	372,852	-	372,852
111,559	-	(38,372)	-	(38,372)
-	-	(2,504,121)	-	(2,504,121)
-	-	(225,988)	-	(225,988)
-	-	(242,291)	-	(242,291)
28,023	-	(371,836)	-	(371,836)
-	-	(20,165)	-	(20,165)
-	-	(522,494)	-	(522,494)
\$ 3,866,193	\$ 1,569,567	\$ (8,698,765)	\$ -	\$ (8,698,765)
20,000	-	-	(655,270)	(655,270)
\$ 3,886,193	\$ 1,569,567	\$ (8,698,765)	\$ (655,270)	\$ (9,354,035)
		\$ 11,369,013	\$ -	\$ 11,369,013
		16,822	-	16,822
		140,786	-	140,786
		2,147,916	-	2,147,916
		189,893	28,225	218,118
		550,898	-	550,898
		\$ 14,415,328	\$ 28,225	\$ 14,443,553
		\$ 5,716,563	\$ (627,045)	\$ 5,089,518
		76,712,155	10,962,238	87,674,393
		\$ 82,428,718	\$ 10,335,193	\$ 92,763,911

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**LYON COUNTY
MARSHALL, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 9,563,496	\$ 5,690,345
Investments	2,122,910	-
Taxes receivable		
Prior	77,196	28,528
Special assessments receivable		
Prior	17,109	-
Noncurrent	495,727	-
Accounts receivable	21,709	11,270
Accrued interest receivable	11,887	-
Due from other funds	59,723	1,896
Due from other governments	145,305	2,438,082
Advance to other funds	42,377	-
Inventories	-	328,499
Prepaid items	38,060	3,582
	\$ 12,595,499	\$ 8,502,202
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 151,758	\$ 41,393
Salaries payable	221,638	83,627
Contracts payable	363,106	314,477
Due to other funds	1,896	89
Due to other governments	39,975	5,506
Deferred revenue - unavailable	590,767	2,430,263
Advance from other funds	-	-
	\$ 1,369,140	\$ 2,875,355

EXHIBIT 3

Special Revenue Funds				
Human Services	Ditch	Debt Service	Total	
\$ 26,866	\$ 966,976	\$ 1,889,655	\$ 18,137,338	
-	261,991	-	2,384,901	
29,612	-	17,121	152,457	
-	6,596	-	23,705	
-	768,303	-	1,264,030	
-	-	-	32,979	
-	110	-	11,997	
-	-	-	61,619	
-	-	-	2,583,387	
-	-	-	42,377	
-	-	-	328,499	
-	-	-	41,642	
\$ 56,478	\$ 2,003,976	\$ 1,906,776	\$ 25,064,931	
\$ -	\$ 368	\$ -	\$ 193,519	
-	-	-	305,265	
-	-	-	677,583	
-	59,663	-	61,648	
26,866	-	-	72,347	
29,612	774,899	17,121	3,842,662	
-	42,377	-	42,377	
\$ 56,478	\$ 877,307	\$ 17,121	\$ 5,195,401	

**LYON COUNTY
MARSHALL, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Encumbrances	\$ 829,928	\$ 145,201
Advance to other funds	42,377	-
Inventories	-	328,499
Prepaid items	38,060	3,582
DARE program	6,505	-
Missing heirs	2,483	-
Law library	106,712	-
Recorder's technology fund	179,928	-
Recorder's compliance fund	264,037	-
Enhanced 911	420,553	-
Sheriff's contingency	5,000	-
Sheriff's forfeited property	16,727	-
Attorney's forfeited property	24,062	-
Fish and wildlife trust	76,733	-
Canteen fund	21,271	-
Gun permit fees	19,803	-
Probation supervision fees	52,700	-
Septic/sewer loans	273,203	-
Election equipment grant	6,159	-
Highway allotments	-	77,702
Unreserved		
Designated for		
Future expenditures	2,816,211	-
County road projects	-	254,140
Undesignated	6,023,907	4,817,723
	\$ 11,226,359	\$ 5,626,847
Total Fund Balances	\$ 11,226,359	\$ 5,626,847
 Total Liabilities and Fund Balances	\$ 12,595,499	\$ 8,502,202

EXHIBIT 3
(Continued)

<u>Special Revenue Funds</u>			
<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 975,129
-	-	-	42,377
-	-	-	328,499
-	-	-	41,642
-	-	-	6,505
-	-	-	2,483
-	-	-	106,712
-	-	-	179,928
-	-	-	264,037
-	-	-	420,553
-	-	-	5,000
-	-	-	16,727
-	-	-	24,062
-	-	-	76,733
-	-	-	21,271
-	-	-	19,803
-	-	-	52,700
-	-	-	273,203
-	-	-	6,159
-	-	-	77,702
-	-	-	2,816,211
-	-	-	254,140
-	1,126,669	1,889,655	13,857,954
\$ -	\$ 1,126,669	\$ 1,889,655	\$ 19,869,530
\$ 56,478	\$ 2,003,976	\$ 1,906,776	\$ 25,064,931

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balance - total governmental funds (Exhibit 3)		\$ 19,869,530
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.		74,139,003
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,842,662
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (11,760,000)	
Special assessment bonds	(725,000)	
Capital leases	(299,386)	
Compensated absences	(621,982)	
Net OPEB liability	(919,765)	
Loans payable	(774,495)	
Accrued interest payable	(209,309)	
Unamortized premium on general obligation bonds	(257,257)	
Unamortized discount on general obligation bonds	76,600	
Unamortized discount on special assessment bonds	4,983	
Deferred debt issuance costs	63,134	(15,422,477)
Net Assets of Governmental Activities (Exhibit 1)		<u>\$ 82,428,718</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General	Road and Bridge
Revenues		
Taxes	\$ 5,819,730	\$ 1,982,017
Special assessments	402,747	-
Licenses and permits	28,145	-
Intergovernmental	1,780,615	4,262,117
Charges for services	840,859	26,254
Investment earnings	188,045	-
Miscellaneous	1,160,061	350,115
	\$ 10,220,202	\$ 6,620,503
Expenditures		
Current		
General government	\$ 7,222,750	\$ -
Public safety	3,895,665	-
Highways and streets	-	7,415,344
Sanitation	569,397	-
Culture and recreation	236,015	-
Conservation of natural resources	520,547	-
Economic development	20,165	-
Intergovernmental	481,642	280,347
Debt service		
Principal	102,662	-
Interest	23,015	-
Administrative (fiscal) fees	-	-
	\$ 13,071,858	\$ 7,695,691
Excess of Revenue Over (Under) Expenditures	\$ (2,851,656)	\$ (1,075,188)
Other Financing Sources (Uses)		
Loans issued	95,262	-
	\$ (2,756,394)	\$ (1,075,188)
Fund Balance - January 1	13,982,753	6,750,007
Increase (decrease) in reserved for inventories	-	(47,972)
	\$ 11,226,359	\$ 5,626,847
Fund Balance - December 31	\$ 11,226,359	\$ 5,626,847

