

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010



**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
2010

Office	Name	Term Expires
Commissioners		
1st District	Rodney Stensrud ¹	January 2011
2nd District	Robert Fenske ²	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	Mona Hammer ³	January 2011
Sheriff	Mark Mather ⁴	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	Terry Wing	September 2014

¹Chair 2010

²Chair 2011

³Mona Hammer was appointed as Recorder effective December 30, 2010, to fill the remaining term of Jeanine Barker, who resigned effective December 29, 2010.

⁴Mark 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Minnesota, as of and for the year ended December 31, 2010, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (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 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 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, 2010, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 29, 2011, 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, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 29, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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, 2010, by \$95,879,690 (net assets). Of this amount, \$16,162,913 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Lyon County's total net assets increased by \$3,115,779 in 2010. This is attributable primarily to an increase in capital assets of \$2,103,116, which was offset by a decrease in investments of \$1,525,059 and the effect of the decrease in liabilities of \$1,269,280.
- As of the close of 2010, Lyon County's governmental funds reported combined ending fund balances of \$19,361,247, a decrease of \$508,283 in comparison with 2009 combined ending fund balances. Of this balance amount, \$13,639,197 was unreserved and undesignated by Lyon County and, thus, available for spending at the government's discretion.
- At the end of 2010, unreserved fund balance for the General Fund was \$8,251,133, or 71 percent, of the total General Fund expenditures for that year. This represents an increase from 2009, which had 68 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 financial statements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Lyon County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Lyon County can be divided into three categories: governmental funds, business-type funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund 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, and Ditch Special Revenue Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budget.

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

Business-type funds are maintained by Lyon County to account for the Lyon County Landfill. The financial statements for this fund provide the same type of information as the government-wide financial statements--only in more detail.

The basic business-type fund financial statements can be found on Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of Lyon County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support Lyon County's own programs or activities. The accounting for fiduciary funds is much like that used for 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 27 through 63 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 \$95,879,690 at the close of 2010. The largest portion of Lyon County's net assets (73 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

	2010			2009
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 24,942,361	\$ 6,602,872	\$ 31,545,233	\$ 31,801,850
Capital assets	75,848,515	5,276,882	81,125,397	79,022,281
Total Assets	\$ 100,790,876	\$ 11,879,754	\$ 112,670,630	\$ 110,824,131
Liabilities				
Long-term liabilities	\$ 14,107,337	\$ 1,106,128	\$ 15,213,465	\$ 16,359,529
Other liabilities	1,281,728	295,747	1,577,475	1,700,691
Total Liabilities	\$ 15,389,065	\$ 1,401,875	\$ 16,790,940	\$ 18,060,220
Net Assets				
Invested in capital assets, net of related debt	\$ 64,823,148	\$ 5,276,882	\$ 70,100,030	\$ 67,249,082
Restricted	6,231,591	3,385,156	9,616,747	8,710,336
Unrestricted	14,347,072	1,815,841	16,162,913	16,804,493
Total Net Assets	\$ 85,401,811	\$ 10,477,879	\$ 95,879,690	\$ 92,763,911

The unrestricted net assets amount of \$16,162,913 as of December 31, 2010, 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 2010 by \$3,115,779, representing a 3.36 percent increase. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2010			2009
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 2,329,694	\$ 2,213,297	\$ 4,542,991	\$ 4,394,941
Operating grants and contributions	4,291,319	-	4,291,319	3,886,193
Capital grants and contributions	1,126,445	-	1,126,445	1,569,567
General revenues				
Property taxes	11,414,729	-	11,414,729	11,369,013
Other	2,451,404	11,048	2,462,452	3,074,540
Total Revenues	\$ 21,613,591	\$ 2,224,345	\$ 23,837,936	\$ 24,294,254

	2010			2009
	Governmental Activities	Business-Type Activities	Total	
Expenses				
General government	\$ 4,582,142	\$ -	\$ 4,582,142	\$ 2,702,921
Public safety	4,551,013	-	4,551,013	3,979,009
Highways and streets	4,686,609	-	4,686,609	4,825,034
Sanitation	548,721	2,081,659	2,630,380	3,269,682
Human services	2,420,753	-	2,420,753	2,504,121
Health	225,988	-	225,988	225,988
Culture and recreation	510,868	-	510,868	520,752
Conservation of natural resources	614,518	-	614,518	634,570
Economic development	22,905	-	22,905	20,165
Interest	476,981	-	476,981	522,494
Total Expenses	<u>\$ 18,640,498</u>	<u>\$ 2,081,659</u>	<u>\$ 20,722,157</u>	<u>\$ 19,204,736</u>
Increase in Net Assets	\$ 2,973,093	\$ 142,686	\$ 3,115,779	\$ 5,089,518
Net Assets - January 1	<u>82,428,718</u>	<u>10,335,193</u>	<u>92,763,911</u>	<u>87,674,393</u>
Net Assets - December 31	<u>\$ 85,401,811</u>	<u>\$ 10,477,879</u>	<u>\$ 95,879,690</u>	<u>\$ 92,763,911</u>

Total revenues decreased 1.88 percent, or \$456,318, and total expenses increased \$1,517,421, or 7.90 percent.

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 2010, Lyon County's governmental funds reported combined ending fund balances of \$19,361,247, a decrease of \$508,283 in comparison with the prior year. Of the ending fund balance, \$16,734,079 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 \$8,251,133, a \$588,985 decrease from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 71 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$5,368,130 at year-end, an increase of \$296,267 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 \$1,127,836. This ending balance represents a \$1,167 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 \$2,803,968 difference between the original General Fund expenditure budget and the final amended budget was experienced in 2010 due to an amendment in the expenditure budget for building and plant.

Actual General Fund revenues exceeded budgeted revenues by \$588,741 primarily due to a greater than expected increase in miscellaneous revenues and more special assessments and intergovernmental revenue received than budgeted for. These increases were partially offset by less investment earnings than expected and less property tax collected than expected.

Actual expenditures were less than budgeted expenditures by \$411,414 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, 2010, totaled \$73,402,717 (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 \$8,956,023, or 13.9 percent, from the previous year.

