

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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, 2004



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

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

ORGANIZATION
2004

| Office | Name | Term Expires |
|-----------------------------|--------------------|--------------|
| Commissioners | | |
| 1st District | Clarence Buysse | January 2007 |
| 2nd District | Robert Fenske | January 2007 |
| 3rd District | Philip Nelson* | January 2007 |
| 4th District | Steve Ritter** | January 2005 |
| 5th District | C. J. "Cy" Molitor | January 2005 |
| Officers | | |
| Elected | | |
| Attorney | Rick Maes | January 2007 |
| Auditor/Treasurer | Paula Van Overbeke | January 2007 |
| County Recorder | Jeanine Barker | January 2007 |
| Sheriff | Joel Dahl | January 2007 |
| Appointed | | |
| Administrator | Loren Stomberg | Indefinite |
| Assessor | Dean Champine | Indefinite |
| Highway Engineer | Anita Benson | Indefinite |
| Environmental Administrator | Paul Henriksen | Indefinite |
| Veterans Service Officer | Jim Hubley | Indefinite |

* Chair 2004

** Chair 2005

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents and the Management's Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2005, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished 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, 2004, by \$68,323,531 (net assets). Of this amount, \$12,560,636 (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 \$2,632,512 in 2004. This is attributable primarily to an increase in cash and investments of \$7,294,551, which is offset by an increase in liabilities of \$4,979,507.
- As of the close of 2004, Lyon County's governmental funds reported combined ending fund balances of \$15,991,036, an increase of \$6,918,384 in comparison with 2003. Of this balance amount, \$5,270,779 was unreserved and undesignated by Lyon County, and thus available for spending at the government's discretion.
- At the end of 2004, unreserved fund balance for the General Fund was \$6,177,446, or 84 percent of the total General Fund expenditures for that year.
- Lyon County's total debt increased by \$4,906,318 or 105 percent during 2004. Lyon County issued \$5,275,000 in General Obligation Bonds to finance its capital improvement plan. This plan provides for repairs and reconstruction of County roads.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to Lyon County's 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

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

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

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

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

Fund Level Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term

financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Lyon County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, and Human Services 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 reflected in the government-wide statements because the resources of those funds are not available to support Lyon County's own programs or activities. The accounting for fiduciary funds is much like that used for business-type funds.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 57 of this report.

Other Information

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 \$68,323,531 at the close of 2004. The largest portion of Lyon County's net assets (76 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.

Lyon County Net Assets

| | 2004 | | | 2003 |
|--|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Current and other assets | \$ 19,131,511 | \$ 7,495,703 | \$ 26,627,214 | \$ 19,664,771 |
| Capital assets | 53,712,266 | 1,028,953 | 54,741,219 | 54,091,643 |
| Total Assets | \$ 72,843,777 | \$ 8,524,656 | \$ 81,368,433 | \$ 73,756,414 |
| Liabilities | | | | |
| Long-term liabilities | \$ 10,131,185 | \$ 2,046,169 | \$ 12,177,354 | \$ 7,198,058 |
| Other liabilities | 786,622 | 80,926 | 867,548 | 867,337 |
| Total Liabilities | \$ 10,917,807 | \$ 2,127,095 | \$ 13,044,902 | \$ 8,065,395 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | \$ 51,075,044 | \$ 1,028,953 | \$ 52,103,997 | \$ 51,154,211 |
| Restricted | 1,047,509 | 2,611,389 | 3,658,898 | 3,507,566 |
| Unrestricted | 9,803,417 | 2,757,219 | 12,560,636 | 11,029,242 |
| Total Net Assets | \$ 61,925,970 | \$ 6,397,561 | \$ 68,323,531 | \$ 65,691,019 |

The unrestricted net assets amount of \$12,560,636 as of December 31, 2004, 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 2004 by \$2,632,512 representing a four percent increase. Key elements in this increase in net assets are as follows:

Lyon County Changes in Net Assets

| | 2004 | | | 2003 |
|---------------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Revenues | | | | |
| Program revenues | | | | |
| Charges for services | \$ 1,442,177 | \$ 1,974,768 | \$ 3,416,945 | \$ 2,974,371 |
| Operating grants and contributions | 4,054,434 | - | 4,054,434 | 3,584,529 |
| Capital grants and contributions | 407,891 | - | 407,891 | 254,727 |
| General revenues | | | | |
| Property taxes | 7,361,404 | - | 7,361,404 | 6,806,049 |
| Other | 2,394,900 | 40,321 | 2,435,221 | 2,681,577 |
| Total Revenues | \$ 15,660,806 | \$ 2,015,089 | \$ 17,675,895 | \$ 16,301,253 |

| | 2004 | | | 2003 |
|--------------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Expenses | | | | |
| General government | \$ 2,734,437 | \$ - | \$ 2,734,437 | \$ 2,011,576 |
| Public safety | 2,923,481 | - | 2,923,481 | 2,712,093 |
| Highways | 4,064,035 | - | 4,064,035 | 2,821,766 |
| Sanitation | 411,091 | 1,286,191 | 1,697,282 | 1,839,463 |
| Human services | 2,213,688 | - | 2,213,688 | 2,257,681 |
| Health | 160,090 | - | 160,090 | 133,099 |
| Culture and recreation | 467,593 | - | 467,593 | 637,782 |
| Conservation of natural resources | 483,222 | - | 483,222 | 688,797 |
| Economic development | - | - | - | 30,000 |
| Interest | 299,555 | - | 299,555 | 212,465 |
| Total Expenses | \$ 13,757,192 | \$ 1,286,191 | \$ 15,043,383 | \$ 13,344,722 |
| Increase in Net Assets | \$ 1,903,614 | \$ 728,898 | \$ 2,632,512 | \$ 2,956,531 |
| Net Assets - January 1 | 60,022,356 | 5,668,663 | 65,691,019 | 62,734,488 |
| Net Assets - December 31 | \$ 61,925,970 | \$ 6,397,561 | \$ 68,323,531 | \$ 65,691,019 |

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 the current fiscal year, Lyon County's governmental funds reported combined ending fund balances of \$15,991,036, an increase of \$6,918,384 in comparison with the prior year. Unspent proceeds of general obligation bonds of \$5,275,000 account for most of the increase. Of the ending fund balance, \$8,730,143 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 \$6,177,446. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The

General Fund unreserved fund balance represents 84 percent of total General Fund expenditures. In 2004, ending fund balance in the General Fund increased by \$308,003. The primary reason for this increase is an increase in intergovernmental revenues.

The Road and Bridge Special Revenue Fund unreserved fund balance of \$2,026,773 at year-end represents 42 percent of the fund's annual expenditures. Unreserved fund balance increased \$1,124,369 during 2004, primarily due to an increased number of road projects and the revenue streams associated with those projects.

The human services function of 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. Questions about the detailed financial information of the activities of Human Services can be addressed to the LLM Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had an unreserved ending balance of \$525,924. This ending balance represents a \$37,152 increase in fund balance from the prior year. The increase is attributed to less than expected need for repairs to the various County ditches.

General Fund Budgetary Highlights

The final General Fund expenditure budget increased from the original by \$97,693. The biggest increases were in public safety (\$122,211) and conservation of natural resources (\$90,453), offset by a reduction in general government expenditures of \$130,712.

Actual General Fund revenues exceeded budgeted revenues by \$866,661 primarily due to pass-through intergovernmental receipts and greater than expected charges for services receipts.

Actual expenditures exceeded budgeted expenditures by \$647,053. The greater than expected expenditures reflect the expenditures of the unexpected intergovernmental receipts and increased costs associated with the county jail.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2004, totaled \$52,436,770 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in capital assets increased \$500,718, or one percent, from the previous year.

The major capital asset events were road and bridge projects of \$1.9 million.