EXHIBIT 5

Special Revenue Funds			
Human Services	Ditch	Debt Service	Total
\$ 2,095,315	\$ -	\$ 1,443,926	\$ 11,340,988
-	523,982	185	926,914
-	-	-	28,145
408,806	-	294,184	6,745,722
-	-	-	867,113
-	1,213	-	189,258
-	26,896	-	1,537,072
\$ 2,504,121	\$ 552,091	\$ 1,738,295	\$ 21,635,212
\$ -	\$ -	\$ -	\$ 7,222,750
-	-	-	3,895,665
-	-	-	7,415,344
-	-	-	569,397
-	-	-	236,015
-	111,727	-	632,274
-	-	-	20,165
2,504,121	-	-	3,266,110
-	145,000	645,000	892,662
-	34,408	514,449	571,872
-	2,875	1,056	3,931
\$ 2,504,121	\$ 294,010	\$ 1,160,505	\$ 24,726,185
\$ -	\$ 258,081	\$ 577,790	\$ (3,090,973)
-	-	-	95,262
\$ -	\$ 258,081	\$ 577,790	\$ (2,995,711)
-	868,588	1,311,865	22,913,213
-	-	-	(47,972)
\$ -	\$ 1,126,669	\$ 1,889,655	\$ 19,869,530

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (2,995,711)

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

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

Deferred revenue - December 31	\$ 3,842,662	
Deferred revenue - January 1	(3,245,828)	596,834

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

Expenditures for general capital assets and infrastructure	\$ 9,654,942	
Net book value of assets sold	(64,129)	
Current year depreciation	(2,134,286)	7,456,527

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

Debt issued		
Loans		(95,262)

Debt principal repayments		
General obligation bonds	\$ 645,000	
Special assessment bonds	145,000	
Capital leases payment	43,514	
Loans payable	59,148	892,662

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

Change in accrued interest payable	\$ 44,211	
Change in compensated absences	9,227	
Change in net OPEB liability	(153,051)	
Change in inventories	(47,972)	
Current year amortization of premiums, discounts, and deferred issuance costs	9,098	(138,487)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 5,716,563

PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2009**

Assets

Current assets	
Cash and pooled investments	\$ 2,479,313
Investments	708,000
Accounts receivable - net	311,876
Accrued interest receivable	363
Due from other funds	29
Due from other governments	8,906
Restricted assets	
Cash and pooled investments	430,358
Investments	2,838,055
Accrued interest receivable	910
	<hr/>
Total current assets	\$ 6,777,810
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	4,492,845
	<hr/>
Total noncurrent assets	\$ 4,883,278
Total Assets	\$ 11,661,088

Liabilities

Current liabilities	
Accounts payable	\$ 14,751
Salaries payable	14,758
Contracts payable	200,928
Due to other governments	12,231
	<hr/>
Total current liabilities	\$ 242,668
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 31,763
Estimated liability for landfill closure/postclosure	1,051,464
	<hr/>
Total noncurrent liabilities	\$ 1,083,227
Total Liabilities	\$ 1,325,895

**LYON COUNTY
MARSHALL, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2009**

Net Assets

Invested in capital assets - net of related debt	\$ 4,883,278
Restricted for postclosure	3,269,323
Unrestricted	<u>2,182,592</u>
Total Net Assets	<u>\$ 10,335,193</u>

**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, 2009**

Operating Revenues	
Charges for services	\$ 2,009,219
Miscellaneous	4,764
	\$ 2,013,983
Operating Expenses	
Personal services	\$ 348,482
Professional services	462,724
Administration and fiscal services	9,774
Other services and charges	1,775,107
Utilities	20,319
Depreciation	502,227
Landfill closure and postclosure costs	(429,380)
	\$ 2,689,253
	\$ (675,270)
Nonoperating Revenues (Expenses)	
Intergovernmental	
State	
Minnesota Pollution Control Agency	\$ 20,000
Investment earnings	28,225
	\$ 48,225
	\$ (627,045)
Change in net assets	
	10,962,238
Net Assets - January 1	
	\$ 10,335,193
Net Assets - December 31	
	\$ 10,335,193

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 1,931,176
Payments to suppliers	(2,472,768)
Payments to employees	<u>(344,101)</u>
Net cash provided by (used in) operating activities	\$ (885,693)
Cash Flows from Noncapital Financing Activities	
Grant from the Minnesota Pollution Control Agency	20,000
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(420,757)
Cash Flows from Investing Activities	
Investment earnings	<u>32,922</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,253,528)
Cash and Cash Equivalents - January 1	<u>4,163,199</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 2,909,671</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 2,479,313
Restricted cash and pooled investments	<u>430,358</u>
Total Cash and Cash Equivalents - December 31	<u><u>\$ 2,909,671</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ <u>(675,270)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 502,227
(Increase) decrease in accounts receivable	(82,189)
(Increase) decrease in due from other funds	(29)
(Increase) decrease in due from other governments	(589)
Increase (decrease) in accounts payable	(20,557)
Increase (decrease) in salaries payable	1,002
Increase (decrease) in contracts payable	(183,119)
Increase (decrease) in due to other governments	(1,168)
Increase (decrease) in landfill closure costs	(429,380)
Increase (decrease) in compensated absences payable	<u>3,379</u>
Total adjustments	\$ <u>(210,423)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>(885,693)</u></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, 2009**

	Investment Trust Fund	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 4,342,484	\$ 362,186
Accrued interest receivable	294	-
Total Assets	\$ 4,342,778	\$ 362,186
 <u>Liabilities</u>		
Due to other governments	-	\$ 362,186
 <u>Net Assets</u>		
Net assets, held in trust for pool participants	\$ 4,342,778	

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 13,002,701
Investment earnings	<u>7,719</u>
Total Additions	\$ 13,010,420
<u>Deductions</u>	
Distributions to participants	<u>13,059,093</u>
Change in net assets	\$ (48,673)
Net Assets - January 1	<u>4,391,451</u>
Net Assets - December 31	<u><u>\$ 4,342,778</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