Depreciable Governmental Capital Assets

	2010	2009
Capital assets depreciated		
Land improvements	\$ 504,797	\$ 504,797
Buildings	21,667,206	12,687,415
Machinery and equipment	5,926,739	5,731,860
Infrastructure	74,368,212	72,509,791
 Total capital assets depreciated	 \$ 102,466,954	 \$ 91,433,863
 Less: accumulated depreciation for		
Land improvements	\$ 322,710	\$ 298,977
Buildings	3,854,244	3,518,383
Machinery and equipment	4,052,330	3,822,220
Infrastructure	20,834,953	19,347,589
 Total accumulated depreciation	 \$ 29,064,237	 \$ 26,987,169
 Total Capital Assets Depreciated, Net	 \$ 73,402,717	 \$ 64,446,694

Additional information on the County's capital assets can be found in Note 2.A.3. of the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$14,107,337 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in Note 2.C. of the notes to the financial statements.

Outstanding Debt

	2010	2009
Special assessment debt	\$ 570,537	\$ 720,017
General obligation debt	10,822,799	11,940,657
Leases payable	254,165	299,386
Loans payable	790,493	774,495
Compensated absences	573,657	621,982
Net OPEB liability	1,095,686	919,765
 Total	 \$ 14,107,337	 \$ 15,276,302

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

2011	45.449%	\$ 12,164,341
2010	45.449	12,164,341
2009	52.142	12,164,341
2008	50.353	11,066,558
2007	49.282	10,102,126

On December 21, 2010, the Lyon County Board of Commissioners approved the 2011 budget and adopted a property tax levy of \$12,164,341, which represents \$0 increase over the 2010 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, 2010**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 18,980,124	\$ 2,136,557	\$ 21,116,681
Investments	859,842	708,000	1,567,842
Receivables - net	4,713,293	375,351	5,088,644
Internal balances	2,197	(2,197)	-
Inventories	271,099	-	271,099
Prepaid items	60,912	-	60,912
Restricted assets			
Cash and pooled investments	-	545,918	545,918
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	1,188	1,188
Deferred debt issuance costs	54,894	-	54,894
Capital assets			
Non-depreciable capital assets	2,445,798	390,433	2,836,231
Depreciable capital assets - net of accumulated depreciation	73,402,717	4,886,449	78,289,166
Total Assets	\$ 100,790,876	\$ 11,879,754	\$ 112,670,630
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,091,545	\$ 295,747	\$ 1,387,292
Accrued interest payable	190,183	-	190,183
Long-term liabilities			
Due within one year	1,397,636	-	1,397,636
Due in more than one year	12,709,701	1,106,128	13,815,829
Total Liabilities	\$ 15,389,065	\$ 1,401,875	\$ 16,790,940
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 64,823,148	\$ 5,276,882	\$ 70,100,030
Restricted for			
Public safety	548,729	-	548,729
Highways and streets	3,365,708	-	3,365,708
Landfill closure/postclosure	-	3,385,156	3,385,156
Debt service	1,822,280	-	1,822,280
Other purposes	494,874	-	494,874
Unrestricted	14,347,072	1,815,841	16,162,913
Total Net Assets	\$ 85,401,811	\$ 10,477,879	\$ 95,879,690

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, 2010**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 4,582,142	\$ 605,605
Public safety	4,551,013	427,923
Highways and streets	4,686,609	344,013
Sanitation	548,721	435,284
Human services	2,420,753	-
Health	225,988	-
Culture and recreation	510,868	187,918
Conservation of natural resources	614,518	328,951
Economic development	22,905	-
Interest	476,981	-
Total governmental activities	\$ 18,640,498	\$ 2,329,694
Business-type activities		
Landfill	2,081,659	2,213,297
Total	\$ 20,722,157	\$ 4,542,991

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
\$ 170,235	\$ -	\$ (3,806,302)	\$ -	\$ (3,806,302)
383,244	570,537	(3,169,309)	-	(3,169,309)
3,573,956	555,908	(212,732)	-	(212,732)
113,051	-	(386)	-	(386)
-	-	(2,420,753)	-	(2,420,753)
-	-	(225,988)	-	(225,988)
-	-	(322,950)	-	(322,950)
50,833	-	(234,734)	-	(234,734)
-	-	(22,905)	-	(22,905)
-	-	(476,981)	-	(476,981)
\$ 4,291,319	\$ 1,126,445	\$ (10,893,040)	\$ -	\$ (10,893,040)
-	-	-	131,638	131,638
\$ 4,291,319	\$ 1,126,445	\$ (10,893,040)	\$ 131,638	\$ (10,761,402)
		\$ 11,414,729	\$ -	\$ 11,414,729
		17,076	-	17,076
		152,984	-	152,984
		1,636,201	-	1,636,201
		84,849	11,048	95,897
		560,294	-	560,294
		\$ 13,866,133	\$ 11,048	\$ 13,877,181
		\$ 2,973,093	\$ 142,686	\$ 3,115,779
		82,428,718	10,335,193	92,763,911
		\$ 85,401,811	\$ 10,477,879	\$ 95,879,690

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
<u>Assets</u>						
Cash and pooled investments	\$ 9,980,402	\$ 5,942,513	\$ 40,548	\$ 1,029,681	\$ 1,986,980	\$ 18,980,124
Investments	687,182	-	-	172,660	-	859,842
Taxes receivable						
Prior	64,799	21,956	23,939	-	15,997	126,691
Special assessments receivable						
Prior	15,940	-	-	708	-	16,648
Noncurrent	542,269	-	-	623,735	-	1,166,004
Accounts receivable	138,255	19,957	-	8,270	-	166,482
Accrued interest receivable	6,724	-	-	254	-	6,978
Due from other funds	44,110	6,722	-	-	-	50,832
Due from other governments	151,257	3,079,233	-	-	-	3,230,490
Advance to other funds	25,567	-	-	-	-	25,567
Inventories	-	271,099	-	-	-	271,099
Prepaid items	54,897	6,015	-	-	-	60,912
Total Assets	\$ 11,711,402	\$ 9,347,495	\$ 64,487	\$ 1,835,308	\$ 2,002,977	\$ 24,961,669
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 314,877	\$ 80,541	\$ -	\$ 1,921	\$ -	\$ 397,339
Salaries payable	283,464	79,222	-	-	-	362,686
Contracts payable	194,044	49,470	-	-	-	243,514
Due to other funds	4,525	-	-	44,110	-	48,635
Due to other governments	38,599	5,698	40,548	3,161	-	88,006
Deferred revenue - unavailable	623,716	3,082,129	23,939	632,713	15,997	4,378,494
Deferred revenue - unearned	56,181	-	-	-	-	56,181
Advance from other funds	-	-	-	25,567	-	25,567
Total Liabilities	\$ 1,515,406	\$ 3,297,060	\$ 64,487	\$ 707,472	\$ 15,997	\$ 5,600,422