Lyon County's Governmental Capital Assets

| | 2004 | 2003 |
|---------------------------------------|---------------|---------------|
| Capital assets depreciated | | |
| Land improvements | \$ 415,557 | \$ 398,983 |
| Buildings | 12,144,295 | 12,144,295 |
| Machinery and equipment | 4,698,378 | 4,593,689 |
| Infrastructure | 53,624,045 | 51,713,984 |
| Total capital assets depreciated | \$ 70,882,275 | \$ 68,850,951 |
| Less: accumulated depreciation for | | |
| Land improvements | \$ 162,545 | \$ 134,003 |
| Buildings | 2,509,499 | 2,329,762 |
| Machinery and equipment | 2,912,000 | 2,662,154 |
| Infrastructure | 12,861,461 | 11,788,980 |
| Total accumulated depreciation | \$ 18,445,505 | \$ 16,914,899 |
| Total Capital Assets Depreciated, Net | \$ 52,436,770 | \$ 51,936,052 |

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

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of \$ 9,583,907 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Lyon County's Outstanding Debt

| | 2004 | 2003 |
|-------------------------|--------------|--------------|
| Special assessment debt | \$ 1,435,000 | \$ 1,590,000 |
| General obligation debt | 5,275,000 | - |
| Leases payable | 2,637,222 | 2,937,432 |
| Loans payable | 236,685 | 150,157 |
| Total | \$ 9,583,907 | \$ 4,677,589 |

The County's debt related to special assessment obligation bonds and notes decreased by \$155,000 (ten percent) during the fiscal year due to repayment of principal. General obligation bonded debt increased \$5,275,000 due to the issuance of general obligation bonds to finance road repair and construction.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value of \$1,737,892,700. At the end of 2004, Lyon County's debt was 0.6 percent of its total market value. Additional information on the County's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Lyon County at the end of 2004 was 3.9 percent. This compares favorably with the state unemployment rate of 4.7 percent and nationally at 5.6 percent and shows a decrease from the 4.1 percent rate of one year ago.

Mortgage interest rates were low in 2004 causing many to refinance their mortgages or finance new construction.

By the end of 2004, Lyon County approved its balanced 2005 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|----------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 8,329,841 | \$ 3,783,490 | \$ 12,113,331 |
| Investments | 6,722,680 | 708,000 | 7,430,680 |
| Receivables - net | 3,695,588 | 391,532 | 4,087,120 |
| Internal balances | 1,208 | (1,208) | - |
| Inventories | 334,836 | - | 334,836 |
| Prepaid items | 11,160 | 2,500 | 13,660 |
| Restricted assets | | | |
| Cash and pooled investments | - | 57,207 | 57,207 |
| Investments | - | 2,538,055 | 2,538,055 |
| Accrued interest receivable | - | 16,127 | 16,127 |
| Deferred debt issuance costs | 36,198 | - | 36,198 |
| Capital assets | | | |
| Non-depreciable capital assets | 1,275,496 | 390,433 | 1,665,929 |
| Depreciable capital assets - net of accumulated depreciation | 52,436,770 | 638,520 | 53,075,290 |
| Total Assets | \$ 72,843,777 | \$ 8,524,656 | \$ 81,368,433 |
| <u>Liabilities</u> | | | |
| Accounts payable and other current liabilities | \$ 517,780 | \$ 80,926 | \$ 598,706 |
| Accrued interest payable | 152,035 | - | 152,035 |
| Unearned revenue | 116,807 | - | 116,807 |
| Long-term liabilities | | | |
| Due within one year | 608,354 | - | 608,354 |
| Due in more than one year | 9,522,831 | 2,046,169 | 11,569,000 |
| Total Liabilities | \$ 10,917,807 | \$ 2,127,095 | \$ 13,044,902 |
| <u>Net Assets</u> | | | |
| Invested in capital assets - net of related debt | \$ 51,075,044 | \$ 1,028,953 | \$ 52,103,997 |
| Restricted for | | | |
| Public safety | 76,815 | - | 76,815 |
| Highways and streets | 579,033 | - | 579,033 |
| Landfill postclosure | - | 2,611,389 | 2,611,389 |
| Other purposes | 391,661 | - | 391,661 |
| Unrestricted | 9,803,417 | 2,757,219 | 12,560,636 |
| Total Net Assets | \$ 61,925,970 | \$ 6,397,561 | \$ 68,323,531 |