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, 2009. 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 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

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,

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental 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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 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 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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. Revenues 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, 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, 2009, 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 2009 were \$159,343.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Inventories and Prepaid Items

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

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

6. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

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

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

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

8. Compensated Absences

The liability for compensated absences reported in the 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 7,695,691	\$ 7,451,460	\$ 244,231
Ditch Special Revenue Fund	294,010	-	294,010

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 18,137,338
Investments	2,384,901
Business-type activities	
Cash and pooled investments	2,479,313
Investments	708,000
Cash and pooled investments - restricted assets	430,358
Investments - restricted assets	2,838,055
Statement of fiduciary net assets	
Cash and pooled investments	
Investment trust fund	4,342,484
Agency funds	362,186
	<hr/>
Total Cash and Investments	<u>\$ 31,682,635</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

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, 2009, the County's deposits were not exposed to custodial credit risk.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 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) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2009, the County's investments were not exposed to custodial credit risk.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 deposit and investment balances at December 31, 2009, 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	\$ 2,774,319
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Total mutual funds					\$ 2,776,751
Checking					9,745,512
Savings					14,657,597
Petty cash and change funds					2,775
Certificates of deposit					4,500,000
Total Cash and Investments					\$ 31,682,635

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, 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	\$ 152,457	\$ -
Special assessments	1,287,735	942,446
Accounts	32,979	-
Interest	11,997	-
Due from other governments	2,583,387	-
Total Governmental Activities	\$ 4,068,555	\$ 942,446
Business-Type Activities		
Accounts	\$ 311,876	\$ -
Interest	363	-
Due from other governments	8,906	-
Total Business-Type Activities	\$ 321,145	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 980,448	\$ -	\$ -	\$ 980,448
Right-of-way	579,235	-	-	579,235
Construction in progress	5,101,289	4,760,377	1,729,040	8,132,626
 Total capital assets not depreciated	 \$ 6,660,972	 \$ 4,760,377	 \$ 1,729,040	 \$ 9,692,309
Capital assets depreciated				
Land improvements	\$ 504,797	\$ -	\$ -	\$ 504,797
Buildings	12,687,415	-	-	12,687,415
Machinery and equipment	5,758,159	201,258	227,557	5,731,860
Infrastructure	66,087,444	6,422,347	-	72,509,791
 Total capital assets depreciated	 \$ 85,037,815	 \$ 6,623,605	 \$ 227,557	 \$ 91,433,863
Less: accumulated depreciation for				
Land improvements	\$ 273,273	\$ 25,704	\$ -	\$ 298,977
Buildings	3,301,392	216,991	-	3,518,383
Machinery and equipment	3,544,253	441,395	163,428	3,822,220
Infrastructure	17,897,393	1,450,196	-	19,347,589
 Total accumulated depreciation	 \$ 25,016,311	 \$ 2,134,286	 \$ 163,428	 \$ 26,987,169
 Total capital assets depreciated, net	 \$ 60,021,504	 \$ 4,489,319	 \$ 64,129	 \$ 64,446,694
 Governmental Activities Capital Assets, Net	 \$ 66,682,476	 \$ 9,249,696	 \$ 1,793,169	 \$ 74,139,003

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Construction in progress	4,180,528	-	4,180,528	-
Total capital assets not depreciated	\$ 4,570,961	\$ -	\$ 4,180,528	\$ 390,433
Capital assets depreciated				
Buildings	\$ 132,947	\$ -	\$ -	\$ 132,947
Machinery and equipment	1,332,343	360,182	214,000	1,478,525
Landfill cells	3,069,520	4,362,370	-	7,431,890
Total capital assets depreciated	\$ 4,534,810	\$ 4,722,552	\$ 214,000	\$ 9,043,362
Less: accumulated depreciation for				
Buildings	\$ 58,787	\$ 4,432	\$ -	\$ 63,219
Machinery and equipment	1,012,716	81,189	92,733	1,001,172
Landfill cells	3,069,520	416,606	-	3,486,126
Total accumulated depreciation	\$ 4,141,023	\$ 502,227	\$ 92,733	\$ 4,550,517
Total capital assets depreciated, net	\$ 393,787	\$ 4,220,325	\$ 121,267	\$ 4,492,845
Business-Type Activities Capital Assets, Net	\$ 4,964,748	\$ 4,220,325	\$ 4,301,795	\$ 4,883,278

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

Governmental Activities	
General government	\$ 224,275
Public safety	91,622
Highways and streets, including depreciation of infrastructure assets	1,784,396
Sanitation	7,359
Culture and recreation	26,634
Total Depreciation Expense - Governmental Activities	<u>\$ 2,134,286</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities	
Landfill	\$ 502,227

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2009, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 60
	Ditch Special Revenue Fund	59,663
Road and Bridge Special Revenue Fund	General Fund	1,896
Landfill Enterprise Fund	Road and Bridge Special Revenue Fund	29
Total Due To/From Other Funds		\$ 61,648

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 42,377

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.

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 193,519	\$ 14,751
Salaries	305,265	14,758
Contracts	677,583	200,928
Due to other governments	72,347	12,231
Total Payables	\$ 1,248,714	\$ 242,668

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2009. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund jail project	\$ 6,568,810	\$ 831,453
Road and bridge projects	5,125,378	251,813
Total Governmental Activities	\$ 11,694,188	\$ 1,083,266

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Construction and Other Significant Commitments (Continued)

	Spent-to-Date	Remaining Commitment
Business-Type Activities		
Landfill project	\$ 4,018,566	\$ 3,750

3. 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, 2009:

Capital Leases	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
Heating and cooling retrofit project	2015	\$56,423	3.89	\$ 463,827	\$ 299,386

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. 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, 2009, were as follows:

Year Ending December 31	Governmental Activities
2010	\$ 56,423
2011	56,423
2012	56,424
2013	56,423
2014	56,423
2015 - 2019	56,424
Total minimum lease payments	\$ 338,540
Less: amount representing interest	(39,154)
Present Value of Minimum Lease Payments	\$ 299,386

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2010	\$10,000 - \$45,000	4.20 - 6.00	\$ 385,000	\$ 10,000
1994 G.O. drainage bonds	2011	\$15,000 - \$25,000	5.80 - 6.70	310,000	50,000
1998 G.O. drainage bonds	2010	\$30,000 - \$35,000	4.40 - 4.75	325,000	30,000
2008B G.O. drainage bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	715,000	635,000
Total special assessment bonds with government commitment				\$ 1,735,000	\$ 725,000
Less: unamortized discounts					(4,983)
Special Assessment Bonds With Government Commitment, Net					\$ 720,017