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>				<u>Debt Service</u>	<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>		
<u>Liabilities and Fund Balances</u>						
(Continued)						
Fund Balances						
Reserved for						
Encumbrances	\$ 219,090	\$ -	\$ -	\$ -	\$ -	\$ 219,090
Advance to other funds	25,567	-	-	-	-	25,567
Inventories	-	271,099	-	-	-	271,099
Prepaid items	54,897	6,015	-	-	-	60,912
DARE program	7,393	-	-	-	-	7,393
Missing heirs	2,483	-	-	-	-	2,483
Law library	111,750	-	-	-	-	111,750
Recorder's technology fund	178,032	-	-	-	-	178,032
Recorder's compliance fund	282,494	-	-	-	-	282,494
Enhanced 911	509,925	-	-	-	-	509,925
Sheriff's contingency	3,824	-	-	-	-	3,824
Sheriff's forfeited property	12,554	-	-	-	-	12,554
Attorney's forfeited property	29,424	-	-	-	-	29,424
Fish and wildlife trust	76,838	-	-	-	-	76,838
Canteen fund	33,903	-	-	-	-	33,903
Gun permit fees	22,426	-	-	-	-	22,426
Probation supervision fees	77,608	-	-	-	-	77,608
Septic/sewer loans	294,214	-	-	-	-	294,214
Election equipment grant	2,441	-	-	-	-	2,441
Highway allotments	-	405,191	-	-	-	405,191
Unreserved						
Designated for						
Future expenditures	2,797,185	-	-	-	-	2,797,185
County road projects	-	297,697	-	-	-	297,697
Undesignated	5,453,948	5,070,433	-	1,127,836	1,986,980	13,639,197
Total Fund Balances	\$ 10,195,996	\$ 6,050,435	\$ -	\$ 1,127,836	\$ 1,986,980	\$ 19,361,247
Total Liabilities and Fund Balances	\$ 11,711,402	\$ 9,347,495	\$ 64,487	\$ 1,835,308	\$ 2,002,977	\$ 24,961,669

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balance - total governmental funds (Exhibit 3)	\$ 19,361,247
--	----------------------

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.	75,848,515
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	4,434,675
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$ (10,660,000)	
Special assessment bonds	(575,000)	
Capital leases	(254,165)	
Compensated absences	(573,657)	
Net OPEB liability	(1,095,686)	
Loans payable	(790,493)	
Accrued interest payable	(190,183)	
Unamortized premium on general obligation bonds	(232,786)	
Unamortized discount on general obligation bonds	69,987	
Unamortized discount on special assessment bonds	4,463	
Deferred debt issuance costs	54,894	(14,242,626)

Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 85,401,811</u>
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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
Revenues						
Taxes	\$ 5,983,087	\$ 1,855,974	\$ 2,083,690	\$ -	\$ 1,534,820	\$ 11,457,571
Special assessments	389,183	-	-	314,142	65	703,390
Licenses and permits	24,725	-	-	-	-	24,725
Intergovernmental	2,277,621	3,768,133	337,063	-	118,137	6,500,954
Charges for services	861,745	5,356	-	-	-	867,101
Gifts and contributions	2,106	-	-	-	-	2,106
Investment earnings	82,081	-	-	2,795	-	84,876
Miscellaneous	961,629	403,664	-	15,562	-	1,380,855
Total Revenues	\$ 10,582,177	\$ 6,033,127	\$ 2,420,753	\$ 332,499	\$ 1,653,022	\$ 21,021,578
Expenditures						
Current						
General government	\$ 5,267,112	\$ -	\$ -	\$ -	\$ -	\$ 5,267,112
Public safety	4,554,868	-	-	-	-	4,554,868
Highways and streets	-	5,250,655	-	-	-	5,250,655
Sanitation	535,614	-	-	-	-	535,614
Culture and recreation	262,065	-	-	-	-	262,065
Conservation of natural resources	458,055	-	-	151,942	-	609,997
Economic development	22,905	-	-	-	-	22,905
Intergovernmental	462,580	301,483	2,420,753	-	-	3,184,816
Debt service						
Principal	105,558	-	-	150,000	1,100,000	1,355,558
Interest	20,118	-	-	27,515	453,441	501,074
Administrative (fiscal) fees	-	-	-	1,875	2,256	4,131
Total Expenditures	\$ 11,688,875	\$ 5,552,138	\$ 2,420,753	\$ 331,332	\$ 1,555,697	\$ 21,548,795
Excess of Revenues Over (Under) Expenditures	\$ (1,106,698)	\$ 480,989	\$ -	\$ 1,167	\$ 97,325	\$ (527,217)
Other Financing Sources (Uses)						
Loans issued	76,335	-	-	-	-	76,335
Net Change in Fund Balance	\$ (1,030,363)	\$ 480,989	\$ -	\$ 1,167	\$ 97,325	\$ (450,882)
Fund Balance - January 1	11,226,359	5,626,847	-	1,126,669	1,889,655	19,869,530
Increase (decrease) in reserved for inventories	-	(57,401)	-	-	-	(57,401)
Fund Balance - December 31	\$ 10,195,996	\$ 6,050,435	\$ -	\$ 1,127,836	\$ 1,986,980	\$ 19,361,247

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

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**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, 2010**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (450,882)

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	\$ 4,434,675	
Deferred revenue - January 1	<u>(3,842,662)</u>	592,013

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	\$ 4,016,930	
Net book value of assets disposed of	(47,901)	
Current year depreciation	<u>(2,259,517)</u>	1,709,512

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		(76,335)

Debt principal repayments		
General obligation bonds	\$ 1,100,000	
Special assessment bonds	150,000	
Capital leases payment	45,221	
Loans payable	<u>60,337</u>	1,355,558

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	\$ 19,126	
Change in compensated absences	48,325	
Change in net OPEB liability	(175,921)	
Change in inventories	(57,401)	
Current year amortization of premiums, discounts, and deferred issuance costs	<u>9,098</u>	<u>(156,773)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,973,093

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PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2010**