**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Expenses | Fees, Charges, Fines, and Other |
|-----------------------------------|----------------------|--|
| Functions/Programs | | |
| Governmental activities | | |
| General government | \$ 2,734,437 | \$ 483,377 |
| Public safety | 2,923,481 | 285,630 |
| Highways and streets | 4,064,035 | 215,478 |
| Sanitation | 411,091 | 25,891 |
| Human services | 2,213,688 | 2,046 |
| Health | 160,090 | - |
| Culture and recreation | 467,593 | 41,878 |
| Conservation of natural resources | 483,222 | 387,877 |
| Interest | 299,555 | - |
| | \$ 13,757,192 | \$ 1,442,177 |
| Business-type activities | | |
| Landfill | 1,286,191 | 1,974,768 |
| | \$ 15,043,383 | \$ 3,416,945 |

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|--|---------------------------------|-----------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| \$ 33,443 | \$ - | \$ (2,217,617) | \$ - | \$ (2,217,617) |
| 210,457 | 18,527 | (2,408,867) | - | (2,408,867) |
| 3,207,250 | 389,364 | (251,943) | - | (251,943) |
| 426,285 | - | 41,085 | - | 41,085 |
| - | - | (2,211,642) | - | (2,211,642) |
| - | - | (160,090) | - | (160,090) |
| 50,500 | - | (375,215) | - | (375,215) |
| 126,499 | - | 31,154 | - | 31,154 |
| - | - | (299,555) | - | (299,555) |
| \$ 4,054,434 | \$ 407,891 | \$ (7,852,690) | \$ - | \$ (7,852,690) |
| - | - | - | 688,577 | 688,577 |
| \$ 4,054,434 | \$ 407,891 | \$ (7,852,690) | \$ 688,577 | \$ (7,164,113) |
| | | \$ 7,361,404 | \$ - | \$ 7,361,404 |
| | | 18,583 | - | 18,583 |
| | | 84,838 | - | 84,838 |
| | | 1,628,369 | - | 1,628,369 |
| | | 231,343 | 40,321 | 271,664 |
| | | 431,767 | - | 431,767 |
| | | \$ 9,756,304 | \$ 40,321 | \$ 9,796,625 |
| | | \$ 1,903,614 | \$ 728,898 | \$ 2,632,512 |
| | | 60,022,356 | 5,668,663 | 65,691,019 |
| | | \$ 61,925,970 | \$ 6,397,561 | \$ 68,323,531 |