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
General obligation bonds					
2004 G.O. capital improvement bonds	2015	\$460,000 - \$615,000	3.00 - 3.75	\$ 5,275,000	\$ 3,365,000
2008A G.O. jail bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	<u>8,545,000</u>	<u>8,395,000</u>
Total general obligation bonds				<u>\$ 13,820,000</u>	\$ 11,760,000
Plus: unamortized premium					257,257
Less: unamortized discounts					<u>(76,600)</u>
General Obligation Bonds, Net					<u>\$ 11,940,657</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.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2009
Cottonwood River Restoration CWP Project	2017	\$14,828	2.00	\$ 369,456	\$ 282,290
Yellow Medicine River Watershed CWP Project	2015	\$9,535	2.00	172,070	129,342
Redwood Watershed Phosphorus CWP Project	2017	\$10,263	2.00	<u>397,015</u>	<u>362,863</u>
Total Loans Payable				<u>\$ 938,541</u>	<u>\$ 774,495</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 1,100,000	\$ 453,441	\$ 150,000	\$ 25,950
2011	1,135,000	413,291	110,000	20,442
2012	1,170,000	371,573	85,000	16,630
2013	1,210,000	327,745	80,000	13,623
2014	1,250,000	281,730	80,000	10,582
2015 - 2019	4,250,000	831,228	220,000	19,319
2020 - 2021	1,645,000	83,125	-	-
Total	<u>\$ 11,760,000</u>	<u>\$ 2,762,133</u>	<u>\$ 725,000</u>	<u>\$ 106,546</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2010	\$ 60,337	\$ 8,916
2011	61,549	7,703
2012	62,787	6,466
2013	60,521	5,204
2014	58,174	4,023
2015 - 2018	157,437	5,386
Total	<u>\$ 460,805</u>	<u>\$ 37,698</u>

Clean water loans of \$101,875 for the Cottonwood River Restoration Project and \$211,815 for the Redwood Watershed Project are not included in the debt service requirements because fixed repayment schedules are not available.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 12,405,000	\$ -	\$ 645,000	\$ 11,760,000	\$ 1,100,000
Plus: unamortized premium	281,728	-	24,471	257,257	-
Less: unamortized discount	(83,213)	-	(6,613)	(76,600)	-
General obligation bonds, net	<u>\$ 12,603,515</u>	<u>\$ -</u>	<u>\$ 662,858</u>	<u>\$ 11,940,657</u>	<u>\$ 1,100,000</u>
Special assessment bonds with government commitment	\$ 870,000	\$ -	\$ 145,000	\$ 725,000	\$ 150,000
Less: unamortized discount	(5,503)	-	(520)	(4,983)	-
Special assessment bonds with government commitment, net	<u>\$ 864,497</u>	<u>\$ -</u>	<u>\$ 144,480</u>	<u>\$ 720,017</u>	<u>\$ 150,000</u>
Total bonds payable	<u>\$ 13,468,012</u>	<u>\$ -</u>	<u>\$ 807,338</u>	<u>\$ 12,660,674</u>	<u>\$ 1,250,000</u>
Leases payable	342,900	-	43,514	299,386	45,221
Loans payable	738,381	95,262	59,148	774,495	60,337
Compensated absences	631,209	-	9,227	621,982	46,477
Net OPEB liability	<u>766,714</u>	<u>328,471</u>	<u>175,420</u>	<u>919,765</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u><u>\$ 15,947,216</u></u>	<u><u>\$ 423,733</u></u>	<u><u>\$ 1,094,647</u></u>	<u><u>\$ 15,276,302</u></u>	<u><u>\$ 1,402,035</u></u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,480,844	\$ -	\$ 429,380	\$ 1,051,464	\$ -
Compensated absences	28,384	3,379	-	31,763	-
Business-Type Activities Long-Term Liabilities	<u><u>\$ 1,509,228</u></u>	<u><u>\$ 3,379</u></u>	<u><u>\$ 429,380</u></u>	<u><u>\$ 1,083,227</u></u>	<u><u>\$ -</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,051,464 landfill closure and postclosure care liability at December 31, 2009, represents the cumulative amount reported to date based on the use of 25.82 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of \$3,019,293 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009. Based on the current permitted capacity, the landfill has an estimated operating life of 79.6 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2009, restricted assets of \$3,268,413 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

1. Plan Description (Continued)

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.

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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans (Continued)

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. Lyon 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 are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

Lyon County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

Lyon County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 260,208	\$ 250,553	\$ 234,225
Public Employees Police and Fire Fund	99,743	94,163	84,741
Public Employees Correctional Fund	60,741	47,558	42,277

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by Lyon County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,017	\$ 1,017
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2009, there were approximately 26 retirees receiving health benefits from the plan. The implicit rate subsidy amount was determined by an actuarial study to be \$31,187 for 2009.

In addition to the implicit rate subsidy, Lyon County pays the health and dental insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to May 1, 1997, and retiring while in active service shall be entitled to four percent per year of service towards the County dental and health insurance premium. To be eligible, employees and elected officials must have worked for Lyon County for a minimum of 15 years and be at least 55 years old; or the employee's age and years of service, added together, total 75 or more. The County-paid portion shall not exceed the amount currently paid by the County on behalf of active employees (\$550 per month during 2009), and the benefit continues until death. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County had 6 elected officials and 20 employees eligible for this benefit in 2009. The cost for this program totaled \$117,906 (\$24,690 for elected officials and \$93,216 for employees) in 2009.

During February 2009, the Lyon County Board of Commissioners reduced the maximum payment of retirement benefits to \$330 per month, prorated at four percent per year of service, and limited the payment period to 10 years (120 monthly payments) after retirement or upon death of the retiree, whichever occurs first. In June 2009, a group of current and former employees, including several elected officials, filed a lawsuit against the County over changes in retirement benefits. The litigation remains pending as of September 2010.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	340,014
Interest on net OPEB obligation		34,502
Adjustment to ARC		(46,045)
		(46,045)
Annual OPEB cost (expense)	\$	328,471
Contributions made		(175,420)
		(175,420)
Increase in net OPEB obligation	\$	153,051
Net OPEB Obligation - Beginning of Year		766,714
		766,714
Net OPEB Obligation - End of Year	\$	919,765

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008 and 2009, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 945,015	\$ 178,337	18.87%	\$ 766,714
December 31, 2009	328,471	175,420	53.40	919,765

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2009, the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,103,917, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,103,917. The covered payroll (annual payroll of active employees covered by the plan) was \$4,942,611, and the ratio of the UAAL to the covered payroll was 83.0 percent.