Assets

Current assets	
Cash and pooled investments	\$ 2,136,557
Investments	708,000
Accounts receivable - net	303,810
Accrued interest receivable	90
Due from other governments	71,451
Restricted assets	
Cash and pooled investments	545,918
Investments	2,838,055
Accrued interest receivable	<u>1,188</u>
Total current assets	<u>\$ 6,605,069</u>
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	<u>4,886,449</u>
Total noncurrent assets	<u>\$ 5,276,882</u>
Total Assets	<u>\$ 11,881,951</u>

Liabilities

Current liabilities	
Accounts payable	\$ 51,189
Salaries payable	16,683
Contracts payable	222,246
Due to other funds	2,197
Due to other governments	<u>5,629</u>
Total current liabilities	<u>\$ 297,944</u>
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 36,127
Estimated liability for landfill closure/postclosure care	<u>1,070,001</u>
Total noncurrent liabilities	<u>\$ 1,106,128</u>
Total Liabilities	<u>\$ 1,404,072</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2010**

Net Assets

Invested in capital assets - net of related debt	\$ 5,276,882
Restricted for postclosure care	3,385,156
Unrestricted	<u>1,815,841</u>
Total Net Assets	<u><u>\$ 10,477,879</u></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, 2010**

Operating Revenues	
Charges for services	\$ 2,140,613
Miscellaneous	72,684
	<hr/>
Total Operating Revenues	\$ 2,213,297
	<hr/>
Operating Expenses	
Personal services	\$ 362,944
Professional services	330,259
Administration and fiscal services	10,934
Other services and charges	1,180,083
Utilities	41,797
Depreciation	137,105
Landfill closure and postclosure care costs	18,537
	<hr/>
Total Operating Expenses	\$ 2,081,659
	<hr/>
Operating Income (Loss)	\$ 131,638
	<hr/>
Nonoperating Revenues (Expenses)	
Investment earnings	11,048
	<hr/>
Change in net assets	\$ 142,686
	<hr/>
Net Assets - January 1	10,335,193
	<hr/>
Net Assets - December 31	\$ 10,477,879
	<hr/> <hr/>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 2,380,019
Payments to suppliers	(1,735,067)
Payments to employees	(352,481)
	<hr/>
Net cash provided by (used in) operating activities	\$ 292,471
 Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(530,709)
 Cash Flows from Investing Activities	
Investment earnings	11,042
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (227,196)
 Cash and Cash Equivalents - January 1	 <hr/> 2,909,671
 Cash and Cash Equivalents - December 31	 <hr/> \$ 2,682,475
 Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 2,136,557
Restricted cash and pooled investments	545,918
	<hr/>
Total Cash and Cash Equivalents - December 31	\$ 2,682,475

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 131,638
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 137,105
(Increase) decrease in accounts receivable	8,067
(Increase) decrease in due from other funds	29
(Increase) decrease in due from other governments	(62,545)
Increase (decrease) in accounts payable	36,438
Increase (decrease) in salaries payable	1,925
Increase (decrease) in contracts payable	21,318
Increase (decrease) in due to other governments	(6,602)
Increase (decrease) in due to other funds	2,197
Increase (decrease) in landfill closure/postclosure care costs	18,537
Increase (decrease) in compensated absences payable	4,364
Total adjustments	\$ 160,833
Net Cash Provided by (Used in) Operating Activities	\$ 292,471

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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, 2010**

	Investment Trust Fund	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 4,188,071	\$ 439,122
Accrued interest receivable	104	-
Total Assets	\$ 4,188,175	\$ 439,122
<u>Liabilities</u>		
Due to other governments	-	\$ 439,122
<u>Net Assets</u>		
Net assets, held in trust for pool participants	\$ 4,188,175	

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 13,849,200
Investment earnings	<u>2,124</u>
Total Additions	\$ 13,851,324
<u>Deductions</u>	
Distributions to participants	<u>14,005,927</u>
Change in net assets	\$ (154,603)
Net Assets - January 1	<u>4,342,778</u>
Net Assets - December 31	<u><u>\$ 4,188,175</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Lyon County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Lyon County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.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, except for fiduciary activities. Eliminations have been made to minimize the

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenue not classified as program revenue, including all taxes, is presented as general revenue.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as a separate column in the fund financial statements. The County reports all of its governmental and proprietary funds as major funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

The County reports the following major enterprise fund:

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, 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 2010 were \$75,423.

Lyon County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Special Assessments Receivable

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

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

The liability for compensated absences reported in 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.

10. Long-Term Obligations

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$	18,980,124
Investments		859,842
Business-type activities		
Cash and pooled investments		2,136,557
Investments		708,000
Cash and pooled investments - restricted assets		545,918
Investments - restricted assets		2,838,055
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		4,188,071
Agency funds		439,122
		<hr/>
Total Cash and Investments	\$	30,695,689
		<hr/>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. 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, 2010, the County's deposits were not exposed to custodial credit risk.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. 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**

2. 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

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 by obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2010, the County's deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2010, along with information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 4,351,096
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Checking					8,574,720
Savings					14,414,666
Petty cash and change funds					2,775
Certificates of deposit					3,350,000
 Total Cash and Investments					 <u>\$ 30,695,689</u>

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

2. Receivables

Receivables as of December 31, 2010, 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	\$ 126,691	\$ -
Special assessments	1,182,652	889,005
Accounts	166,482	-
Interest	6,978	-
Due from other governments	3,230,490	-
 Total Governmental Activities	 <u>\$ 4,713,293</u>	 <u>\$ 889,005</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	\$ 303,810	\$ -
Interest	90	-
Due from other governments	71,451	-
Total Business-Type Activities	\$ 375,351	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, 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	29,316	-	608,551
Construction in progress	8,132,626	856,799	8,132,626	856,799
Total capital assets not depreciated	\$ 9,692,309	\$ 886,115	\$ 8,132,626	\$ 2,445,798
Capital assets depreciated				
Land improvements	\$ 504,797	\$ -	\$ -	\$ 504,797
Buildings	12,687,415	8,979,791	-	21,667,206
Machinery and equipment	5,731,860	425,229	230,350	5,926,739
Infrastructure	72,509,791	1,858,421	-	74,368,212
Total capital assets depreciated	\$ 91,433,863	\$ 11,263,441	\$ 230,350	\$ 102,466,954
Less: accumulated depreciation for				
Land improvements	\$ 298,977	\$ 23,733	\$ -	\$ 322,710
Buildings	3,518,383	335,861	-	3,854,244
Machinery and equipment	3,822,220	412,559	182,449	4,052,330
Infrastructure	19,347,589	1,487,364	-	20,834,953
Total accumulated depreciation	\$ 26,987,169	\$ 2,259,517	\$ 182,449	\$ 29,064,237
Total capital assets depreciated, net	\$ 64,446,694	\$ 9,003,924	\$ 47,901	\$ 73,402,717
Governmental Activities				
Capital Assets, Net	\$ 74,139,003	\$ 9,890,039	\$ 8,180,527	\$ 75,848,515