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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, 2004**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Road Bond Debt Service</u> | <u>Total Governmental Funds</u> |
|------------------------------------|----------------------------|----------------------------|---------------------------|----------------------------|---------------------------------------|---|
| Assets | | | | | | |
| Cash and pooled investments | \$ 5,114,256 | \$ 2,180,104 | \$ - | \$ 360,889 | \$ 150,854 | \$ 7,806,103 |
| Undistributed cash in agency funds | 97,546 | 24,795 | 33,704 | 3,727 | - | 159,772 |
| Petty cash and change funds | 2,765 | - | - | - | - | 2,765 |
| Departmental cash | 16,814 | 20,500 | - | - | - | 37,314 |
| Cash with fiscal agent | 323,887 | - | - | - | - | 323,887 |
| Investments | 1,273,021 | 5,000,000 | - | 449,659 | - | 6,722,680 |
| Taxes receivable | | | | | | |
| Prior | 51,301 | 20,480 | 24,239 | - | - | 96,020 |
| Special assessments receivable | | | | | | |
| Prior | 9,311 | - | - | 2,991 | - | 12,302 |
| Noncurrent | 181,062 | - | - | 1,586,494 | - | 1,767,556 |
| Accounts receivable | 7,157 | 19,802 | - | - | - | 26,959 |
| Accrued interest receivable | 31,055 | - | - | 478 | 31,135 | 62,668 |
| Due from other funds | 192 | 10,252 | - | - | - | 10,444 |
| Due from other governments | 100,829 | 905,642 | - | 4,537 | - | 1,011,008 |
| Advance to other funds | 260,155 | - | - | - | - | 260,155 |
| Leases receivable | 719,075 | - | - | - | - | 719,075 |
| Inventories | - | 334,836 | - | - | - | 334,836 |
| Prepaid items | 11,160 | - | - | - | - | 11,160 |
| Total Assets | <u>\$ 8,199,586</u> | <u>\$ 8,516,411</u> | <u>\$ 57,943</u> | <u>\$ 2,408,775</u> | <u>\$ 181,989</u> | <u>\$ 19,364,704</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Road Bond Debt Service</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|---------------------------|---------------------|---------------------------------------|---|
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 78,490 | \$ 59,266 | \$ - | \$ 11,927 | \$ - | \$ 149,683 |
| Salaries payable | 121,258 | 57,829 | - | - | - | 179,087 |
| Contracts payable | - | 109,817 | - | - | - | 109,817 |
| Due to other funds | 4,931 | 192 | - | 4,113 | - | 9,236 |
| Due to other governments | 24,669 | 3,649 | 33,704 | 17,171 | - | 79,193 |
| Deferred revenue - unavailable | 241,674 | 614,292 | 24,239 | 1,589,485 | - | 2,469,690 |
| Deferred revenue - unearned | 10,847 | 105,960 | - | - | - | 116,807 |
| Advance from other funds | - | - | - | 260,155 | - | 260,155 |
| Total Liabilities | \$ 481,869 | \$ 951,005 | \$ 57,943 | \$ 1,882,851 | \$ - | \$ 3,373,668 |
| Fund Balances | | | | | | |
| Reserved for | | | | | | |
| Debt service | \$ - | \$ - | \$ - | \$ - | \$ 181,989 | \$ 181,989 |
| Advance to other funds | 260,155 | - | - | - | - | 260,155 |
| Inventories | - | 334,836 | - | - | - | 334,836 |
| Prepaid items | 11,160 | - | - | - | - | 11,160 |
| Missing heirs | 2,483 | - | - | - | - | 2,483 |
| Law library | 52,906 | - | - | - | - | 52,906 |
| Recorder's equipment purchases | 4,149 | - | - | - | - | 4,149 |
| E-911 | 27,842 | - | - | - | - | 27,842 |
| Sheriff's contingency | 3,918 | - | - | - | - | 3,918 |
| Sheriff's forfeited property | 1,965 | - | - | - | - | 1,965 |
| Attorney's forfeited property | 8,236 | - | - | - | - | 8,236 |
| Canteen fund | 25,782 | - | - | - | - | 25,782 |
| Gun permit fees | 5,270 | - | - | - | - | 5,270 |
| Highway allotments | - | 103,797 | - | - | - | 103,797 |
| Leases receivable | 719,075 | - | - | - | - | 719,075 |
| Governmental lease obligation | 323,887 | - | - | - | - | 323,887 |
| Probation supervision fees | 37,820 | - | - | - | - | 37,820 |
| Future road projects | - | 5,100,000 | - | - | - | 5,100,000 |
| Septic/sewer loans | 55,623 | - | - | - | - | 55,623 |
| Unreserved | | | | | | |
| Designated for | | | | | | |
| Future expenditures | 3,353,615 | - | - | - | - | 3,353,615 |
| County road projects | - | 105,749 | - | - | - | 105,749 |
| Undesignated | 2,823,831 | 1,921,024 | - | 525,924 | - | 5,270,779 |
| Total Fund Balances | \$ 7,717,717 | \$ 7,565,406 | \$ - | \$ 525,924 | \$ 181,989 | \$ 15,991,036 |
| Total Liabilities and Fund Balances | \$ 8,199,586 | \$ 8,516,411 | \$ 57,943 | \$ 2,408,775 | \$ 181,989 | \$ 19,364,704 |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