Actuarial Methods and Assumptions

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

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Lyon County's implicit rate of return on the General Fund.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2009, was 28 years.

5. 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 Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County purchases commercial insurance for employee health and dental coverage as well as for other risks. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$430,000 per claim in 2009 and \$450,000 per claim in 2010. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2009, the Lincoln-Pipestone Rural Water System had \$36,989,000 of general obligation bonds outstanding through 2034. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit,

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

and unlimited taxing powers are pledged. The participating counties (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2010, Nobles County issued a general obligation bond for \$800,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted a board resolution to approve an updated joint powers agreement to guarantee the payment of the bond.

C. 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

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

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 2009 was \$2,504,401.

At December 31, 2009, LLMHS reported a total fund balance of \$4,223,433. In addition, LLMHS reported total net assets of \$3,509,803. LLMHS's long-term debt at December 31, 2009, is \$793,212 and includes compensated absences payable and net OPEB obligation. The debt will be funded by intergovernmental revenue and revenue from computer services.

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating the Southwest Health and Human Services agency and terminated the joint powers agreements for Lincoln, Lyon, & Murray Human Services and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS is effective December 31, 2010, although the agreement recognizes that both the LLMHS and LLMPPHS shall continue to exist after dissolution as long as is necessary to conclude the affairs of the agencies.

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 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 2009 was \$220,000.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

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

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

Bonds were issued by Lincoln County and Yellow Medicine County to finance the construction of the Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2009, were \$36,989,000.

The Lincoln-Pipestone Rural Water System's 2009 financial report shows total net assets of \$37,083,055, including unrestricted net assets of \$26,538,044. The decrease in net assets for the year ended December 31, 2009, was \$976,969.

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**

5. Summary of Significant Contingencies and Other Items

C. 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 that county. A bond issue is shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2009, were \$11,845,000. The Water System's net assets decreased by \$201,893 in 2009.

Complete financial information can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

Southwest Minnesota Regional Radio Board

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Marshall-Lyon County Library

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

The County and the City of Marshall are responsible for the operating budget of the library in a one-third to two-third split, respectively. Lyon County's contribution for 2009 was \$255,654.

D. 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 \$20,341 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 \$15,840 of the County levy to the RCRCA.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2009

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

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,805,262	\$ 5,805,262	\$ 5,819,730	\$ 14,468
Special assessments	262,510	262,510	402,747	140,237
Licenses and permits	19,500	19,500	28,145	8,645
Intergovernmental	1,598,048	1,622,048	1,780,615	158,567
Charges for services	760,000	760,000	840,859	80,859
Investment earnings	502,000	519,931	188,045	(331,886)
Miscellaneous	704,200	680,200	1,160,061	479,861
Total Revenues	\$ 9,651,520	\$ 9,669,451	\$ 10,220,202	\$ 550,751
Expenditures				
Current				
General government				
Commissioners	\$ 194,700	\$ 194,700	\$ 173,868	\$ 20,832
Courts	60,000	60,000	68,351	(8,351)
Law library	-	-	22,394	(22,394)
Administrator	169,790	169,790	157,104	12,686
Auditor/Treasurer	548,436	548,436	515,375	33,061
Information technology	118,950	119,350	56,499	62,851
Elections	52,997	56,725	10,782	45,943
Central services	525,603	491,910	395,271	96,639
Attorney	382,370	382,370	366,152	16,218
Recorder	302,300	302,300	314,611	(12,311)
Geographic information system	156,900	156,900	141,400	15,500
Assessor	196,389	196,389	183,133	13,256
Planning and zoning	216,163	216,163	176,101	40,062
Buildings and plant	591,900	4,916,000	4,572,640	343,360
Veterans service officer	72,250	72,250	69,069	3,181
Total general government	\$ 3,588,748	\$ 7,883,283	\$ 7,222,750	\$ 660,533

**LYON COUNTY
MARSHALL, MINNESOTA**

***Schedule 2
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,876,050	\$ 1,876,050	\$ 1,775,467	\$ 100,583
Law enforcement center	1,622,525	1,622,525	1,569,519	53,006
Boat and water safety	-	-	21,676	(21,676)
Coroner	18,000	18,000	15,248	2,752
Sentence to serve	44,000	44,000	36,378	7,622
Criminal justice	-	42,624	38,365	4,259
Probation and parole	325,393	325,393	319,434	5,959
Emergency services	61,150	61,150	58,404	2,746
E-911 system	105,000	105,000	17,847	87,153
ARMER radio system	-	-	43,327	(43,327)
Total public safety	\$ 4,052,118	\$ 4,094,742	\$ 3,895,665	\$ 199,077
Sanitation				
Environmental	\$ 42,585	\$ 42,585	\$ 41,320	\$ 1,265
Hazardous waste	385,124	385,124	360,245	24,879
Recycling	111,886	111,886	167,832	(55,946)
Total sanitation	\$ 539,595	\$ 539,595	\$ 569,397	\$ (29,802)
Culture and recreation				
Fairgrounds	\$ 70,890	\$ 70,890	\$ 55,436	\$ 15,454
Parks	188,175	188,175	152,504	35,671
Other	35,730	35,730	28,075	7,655
Total culture and recreation	\$ 294,795	\$ 294,795	\$ 236,015	\$ 58,780
Conservation of natural resources				
Extension	\$ 121,796	\$ 121,796	\$ 115,416	\$ 6,380
Agricultural inspection	16,210	16,210	14,394	1,816
Water quality loan program	-	-	95,262	(95,262)
Ditch inspection	29,940	29,940	-	29,940
Water planning	39,569	39,569	20,701	18,868
Other	147,481	272,015	274,774	(2,759)
Total conservation of natural resources	\$ 354,996	\$ 479,530	\$ 520,547	\$ (41,017)