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Capital assets depreciated				
Buildings	\$ 132,947	\$ -	\$ -	\$ 132,947
Machinery and equipment	1,478,525	133,742	140,165	1,472,102
Landfill cells	7,431,890	-	-	7,431,890
Infrastructure	-	461,209	-	461,209
Total capital assets depreciated	\$ 9,043,362	\$ 594,951	\$ 140,165	\$ 9,498,148
Less: accumulated depreciation for				
Buildings	\$ 63,219	\$ 4,432	\$ -	\$ 67,651
Machinery and equipment	1,001,172	82,290	75,923	1,007,539
Landfill cells	3,486,126	40,134	-	3,526,260
Infrastructure	-	10,249	-	10,249
Total accumulated depreciation	\$ 4,550,517	\$ 137,105	\$ 75,923	\$ 4,611,699
Total capital assets depreciated, net	\$ 4,492,845	\$ 457,846	\$ 64,242	\$ 4,886,449
Business-Type Activities				
Capital Assets, Net	\$ 4,883,278	\$ 457,846	\$ 64,242	\$ 5,276,882

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

Governmental Activities	
General government	\$ 344,938
Public safety	99,820
Highways and streets, including depreciation of infrastructure assets	1,781,856
Sanitation	6,656
Culture and recreation	26,247
Total Depreciation Expense - Governmental Activities	\$ 2,259,517
Business-Type Activities	
Landfill	\$ 137,105

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 44,110
Road and Bridge Special Revenue Fund	General Fund	4,525
	Landfill Enterprise Fund	2,197
Total Due To/From Other Funds		\$ 50,832

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 25,567

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 397,339	\$ 51,189
Salaries	362,686	16,683
Contracts	243,514	222,246
Due to other governments	88,006	5,629
Total Payables	\$ 1,091,545	\$ 295,747

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund building remodeling	\$ 177,801	\$ 88,850
Road and bridge projects	365,296	1,280,249
Total Governmental Activities	\$ 543,097	\$ 1,369,099

3. Capital Leases

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. This lease agreement qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

It consists of the following at December 31, 2010:

<u>Capital Leases</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
Heating and cooling retrofit project	2015	\$56,423	3.89	\$ 463,827	\$ 254,165

The gross amounts of assets included in the statement of net assets recording under capital leases are \$463,827, and the related accumulated depreciation included in the general government accumulated depreciation is \$146,879.

Payments on the capital lease are made from the General Fund. The future lease obligations and the net present value of the minimum lease payments as of December 31, 2010, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2011	\$ 56,423
2012	56,424
2013	56,423
2014	56,423
2015	56,424
Total minimum lease payments	\$ 282,117
Less: amount representing interest	(27,952)
Present Value of Minimum Lease Payments	\$ 254,165

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2011	\$15,000 - \$25,000	5.80 - 6.70	\$ 310,000	\$ 25,000
2008B G.O. drainage bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	<u>715,000</u>	<u>550,000</u>
Total special assessment bonds with government commitment				<u>\$ 1,025,000</u>	\$ 575,000
Less: unamortized discounts					<u>(4,463)</u>
Special Assessment Bonds with Government Commitment, Net					<u>\$ 570,537</u>
General obligation bonds					
2004 G.O. capital improvement bonds	2015	\$460,000 - \$615,000	3.00 - 3.75	\$ 5,275,000	\$ 2,855,000
2008A G.O. jail bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	<u>8,545,000</u>	<u>7,805,000</u>
Total general obligation bonds				<u>\$ 13,820,000</u>	\$ 10,660,000
Plus: unamortized premium					232,786
Less: unamortized discounts					<u>(69,987)</u>
General Obligation Bonds, Net					<u>\$ 10,822,799</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2010</u>
Cottonwood River Restoration CWP Project	2017	\$14,828	2.00	\$ 415,475	\$ 302,130
Yellow Medicine River Watershed CWP Project	2015	\$9,535	2.00	172,070	112,776
Redwood Watershed Phosphorus CWP Project	2017	\$10,263	2.00	427,331	375,587
Total Loans Payable				<u>\$ 1,014,876</u>	<u>\$ 790,493</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	1,295,000	233,227	80,000	7,463
2016 - 2020	3,760,000	660,125	140,000	11,856
2021	840,000	21,000	-	-
Total	<u>\$ 10,660,000</u>	<u>\$ 2,308,691</u>	<u>\$ 575,000</u>	<u>\$ 80,596</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2011	\$ 61,549	\$ 7,703
2012	62,787	6,466
2013	60,521	5,204
2014	58,174	4,023
2015	55,676	2,854
2016 - 2017	101,761	2,533
Total	<u>\$ 400,468</u>	<u>\$ 28,783</u>

Clean water loans of \$147,894 for the Cottonwood River Restoration Project and \$242,131 for the Redwood Watershed Phosphorus Project are not included in the debt service requirements because fixed repayment schedules are not available.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 11,760,000	\$ -	\$ 1,100,000	\$ 10,660,000	\$ 1,135,000
Plus: unamortized premium	257,257	-	24,471	232,786	-
Less: unamortized discount	(76,600)	-	(6,613)	(69,987)	-
General obligation bonds, net	<u>\$ 11,940,657</u>	<u>\$ -</u>	<u>\$ 1,117,858</u>	<u>\$ 10,822,799</u>	<u>\$ 1,135,000</u>
Special assessment bonds with government commitment	\$ 725,000	\$ -	\$ 150,000	\$ 575,000	\$ 110,000
Less: unamortized discount	(4,983)	-	(520)	(4,463)	-
Special assessment bonds with government commitment, net	<u>\$ 720,017</u>	<u>\$ -</u>	<u>\$ 149,480</u>	<u>\$ 570,537</u>	<u>\$ 110,000</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities

Governmental Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Total bonds payable	\$ 12,660,674	\$ -	\$ 1,267,338	\$ 11,393,336	\$ 1,245,000
Leases payable	299,386	-	45,221	254,165	46,996
Loans payable	774,495	76,335	60,337	790,493	61,549
Compensated absences	621,982	-	48,325	573,657	44,091
Net OPEB liability	919,765	328,471	152,550	1,095,686	-
Governmental Activities Long-Term Liabilities	<u>\$ 15,276,302</u>	<u>\$ 404,806</u>	<u>\$ 1,573,771</u>	<u>\$ 14,107,337</u>	<u>\$ 1,397,636</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 1,051,464	\$ 18,537	\$ -	\$ 1,070,001	\$ -
Compensated absences	31,763	4,364	-	36,127	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,083,227</u>	<u>\$ 22,901</u>	<u>\$ -</u>	<u>\$ 1,106,128</u>	<u>\$ -</u>

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 \$1,070,001 landfill closure and postclosure care liability at December 31, 2010, represents the cumulative amount reported to date based on the use of 26.74 percent of the estimated capacity of the landfill.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

7. Landfill Closure and Postclosure Care Costs (Continued)

The County will recognize the remaining estimated cost of closure and postclosure care of \$2,932,204 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010. Based on the current permitted capacity, the landfill has an estimated operating life of 79.7 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, 2010, restricted assets of \$3,385,161 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions.

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

3. 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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

1. Plan Description (Continued)

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

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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Defined Benefit Plans

1. Plan Description (Continued)

and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

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

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

2. Funding Policy (Continued)

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 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

Lyon County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Employees Retirement Fund	\$ 270,583	\$ 260,208	\$ 250,553
Public Employees Police and Fire Fund	109,789	99,743	94,163
Public Employees Correctional Fund	65,789	60,741	47,558

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

B. Defined Contribution Plan

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 986	\$ 986
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.

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 \$45,742 for 2010.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

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 2010), 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 5 elected officials and 21 employees eligible for this benefit in 2010. The cost for this program totaled \$124,165 (\$20,243 for elected officials and \$103,922 for employees) in 2010.

During February 2009, the Lyon County Board of Commissioners reduced the maximum payment of retirement benefits to \$330 per month, prorated at four percent per year of service, and limited the payment period to ten years (120 monthly payments) after retirement or upon death of the retiree, whichever occurs first. 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 lawsuit was dismissed by a district court judge on August 24, 2011. The plaintiffs have 60 days to appeal the ruling.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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		41,389
Adjustment to ARC		<u>(52,932)</u>
Annual OPEB cost (expense)	\$	328,471
Contributions made		<u>(152,550)</u>
Increase in net OPEB obligation	\$	175,921
Net OPEB Obligation - Beginning of Year		<u>919,765</u>
Net OPEB Obligation - End of Year	\$	<u><u>1,095,686</u></u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008, 2009, and 2010, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 945,015	\$ 178,337	18.87%	\$ 766,714
December 31, 2009	328,471	175,420	53.40	919,765
December 31, 2010	328,471	152,550	46.44	1,095,686

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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.

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, 2010, was 27 years.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). 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 \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

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

B. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had \$36,859,000 of general obligation bonds outstanding through 2050. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

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

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

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 2010 was \$2,407,072.

At December 31, 2010, LLMHS reported a total fund balance of \$3,563,357. In addition, LLMHS reported total net assets of \$3,255,242. LLMHS's long-term debt at December 31, 2010, is \$433,095 and includes the 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 2010 was \$220,000.

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 Lac qui Parle, Lincoln, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The 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, Nobles, and Yellow Medicine Counties 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, 2010, are \$36,859,000.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of \$42,424,191, including unrestricted net assets of \$18,949,248. The increase in net assets for the year ended December 31, 2010, is \$5,340,636.

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

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, 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 (the most recent information available), 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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 2010 was \$234,807.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,359,258	\$ 6,359,258	\$ 5,983,087	\$ (376,171)
Special assessments	247,485	247,485	389,183	141,698
Licenses and permits	21,225	21,225	24,725	3,500
Intergovernmental	1,328,390	1,801,414	2,277,621	476,207
Charges for services	801,200	801,200	861,745	60,545
Gifts and contributions	-	-	2,106	2,106
Investment earnings	150,000	151,657	82,081	(69,576)
Miscellaneous	573,650	611,197	961,629	350,432
	<u>573,650</u>	<u>611,197</u>	<u>961,629</u>	<u>350,432</u>
Total Revenues	\$ 9,481,208	\$ 9,993,436	\$ 10,582,177	\$ 588,741
Expenditures				
Current				
General government				
Commissioners	\$ 193,650	\$ 193,650	\$ 169,141	\$ 24,509
Courts	60,000	81,850	88,932	(7,082)
Law library	-	-	25,511	(25,511)
Administrator	170,173	170,173	162,691	7,482
Auditor/Treasurer	551,838	551,838	510,259	41,579
Information technology	118,950	126,447	59,483	66,964
Elections	52,997	52,997	72,752	(19,755)
Central services	503,831	965,017	775,979	189,038
Attorney	384,370	384,370	372,621	11,749
Recorder	310,830	393,362	393,108	254
Geographic information system	145,650	145,650	129,350	16,300
Assessor	198,695	198,695	187,950	10,745
Planning and zoning	213,850	210,630	172,008	38,622
Buildings and plant	682,775	2,343,592	2,092,791	250,801
Veterans service officer	72,950	72,950	54,536	18,414
	<u>72,950</u>	<u>72,950</u>	<u>54,536</u>	<u>18,414</u>
Total general government	\$ 3,660,559	\$ 5,891,221	\$ 5,267,112	\$ 624,109