| | | |
|--|----------------|--------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 15,991,036 |
| 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. | | 53,712,266 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 2,469,690 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| General obligation bonds | \$ (6,710,000) | |
| Capital leases | (2,637,222) | |
| Compensated absences | (515,732) | |
| Loans payable | (236,685) | |
| Accrued interest payable | (152,035) | |
| Unamortized premium on GO bonds | (31,546) | |
| Deferred debt issuance costs | 36,198 | |
| | (10,247,022) | (10,247,022) |
| Net assets of governmental activities (Exhibit 1) | \$ | <u>61,925,970</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Road Bond Debt Service</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|---------------------------|-------------------|---------------------------------------|---|
| Revenues | | | | | | |
| Taxes | \$ 4,245,025 | \$ 1,322,132 | \$ 1,796,353 | \$ - | \$ - | \$ 7,363,510 |
| Special assessments | 280,571 | - | - | 380,577 | - | 661,148 |
| Licenses and permits | 27,885 | - | - | - | - | 27,885 |
| Intergovernmental | 1,514,996 | 4,436,791 | 411,237 | - | - | 6,363,024 |
| Charges for services | 612,183 | 12,293 | - | - | - | 624,476 |
| Fines and forfeits | 20,751 | - | - | - | - | 20,751 |
| Gifts and contributions | 50,500 | - | - | - | - | 50,500 |
| Investment earnings | 178,786 | 17,593 | - | 3,829 | 31,135 | 231,343 |
| Miscellaneous | 643,688 | 204,787 | 2,046 | 4,649 | - | 855,170 |
| Total Revenues | \$ 7,574,385 | \$ 5,993,596 | \$ 2,209,636 | \$ 389,055 | \$ 31,135 | \$ 16,197,807 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | \$ 2,572,669 | \$ - | \$ - | \$ - | \$ - | \$ 2,572,669 |
| Public safety | 2,906,464 | - | - | - | - | 2,906,464 |
| Highways and streets | - | 4,544,153 | - | - | - | 4,544,153 |
| Sanitation | 408,835 | - | - | - | - | 408,835 |
| Culture and recreation | 248,573 | - | - | - | - | 248,573 |
| Conservation of natural resources | 389,020 | - | - | 115,937 | - | 504,957 |
| Intergovernmental | 351,705 | 261,581 | 2,209,636 | - | - | 2,822,922 |
| Debt service | | | | | | |
| Principal retirement | 398,079 | - | - | 155,000 | - | 553,079 |
| Interest | 117,188 | - | - | 78,258 | - | 195,446 |
| Bond issuance costs | - | 40,220 | - | - | - | 40,220 |
| Administrative (fiscal) fees | 2,439 | 36,570 | - | 2,708 | - | 41,717 |
| Total Expenditures | \$ 7,394,972 | \$ 4,882,524 | \$ 2,209,636 | \$ 351,903 | \$ - | \$ 14,839,035 |
| Excess of Revenues Over (Under) Expenditures | \$ 179,413 | \$ 1,111,072 | \$ - | \$ 37,152 | \$ 31,135 | \$ 1,358,772 |

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Ditch</u> | <u>Road Bond Debt Service</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|----------------------------|---------------------------|--------------------------|---------------------------------------|---|
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | \$ - | \$ 55,807 | \$ - | \$ - | \$ 150,854 | \$ 206,661 |
| Transfers out | (55,807) | (150,854) | - | - | - | (206,661) |
| Proceeds from capital lease installment purchase | 92,000 | - | - | - | - | 92,000 |
| General obligation bonds issued | - | 5,275,000 | - | - | - | 5,275,000 |
| Premium on bonds issued | - | 35,051 | - | - | - | 35,051 |
| Loans issued | 92,397 | - | - | - | - | 92,397 |
| Total Other Financing Sources (Uses) | \$ 128,590 | \$ 5,215,004 | \$ - | \$ - | \$ 150,854 | \$ 5,494,448 |
| Net Change in Fund Balances | \$ 308,003 | \$ 6,326,076 | \$ - | \$ 37,152 | \$ 181,989 | \$ 6,853,220 |
| Fund Balance - January 1 | 7,409,714 | 1,174,166 | - | 488,772 | - | 9,072,652 |
| Increase (decrease) in reserved for inventories | - | 65,164 | - | - | - | 65,164 |
| Fund Balance - December 31 | <u>\$ 7,717,717</u> | <u>\$ 7,565,406</u> | <u>\$ -</u> | <u>\$ 525,924</u> | <u>\$ 181,989</u> | <u>\$ 15,991,036</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 6,853,220

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

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

| | | |
|--------------------------------|--------------|-----------|
| Deferred revenue - December 31 | \$ 2,469,690 | |
| Deferred revenue - January 1 | (2,897,388) | (427,698) |

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.

| | | |
|--|--------------|---------|
| Expenditures for general capital assets and infrastructure | \$ 2,192,137 | |
| Current year depreciation | (1,691,419) | 500,718 |