**LYON COUNTY
MARSHALL, MINNESOTA**

***Schedule 2
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 58,155	\$ 58,155	\$ 20,165	\$ 37,990
Intergovernmental				
Health	\$ 221,000	\$ 221,000	\$ 225,988	\$ (4,988)
Culture and recreation	268,138	268,138	255,654	12,484
Total intergovernmental	\$ 489,138	\$ 489,138	\$ 481,642	\$ 7,496
Debt service				
Principal	\$ 43,515	\$ 43,515	\$ 102,662	\$ (59,147)
Interest	12,910	12,910	23,015	(10,105)
Administrative (fiscal) fees	2,700	2,700	-	2,700
Total Expenditures	\$ 9,436,670	\$ 13,898,363	\$ 13,071,858	\$ 826,505
Excess of Revenues Over (Under)				
Expenditures	\$ 214,850	\$ (4,228,912)	\$ (2,851,656)	\$ 1,377,256
Other Financing Sources (Uses)				
Transfers out	\$ (214,850)	\$ (214,850)	\$ -	\$ 214,850
Loans issued	-	-	95,262	95,262
Total Other Financing Sources (Uses)	\$ (214,850)	\$ (214,850)	\$ 95,262	\$ 310,112
Net Change in Fund Balance	\$ -	\$ (4,443,762)	\$ (2,756,394)	\$ 1,687,368
Fund Balance - January 1	13,982,753	13,982,753	13,982,753	-
Fund Balance - December 31	\$ 13,982,753	\$ 9,538,991	\$ 11,226,359	\$ 1,687,368

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,987,002	\$ 1,987,002	\$ 1,982,017	\$ (4,985)
Intergovernmental	5,407,343	5,407,343	4,262,117	(1,145,226)
Charges for services	14,000	14,000	26,254	12,254
Miscellaneous	41,000	41,000	350,115	309,115
Total Revenues	\$ 7,449,345	\$ 7,449,345	\$ 6,620,503	\$ (828,842)
Expenditures				
Current				
Highways and streets				
Public works	\$ 63,210	\$ 63,210	\$ 65,279	\$ (2,069)
Administration	385,318	385,318	316,313	69,005
Construction	4,165,156	4,165,156	4,882,140	(716,984)
Maintenance	1,839,850	1,881,965	1,403,745	478,220
Equipment and maintenance shops	702,895	702,895	747,867	(44,972)
Total highways and streets	\$ 7,156,429	\$ 7,198,544	\$ 7,415,344	\$ (216,800)
Intergovernmental				
Highways and streets	252,916	252,916	280,347	(27,431)
Total Expenditures	\$ 7,409,345	\$ 7,451,460	\$ 7,695,691	\$ (244,231)
Net Change in Fund Balance	\$ 40,000	\$ (2,115)	\$ (1,075,188)	\$ (1,073,073)
Fund Balance - January 1	6,750,007	6,750,007	6,750,007	-
Increase (decrease) in reserved for inventories	-	-	(47,972)	(47,972)
Fund Balance - December 31	\$ 6,790,007	\$ 6,747,892	\$ 5,626,847	\$ (1,121,045)

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,101,329	\$ 2,101,329	\$ 2,095,315	\$ (6,014)
Intergovernmental	421,527	421,527	408,806	(12,721)
Total Revenues	\$ 2,522,856	\$ 2,522,856	\$ 2,504,121	\$ (18,735)
Expenditures				
Intergovernmental				
Human services	2,522,856	2,522,856	2,504,121	18,735
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 523,982	\$ 523,982
Investment earnings	-	-	1,213	1,213
Miscellaneous	-	-	26,896	26,896
Total Revenues	\$ -	\$ -	\$ 552,091	\$ 552,091
Expenditures				
Current				
Conservation of natural resources				
Other	\$ -	\$ -	\$ 111,727	\$ (111,727)
Debt service				
Principal	-	-	145,000	(145,000)
Interest	-	-	34,408	(34,408)
Administrative (fiscal) fees	-	-	2,875	(2,875)
Total Expenditures	\$ -	\$ -	\$ 294,010	\$ (294,010)
Net Change in Fund Balance	\$ -	\$ -	\$ 258,081	\$ 258,081
Fund Balance - January 1	868,588	868,588	868,588	-
Fund Balance - December 31	\$ 868,588	\$ 868,588	\$ 1,126,669	\$ 258,081

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**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009

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

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 9,436,670	\$ 4,461,693	\$ 13,898,363
Road and Bridge Special Revenue Fund	7,409,345	42,115	7,451,460

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

	Expenditures	Final Budget	Excess
Road and Bridge Special Revenue Fund	\$ 7,695,691	\$ 7,451,460	\$ 244,231
Ditch Special Revenue Fund	294,010	-	294,010

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Other Postemployment Benefits

Lyon County currently has no assets that have been irrevocably deposited in a trust for postemployment benefits. Therefore, the actuarial value of assets is zero.

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented in 2008, thus three actuarial valuations are not available at this time. When available, trend information for the three latest actuarial valuations will be provided.

See Note 4.C. to the financial statements for more information.

SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,451,899	\$ 1,451,899	\$ 1,443,926	\$ (7,973)
Special assessments	-	-	185	185
Intergovernmental	290,397	290,397	294,184	3,787
Total Revenues	\$ 1,742,296	\$ 1,742,296	\$ 1,738,295	\$ (4,001)
Expenditures				
Debt service				
Principal	\$ 1,303,381	\$ 1,303,381	\$ 645,000	\$ 658,381
Interest	437,065	437,065	514,449	(77,384)
Administrative (fiscal) fees	1,850	1,850	1,056	794
Total Expenditures	\$ 1,742,296	\$ 1,742,296	\$ 1,160,505	\$ 581,791
Net Change in Fund Balance	\$ -	\$ -	\$ 577,790	\$ 577,790
Fund Balance - January 1	1,311,865	1,311,865	1,311,865	-
Fund Balance - December 31	\$ 1,311,865	\$ 1,311,865	\$ 1,889,655	\$ 577,790

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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.