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 1,858,445	\$ 1,858,445	\$ 1,924,065	\$ (65,620)
Law enforcement center	1,468,163	1,530,293	1,609,781	(79,488)
Boat and water safety	-	-	345	(345)
Coroner	18,000	18,000	12,084	5,916
Sentence to serve	44,000	44,000	44,573	(573)
Probation and parole	323,150	323,150	307,501	15,649
Emergency services	59,925	59,925	66,733	(6,808)
E-911 system	107,000	107,000	13,356	93,644
Regional Radio Board	-	473,024	473,024	-
ARMER radio system	-	32,832	103,406	(70,574)
Total public safety	\$ 3,878,683	\$ 4,446,669	\$ 4,554,868	\$ (108,199)
Sanitation				
Environmental	\$ 43,595	\$ 43,595	\$ 40,612	\$ 2,983
Hazardous waste	348,699	348,699	331,159	17,540
Recycling	113,336	113,336	163,843	(50,507)
Total sanitation	\$ 505,630	\$ 505,630	\$ 535,614	\$ (29,984)
Culture and recreation				
Fairgrounds	\$ 73,234	\$ 73,234	\$ 54,368	\$ 18,866
Parks	177,356	177,356	178,322	(966)
Other	30,200	32,300	29,375	2,925
Total culture and recreation	\$ 280,790	\$ 282,890	\$ 262,065	\$ 20,825
Conservation of natural resources				
Extension	\$ 123,356	\$ 123,356	\$ 116,070	\$ 7,286
Agricultural inspection	15,760	15,760	14,345	1,415
Water quality loan program	-	-	134,528	(134,528)
Water planning	79,935	79,935	43,258	36,677
Other	178,121	181,341	149,854	31,487
Total conservation of natural resources	\$ 397,172	\$ 400,392	\$ 458,055	\$ (57,663)

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 22,905	\$ 35,250
Intergovernmental				
Health	\$ 221,000	\$ 221,000	\$ 225,988	\$ (4,988)
Culture and recreation	234,807	234,807	236,592	(1,785)
Total intergovernmental	\$ 455,807	\$ 455,807	\$ 462,580	\$ (6,773)
Debt service				
Principal	\$ 45,225	\$ 45,225	\$ 105,558	\$ (60,333)
Interest	11,200	11,200	20,118	(8,918)
Administrative (fiscal) fees	3,100	3,100	-	3,100
Total Expenditures	\$ 9,296,321	\$ 12,100,289	\$ 11,688,875	\$ 411,414
Excess of Revenues Over (Under)				
Expenditures	\$ 184,887	\$ (2,106,853)	\$ (1,106,698)	\$ 1,000,155
Other Financing Sources (Uses)				
Transfers out	\$ (184,887)	\$ (184,887)	\$ -	\$ 184,887
Loans issued	-	-	76,335	76,335
Total Other Financing Sources (Uses)	\$ (184,887)	\$ (184,887)	\$ 76,335	\$ 261,222
Net Change in Fund Balance	\$ -	\$ (2,291,740)	\$ (1,030,363)	\$ 1,261,377
Fund Balance - January 1	11,226,359	11,226,359	11,226,359	-
Fund Balance - December 31	\$ 11,226,359	\$ 8,934,619	\$ 10,195,996	\$ 1,261,377

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,986,880	\$ 1,986,880	\$ 1,855,974	\$ (130,906)
Intergovernmental	5,475,819	5,475,819	3,768,133	(1,707,686)
Charges for services	10,000	10,000	5,356	(4,644)
Miscellaneous	372,200	372,200	403,664	31,464
Total Revenues	\$ 7,844,899	\$ 7,844,899	\$ 6,033,127	\$ (1,811,772)
Expenditures				
Current				
Highways and streets				
Public works	\$ 71,421	\$ 71,421	\$ 59,929	\$ 11,492
Administration	336,497	336,497	333,617	2,880
Construction	4,292,077	4,292,077	2,210,343	2,081,734
Maintenance	1,849,962	1,849,962	1,743,241	106,721
Equipment and maintenance shops	968,595	968,595	903,525	65,070
County road improvements and maintenance	46,000	46,000	-	46,000
Total highways and streets	\$ 7,564,552	\$ 7,564,552	\$ 5,250,655	\$ 2,313,897
Intergovernmental				
Highways and streets	280,347	280,347	301,483	(21,136)
Total Expenditures	\$ 7,844,899	\$ 7,844,899	\$ 5,552,138	\$ 2,292,761
Net Change in Fund Balance	\$ -	\$ -	\$ 480,989	\$ 480,989
Fund Balance - January 1	5,626,847	5,626,847	5,626,847	-
Increase (decrease) in reserved for inventories	-	-	(57,401)	(57,401)
Fund Balance - December 31	\$ 5,626,847	\$ 5,626,847	\$ 6,050,435	\$ 423,588

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,232,596	\$ 2,232,596	\$ 2,083,690	\$ (148,906)
Intergovernmental	<u>290,260</u>	<u>290,260</u>	<u>337,063</u>	<u>46,803</u>
Total Revenues	\$ 2,522,856	\$ 2,522,856	\$ 2,420,753	\$ (102,103)
Expenditures				
Intergovernmental				
Human services	<u>2,522,856</u>	<u>2,522,856</u>	<u>2,420,753</u>	<u>102,103</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

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**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and the Debt Service Fund. The expenditure budget is approved at the fund level. The Ditch Special Revenue Fund is not budgeted for.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 9,296,321	\$ 2,803,968	\$ 12,100,289

4. Excess of Expenditures Over Budget

At December 31, 2010, there were no budgeted funds with excess expenditures over budget.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Other Postemployment Benefits

Lyon County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has no irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three-year valuation funding status requirement as the information becomes available.

See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,647,107	\$ 1,647,107	\$ 1,534,820	\$ (112,287)
Special assessments	-	-	65	65
Intergovernmental	-	-	118,137	118,137
Total Revenues	\$ 1,647,107	\$ 1,647,107	\$ 1,653,022	\$ 5,915
Expenditures				
Debt service				
Principal	\$ 1,196,500	\$ 1,196,500	\$ 1,100,000	\$ 96,500
Interest	449,384	449,384	453,441	(4,057)
Administrative (fiscal) fees	1,223	1,223	2,256	(1,033)
Total Expenditures	\$ 1,647,107	\$ 1,647,107	\$ 1,555,697	\$ 91,410
Net Change in Fund Balance	\$ -	\$ -	\$ 97,325	\$ 97,325
Fund Balance - January 1	1,889,655	1,889,655	1,889,655	-
Fund Balance - December 31	\$ 1,889,655	\$ 1,889,655	\$ 1,986,980	\$ 97,325