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

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,603	\$ 19,929	\$ 35,167	\$ 1,365
<u>Liabilities</u>				
Due to other governments	\$ 16,603	\$ 19,929	\$ 35,167	\$ 1,365
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 58,522	\$ 654,773	\$ 665,276	\$ 48,019
<u>Liabilities</u>				
Due to other governments	\$ 58,522	\$ 654,773	\$ 665,276	\$ 48,019
 <u>SOUTHWEST MINNESOTA REGIONAL RADIO BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,000	\$ 7,737	\$ 5,946	\$ 7,791
<u>Liabilities</u>				
Due to other governments	\$ 6,000	\$ 7,737	\$ 5,946	\$ 7,791

**LYON COUNTY
MARSHALL, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 223,842</u>	<u>\$ 33,331,029</u>	<u>\$ 33,249,860</u>	<u>\$ 305,011</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 223,842</u>	<u>\$ 33,331,029</u>	<u>\$ 33,249,860</u>	<u>\$ 305,011</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 304,967</u>	<u>\$ 34,013,468</u>	<u>\$ 33,956,249</u>	<u>\$ 362,186</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 304,967</u>	<u>\$ 34,013,468</u>	<u>\$ 33,956,249</u>	<u>\$ 362,186</u>

OTHER SCHEDULE

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 7

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Governmental Funds	Enterprise Fund	Total
Shared Revenue			
State			
Highway users tax	\$ 2,390,073	\$ -	\$ 2,390,073
County program aid	1,222,869	-	1,222,869
PERA rate reimbursement	41,797	-	41,797
Disparity reduction aid	26,861	-	26,861
Police aid	86,077	-	86,077
Enhanced 911	103,629	-	103,629
Market value credit	856,389	-	856,389
	\$ 4,727,695	\$ -	\$ 4,727,695
Payments			
Local			
Payments in lieu of taxes	\$ 140,786	\$ -	\$ 140,786
Local grants	17,202	-	17,202
	\$ 157,988	\$ -	\$ 157,988
Grants			
State			
Minnesota Department/Board of			
Natural Resources	\$ 40,716	\$ -	\$ 40,716
Public Safety	749	-	749
Corrections	64,810	-	64,810
Water and Soil Resources	39,508	-	39,508
Peace Officer Standards and Training Board	4,361	-	4,361
Pollution Control Agency	111,559	20,000	131,559
	\$ 261,703	\$ 20,000	\$ 281,703
Federal			
Department of			
Agriculture	\$ 8,273	\$ -	\$ 8,273
Commerce	34,574	-	34,574
Justice	1,065	-	1,065
Transportation	1,510,301	-	1,510,301
Health and Human Services	20,824	-	20,824
Homeland Security	23,299	-	23,299
	\$ 1,598,336	\$ -	\$ 1,598,336
	\$ 1,860,039	\$ 20,000	\$ 1,880,039
	\$ 6,745,722	\$ 20,000	\$ 6,765,722

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Lyon County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Lyon County and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Lyon County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Lyon County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Highway Planning and Construction Cluster
 - Highway Planning and Construction CFDA #20.205
 - Highway Planning and Construction - ARRA CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Lyon County was not determined to be a low-risk auditee.

II. 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 confident of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

06-13 Audit Adjustments

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions; 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, liabilities, revenues, expenditures, and understating fund balance; the client's full accrual basis records for governmental activities understating assets, net assets, and revenues, and overstating liabilities and expenses; and the client's full accrual basis records for business-type activities understating liabilities and overstating 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 prevent, or detect and correct, 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. In addition, we recommend the County include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be made by the County prior to the audit.

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.

ITEMS ARISING THIS YEAR

09-1 Preparation of the IFS Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (for example, maintaining internal books and records) and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Lyon County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to assist in the preparation of the basic financial statements from the County's Integrated Financial System (IFS), which is software that provides a database and user interface for the County's general ledger, accounting, and financial reporting.

In 2009, the beginning balance for net assets on the government-wide Statement of Activities from the IFS for business-type activities differed from the Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds by \$10,962,237. Furthermore, the 2009 Statement of Net Assets for proprietary funds showed deficit balances of \$4,180,528 for construction in progress and \$361,210 for contracts payable. Personnel from Lyon County were not aware of the issues until we inquired during the audit.

CPUI told the County a bug in the printed reports is not calculating certain amounts correctly but the County's internal data is fine. CPUI also stated that very few counties are submitting some of these reports, so it decided to not fix it in the current IFS, but the issues will be corrected in the new IFS platform independent (IFSpi) general ledger system.

The County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on the IFS package. As a result of this condition, the County lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP. In addition, audit costs increase when auditors have to spend additional time initiating, reviewing, proposing, and booking changes to reports generated from the IFS.

We recommend that the County work with CPUI to resolve differences in the IFS reports before preparing its annual financial statements. If this is not practical or possible, we recommend the County obtain a financial package or use spreadsheets that allow for the preparation of its annual financial statements in accordance with GAAP.

Client's Response:

The County will continue to work with CPUI to resolve differences in the IFS reports.

09-2 Monitoring Internal Controls

County management is responsible for monitoring its internal controls. Monitoring involves assessing the quality of performance over time. Monitoring should occur during normal operations and includes reviews, comparisons, reconciliations, and other actions employees take in performing their duties.

An essential element of monitoring controls also includes performing a risk assessment of existing controls over significant functions of the accounting system used to produce financial information for members of the County Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls established by management 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, staffing vacancies, updates to information systems, or changes to services being provided.

Our audit procedures detected areas and responsibilities performed by County staff with little or no documentation of the monitoring taking place by management or other staff members. Some areas with minimal or no monitoring include:

- entering budget information into the accounting system;
- reconciling budget information in the accounting system to amounts approved by the County Board;
- calculating inventory balances;
- reviewing capital asset additions, deletions, and balances; and
- reviewing identified receivables and payables.

We recommend that a formal plan be developed that calls for assessing and monitoring the significant internal controls on a regular basis, no less than annually. The monitoring should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

The County will continue to revise and improve the monitoring of internal controls.

09-3 Jail Canteen Account

The County Sheriff operates a canteen fund to purchase and sell items used by the inmates in the jail. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account. The County's share of profits from the canteen operations should be turned over to the County and recorded on the County's general ledger system, but the remainder of the activity is not accounted for in the County's general ledger system. As of early September 2010, profits from the canteen operation have not been remitted to the County since a new system was implemented in September 2009.

The canteen fund has been in operation for many years, and it is unknown how the original start-up inventory was funded. However, it is our belief that canteen funds meet the criteria of County funds and should be accounted for in the County's general ledger system. The funds are both collected and administered by on-duty public employees acting on behalf of the County, using County facilities, and fulfilling their responsibilities to care for County prisoners. The recording of these funds on the County's general ledger system would not preclude the County Board from using the profits of the canteen fund for the benefit of the inmates.

We recommend the full operations of the jail canteen fund be recorded on the County's general ledger system. This would include depositing all money received from sales and making all purchases with County warrants. If the County Board consents, these funds may be dedicated and used for the benefit of inmates.

Client's Response:

The Jail Administrator is currently working with the Auditor/Treasurer's office to determine the nature of the recommendations, as well as appropriate resolution to the concerns noted.