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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**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 1,365</u>	<u>\$ -</u>	<u>\$ 142</u>	<u>\$ 1,223</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,365</u>	<u>\$ -</u>	<u>\$ 142</u>	<u>\$ 1,223</u>
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 48,019</u>	<u>\$ 676,532</u>	<u>\$ 649,935</u>	<u>\$ 74,616</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 48,019</u>	<u>\$ 676,532</u>	<u>\$ 649,935</u>	<u>\$ 74,616</u>
 <u>SOUTHWEST MINNESOTA REGIONAL RADIO BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 7,791</u>	<u>\$ 552,297</u>	<u>\$ 554,634</u>	<u>\$ 5,454</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 7,791</u>	<u>\$ 552,297</u>	<u>\$ 554,634</u>	<u>\$ 5,454</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 305,011</u>	<u>\$ 33,439,123</u>	<u>\$ 33,386,305</u>	<u>\$ 357,829</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 305,011</u>	<u>\$ 33,439,123</u>	<u>\$ 33,386,305</u>	<u>\$ 357,829</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 362,186</u>	<u>\$ 34,667,952</u>	<u>\$ 34,591,016</u>	<u>\$ 439,122</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 362,186</u>	<u>\$ 34,667,952</u>	<u>\$ 34,591,016</u>	<u>\$ 439,122</u>

OTHER SCHEDULES

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

Highway users tax	\$	2,926,248
County program aid		999,399
PERA rate reimbursement		41,797
Disparity reduction aid		26,856
Police aid		79,420
Enhanced 911		103,629
Market value credit		568,149
		568,149

Total shared revenue **\$ 4,745,498**

Payments

Local

Payments in lieu of taxes	\$	152,984
Local grants		15,271
		15,271

Total payments **\$ 168,255**

Grants

State

Minnesota Department/Board of		
Natural Resources	\$	47,083
Public Safety		1,184
Corrections		63,986
Water and Soil Resources		84,210
Transportation		242,486
Peace Officer Standards and Training Board		4,302
Pollution Control Agency		113,051
		113,051

Total state **\$ 556,302**

Federal

Department of		
Agriculture	\$	8,597
Commerce		530,537
Justice		67,308
Transportation		324,700
Health and Human Services		23,224
Homeland Security		76,533
		76,533

Total federal **\$ 1,030,899**

Total state and federal grants **\$ 1,587,201**

Total Intergovernmental Revenue **\$ 6,500,954**

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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>\$ 8,597</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 530,537</u>
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	\$ 1,184
Passed Through Minnesota Department of Public Safety Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program Grants to States and Territories	16.803	<u>66,124</u>
Total U.S. Department of Justice		<u>\$ 67,308</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	\$ 281,440
Highway Planning and Construction - ARRA	20.205	31,982
Passed Through Minnesota Department of Public Safety, City of Marshall, and City of Worthington		
Highway Safety Cluster		
State and Community Highway Safety	20.600	10,436
Alcohol-Impaired Driving Countermeasures Incentive Grant I	20.601	250
Passed Through Minnesota Department of Public Safety Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>592</u>
Total U.S. Department of Transportation		<u>\$ 324,700</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families	93.558	\$ 2,184
Child Support Enforcement	93.563	8,739
Foster Care - Title IV-E	93.658	153
Children's Health Insurance Program	93.767	6
Medical Assistance Program	93.778	12,142
		<hr/>
Total U.S. Department of Health and Human Services		\$ 23,224
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	\$ 35,992
Interoperable Emergency Communications	97.055	541
Homeland Security Grant Program	97.067	40,000
		<hr/>
Total U.S. Department of Homeland Security		\$ 76,533
		<hr/>
Total Federal Awards		\$ 1,030,899

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**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Lyon County. The County's reporting entity is defined in Note 1 to the 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, 2010. 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

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

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
11.555	Public Safety Interoperable Communications Grant Program	\$ 472,483
97.055	Interoperable Emergency Communications	541
	Total	<u>\$ 473,024</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

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.

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**LYON COUNTY
MARSHALL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Lyon County.
- B. Significant 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*." None were material weaknesses.
- 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 That Could Have a Direct and Material Effect on Each Major Program and on 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:

Public Safety Interoperable Communications Grant Program	CFDA #11.555
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.

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 July 2011, 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 improve the reporting of the account activity for the canteen account.

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 will work with TurnKey and the Auditor/Treasurer's Office to acquire the reports necessary to balance the jail checking account. The Auditor/Treasurer's Office will be doing the bank reconciliation.

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Adjustments (06-13)

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements.

Resolution

The County has continued to implement procedures over financial reporting to detect misstatements in the financial statements. No material audit adjustments were proposed for the 2010 audit.

Preparation of IFS Financial Statements (09-1)

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. CPUI told the County a bug in the printed reports was not calculating certain amounts correctly, but the County's internal data was fine.

Resolution

For the 2010 audit, Lyon County provided spreadsheets that allowed for the preparation of the annual financial statements in accordance with generally accepted accounting principles for certain amounts not calculated correctly by the IFS.

Monitoring of Internal Controls (09-2)

Our audit procedures detected areas and responsibilities performed by County staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included entering budget information into the accounting system, processing payroll and transmitting payment information to the bank, reviewing receipts issued, and reviewing identified receivables.

Resolution

We noted improvement in the areas of calculating inventory balances; reviewing capital asset additions, deletions, and balances; and reviewing identified receivables. We expect the County continue to make improvements over entering budget information in the accounting system and reconciling budget information in the accounting system to amounts approved by the County Board.

Recorder's Office Transactions (09-5)

Revenues received from passport application and renewal fees were handled through the Recorder's checking account. The County's share of the fees were remitted to the County and recorded on the County's general ledger system, but payments to the U.S. Department of State were not accounted for in the County's general ledger system.

Resolution

On April 12, 2011, the Recorder's Office closed its checking account and receipted the funds with the Lyon County Auditor/Treasurer's Office. As of May 1, 2011, Lyon County is no longer processing passport applications.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Assignments (09-6)

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

Resolution

Bank of the West provided an updated resolution to Lyon County in April 2011 that approved the pledge of collateral to Lyon County as required by the FIRREA.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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

At the end of 2010, the Sheriff's Office had \$25,351 in a bank account for the Pay to Stay program. This is down from the \$26,156 held in the account at the end of 2009. 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 will work with the Auditor/Treasurer's Office to close the checking account. The Jail Administrator will develop a policy to specify a timeframe when accounts should be determined uncollectible.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Lyon County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and 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 are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with 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 the 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.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

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 the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;

- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 29, 2011. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 98-1, 09-3, and 09-4, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a 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.

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 Political Subdivisions*, 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 Political Subdivisions* 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 its 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.

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 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, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 29, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Lyon County

Compliance

We have audited Lyon County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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 is 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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 to determine the 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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.

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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 29, 2011