09-4 Jail Inmate Account Bank Reconciliation

The Lyon County Jail has been unable to successfully identify the total cash balance as recorded on its inmate account tracking system, TEAM software through TurnKey Corrections. Since the total amount of cash cannot be identified, Jail personnel have been unable to reconcile the amount in the Jail checking account to the bank statement.

Without bank reconciliations, the County has no assurance that the book balance is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed through the checking account have been recorded in TEAM.

We recommend County Jail personnel contact the software vendor to obtain the support and training necessary to accurately identify the TEAM cash balance. The Jail checking account should then be reconciled to the bank statement on a monthly basis.

Client's Response:

The Jail Administrator is currently working with the Auditor/Treasurer's office to determine the nature of the recommendations, as well as appropriate resolutions to the concerns noted.

09-5 Recorder's Office Transactions

The County Recorder's Office accepts applications and renewals for passports. Revenues received from the fees are handled through a separate checking account. The County's share of the fees are remitted to the County and recorded on the County's general ledger system, but payments to the U.S. Department of State are not accounted for in the County's general ledger system.

It is our belief that fees received from passport transactions meet the criteria of County funds and should be accounted for in the County's general ledger system.

We recommend the full operations of the sale of passports be recorded on the County's general ledger system. This would include depositing all money received from sales and making all payments with County warrants.

Client's Response:

The Recorder's office will work with the Auditor/Treasurer's office to determine the nature of the recommendations as well as appropriate resolutions to the concerns noted.

PREVIOUSLY REPORTED ITEMS RESOLVED

County Sheriff's Canteen Operations (06-7)

Collections of canteen funds could not be accounted for at any given time as order forms were not renumbered, and documentation showing the balance of canteen funds was not retained.

Resolution

With the construction of the new jail, the County moved to an automated system that allows funds to be deposited into a kiosk located in the lobby for inmates. Inmates are provided with cards that are used for transactions. The system automatically reconciles any deposits made in the kiosk and any purchases made by inmate cards.

Accounting Policies and Procedures Manual (06-9)

The County did not have a current and comprehensive accounting policies and procedures manual.

Resolution

The County Board approved an accounting policies and procedures manual on December 15, 2009.

Claim Documentation - Original Itemized Receipts/Invoices (08-1)

The County did not require original receipts/invoices to be submitted for reimbursement of travel claims.

Resolution

The County addressed the issue of requiring original itemized receipts and invoices in the accounting policies and procedures manual approved in 2009.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-6 Collateral Assignments

Deposits in excess of the FDIC insurance coverage with Bank of the West are secured with pledged collateral; however, the resolution provided by the bank to the County does not approve the pledge of collateral to Lyon County. Under the resolution, the bank board merely delegates the authority to give security to certain bank employees; it does not--as required by the Financial Reform, Recovery, and Enforcement Act of 1989 (FIRREA)--approve an assignment of assets to Lyon County.

In a Federal Appeals Court Decision, the Court ruled that if a municipality fails to perfect its interest in pledged collateral under federal law, its right to such collateral in the event of default is not enforceable.

We recommend that the Lyon County Auditor/Treasurer obtain current documentation of compliance with FIRREA from its depositories to ensure a perfected security interest in the collateral pledged.

Client's Response:

The Auditor/Treasurer will work with Bank of the West to correct this issue.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

09-7 Remittance of Funds to the Auditor/Treasurer from the Sheriff's Office

During the audit, it was discovered that the Sheriff's Office had \$26,156 in a bank account for the Pay to Stay program at the end of 2009. Upon inquiry, the Jail Administrator explained that funds are not remitted to the County Auditor/Treasurer until an inmate has paid in full. Past due accounts are turned

over to a collection agency; however, if overdue accounts are not collected in full, amounts received are not remitted to the County Auditor/Treasurer or recorded in the County's general ledger. In addition, a timeframe for which accounts to be determined uncollectible has not been established.

We recommend the County review the Pay to Stay account and approve a policy to specify a timeframe for when accounts should be determined uncollectible. We also recommend that all Pay to Stay monies received be promptly remitted to the Auditor/Treasurer's office. Reconciliations and reviews should be performed on a regular basis between the department's subsidiary ledgers and the County's general ledger to ensure revenues are properly recorded. These procedures are to ensure all collections are receipted and properly posted to the general ledger.

Client's Response:

The Jail Administrator is currently working with the Auditor/Treasurer's office to determine the nature of the recommendations, as well as appropriate resolutions to concerns noted.

PREVIOUSLY REPORTED ITEM RESOLVED

Disaster Recovery Plan (07-2)

Lyon County did not have a disaster recovery plan detailing steps to be taken to continue operations in the event of a disaster. The County had not tested the plan to determine if an alternative computer system and/or backups were compatible with the County's systems.

Resolution

The County made improvements during 2009 by testing the disaster recovery plan.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2010. 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-13 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 and 09-1 through 09-5 to be significant deficiencies.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of their own.

The results of our tests indicate that, for the items tested, Lyon County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 09-6.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to Lyon County, and they are reported for that purpose.

Lyon County's written responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, do not express an opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within the County, and federal awarding agencies and pass-through entities 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

September 29, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Lyon County

Compliance

We have audited the compliance of Lyon County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Lyon County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyon County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Lyon County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

Management of Lyon County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

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, 2009, and have issued our report thereon dated September 29, 2010. Our audit was performed for the purpose of forming opinions on Lyon County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 29, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>\$ 8,273</u>
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 34,574</u>
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 420
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	<u>645</u>
Total U.S. Department of Justice		<u>\$ 1,065</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 1,227,542
Highway Planning and Construction - ARRA	20.205	273,113
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	2,731
Alcohol Impaired Driving Countermeasures Incentive Grant I	20.601	1,000
Safety Belt Performance Grants	20.609	5,696
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>219</u>
Total U.S. Department of Transportation		<u>\$ 1,510,301</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	\$ 2,114
Child Support Enforcement	93.563	6,679
Refugee and Entrant Assistance - State-Administered Programs	93.566	24
Foster Care Title IV-E	93.658	197
Children's Health Insurance Program	93.767	4
Medical Assistance Program	93.778	<u>11,806</u>
Total U.S. Department of Health and Human Services		<u>\$ 20,824</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**Schedule 9
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 20,000
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	<u>3,299</u>
Total U.S. Department of Homeland Security		\$ <u>23,299</u>
Total Federal Awards		\$ <u><u>1,598,336</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lyon County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lyon County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lyon County.

3. Summary of Significant Accounting Policies

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

4. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.