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

| | | |
|---------------------|----------------|-------------|
| Debt issued | | |
| Bond principal | \$ (5,275,000) | |
| Bond issuance costs | 40,220 | |
| Bond premium | (35,051) | |
| Capital leases | (92,000) | |
| ISTS loans | (92,397) | (5,454,228) |

| | | |
|--|--|-----------|
| ISTS loans previously reported in the funds as due to other governments are now reported solely in the government-wide statements. | | (150,157) |
|--|--|-----------|

| | | |
|---------------------------|------------|---------|
| Debt principal repayments | | |
| General obligation bonds | \$ 155,000 | |
| Capital leases | 392,210 | |
| Loans payable | 5,869 | 553,079 |

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 | \$ (61,875) | |
| Change in compensated absences | 25,908 | |
| Change in inventories | 65,164 | |
| Amortization of premiums and deferred issuance charges | (517) | 28,680 |

Change in net assets of governmental activities (Exhibit 2) \$ 1,903,614

PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2004**

| | Landfill Enterprise Fund |
|--|-------------------------------------|
| <u>Assets</u> | |
| Current assets | |
| Cash and pooled investments | \$ 3,783,290 |
| Petty cash and change funds | 200 |
| Investments | 708,000 |
| Accounts receivable - net | 376,478 |
| Accrued interest receivable | 881 |
| Due from other governments | 14,173 |
| Prepaid items | 2,500 |
| Restricted assets | |
| Cash and pooled investments | 57,207 |
| Investments | 2,538,055 |
| Accrued interest receivable | 16,127 |
| Total current assets | \$ 7,496,911 |
| Noncurrent assets | |
| Capital assets | |
| Nondepreciable | \$ 390,433 |
| Depreciable - net | 638,520 |
| Total noncurrent assets | \$ 1,028,953 |
| Total Assets | \$ 11,137,253 |
| <u>Liabilities</u> | |
| Current liabilities | |
| Accounts payable | \$ 23,719 |
| Salaries payable | 6,838 |
| Contracts payable | 45,149 |
| Due to other funds | 1,208 |
| Due to other governments | 5,220 |
| Total current liabilities | \$ 82,134 |
| Noncurrent liabilities | |
| Compensated absences payable - long-term | \$ 20,342 |
| Estimated liability for landfill closure/postclosure | 2,025,827 |
| Total noncurrent liabilities | \$ 2,046,169 |
| Total Liabilities | \$ 2,128,303 |

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2004

| | <u>Landfill</u> <u>Enterprise Fund</u> |
|----------------------------|---|
| <u>Net Assets</u> | |
| Invested in capital assets | \$ 1,028,953 |
| Restricted for postclosure | 2,611,389 |
| Unrestricted | <u>2,757,219</u> |
| Total Net Assets | <u>\$ 6,397,561</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Landfill Enterprise Fund</u> |
|---|-------------------------------------|
| Operating Revenues | |
| Charges for services | \$ 1,966,092 |
| Miscellaneous | 8,676 |
| | 8,676 |
| Total Operating Revenues | \$ 1,974,768 |
| Operating Expenses | |
| Personal services | \$ 280,459 |
| Professional services | 174,172 |
| Administration and fiscal services | 5,695 |
| Other services and charges | 634,473 |
| Utilities | 7,544 |
| Depreciation | 117,220 |
| Landfill closure and postclosure costs | 66,628 |
| | 66,628 |
| Total Operating Expenses | \$ 1,286,191 |
| Operating income | \$ 688,577 |
| Nonoperating revenues (expenses) | |
| Investment earnings | 40,321 |
| | 40,321 |
| Change in Net Assets | \$ 728,898 |
| Net Assets - January 1 | 5,668,663 |
| | 5,668,663 |
| Net Assets - December 31 | \$ 6,397,561 |
| | 6,397,561 |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Landfill Enterprise Fund |
|--|-------------------------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers and users | \$ 1,847,368 |
| Payments to suppliers | (822,254) |
| Payments to employees | (287,835) |
| | \$ 737,279 |
| Cash Flows From Noncapital Financing Activities | |
| Investment earnings | 35,526 |
| Cash Flows From Capital and Related Financing Activities | |
| Purchases of capital assets | (266,078) |
| Cash Flows From Investing Activities | |
| Purchase of investments | (300,000) |
| | \$ 206,727 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 206,727 |
| Cash and Cash Equivalents - January 1 | 3,633,970 |
| Cash and Cash Equivalents - December 31 | \$ 3,840,697 |
| Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7 | |
| Cash and pooled investments | \$ 3,783,290 |
| Petty cash and change funds | 200 |
| Restricted cash and pooled investments | 57,207 |
| | \$ 3,840,697 |
| Reconciliation of operating income to net cash provided by (used in) operating activities | |
| Operating income | \$ 688,577 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | |
| Depreciation expense | \$ 117,220 |
| (Increase) decrease in accounts receivable | (132,213) |
| (Increase) decrease in due from other governments | 2,898 |
| Increase (decrease) in accounts payable | 18,974 |
| Increase (decrease) in salaries payable | (8,088) |
| Increase (decrease) in contracts payable | (15,622) |
| Increase (decrease) in due to other funds | 1,198 |
| Increase (decrease) in due to other governments | (3,005) |
| Increase (decrease) in landfill closure costs | 66,628 |
| Increase (decrease) in compensated absences payable | 712 |
| | \$ 48,702 |
| Total adjustments | \$ 48,702 |
| Net cash provided by (used in) operating activities | \$ 737,279 |

FIDUCIARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 10

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004**

| | Investment Trust Fund | Agency |
|--|----------------------------------|-------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 5,323,760 | \$ 349,834 |
| Accrued interest receivable | 18,933 | - |
| Total Assets | \$ 5,342,693 | \$ 349,834 |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities | | |
| Due to other governments | \$ - | \$ 349,834 |
| Net Assets | | |
| Net assets, held in trust for pool participant | 5,342,693 | - |
| Total Liabilities and Net Assets | \$ 5,342,693 | \$ 349,834 |

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Investment Trust Fund</u> |
|---|----------------------------------|
| <u>Additions</u> | |
| Contributions from participants | \$ 12,040,605 |
| Investment earnings | <u>50,536</u> |
| Total additions | \$ 12,091,141 |
| <u>Deductions</u> | |
| Distributions to participants | <u>12,386,105</u> |
| Change in net assets | \$ (294,964) |
| Net Assets - Beginning of the Year | <u>5,637,657</u> |
| Net Assets - End of the Year | <u>\$ 5,342,693</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 (primary government). The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which 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 different business-type activity are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

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 funds as major funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.
- The Road Bond Debt Service Fund is used to account for the financial resources to be used for payment of long-term debt principal, interest, and related costs.

The County reports the following major enterprise fund:

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenues 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 revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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 that 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 unrestricted resources as they are 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

The 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 be deposited or effectively withdrawn from 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, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$158,568.

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

- (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.

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 non-current portion of interfund loans).

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

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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. No provision has been made for an estimated uncollectible amount.

5. Inventories and Prepaid Items

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

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

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

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 is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------------|--------------|
| Buildings | 25 - 40 |
| Improvements to land | 20 - 35 |
| Public domain infrastructure | 15 - 70 |
| Machinery and equipment | 3 - 15 |

8. Compensated Absences

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

| Fund | Expenditures | Final Budget | Excess |
|--------------------------------------|--------------|--------------|------------|
| General Fund | \$ 7,394,972 | \$ 6,747,919 | \$ 647,053 |
| Road and Bridge Special Revenue Fund | 4,882,524 | 4,398,319 | 484,205 |
| Human Services Special Revenue Fund | 2,209,636 | 2,184,291 | 25,345 |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

| | |
|-----------------------------|----------------------|
| Cash and pooled investments | \$ 12,113,331 |
| Investments | 7,430,680 |
| Restricted assets | |
| Cash and pooled investments | 57,207 |
| Investments | 2,538,055 |
| Fiduciary funds | |
| Investment trust fund | 5,323,760 |
| Agency funds | 349,834 |
| | <hr/> |
| Total Cash and Investments | <u>\$ 27,812,867</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$24,272,073. The bank balance deposit amount was \$24,994,965. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

| | <u>Bank Balance</u> |
|---|----------------------|
| Covered Deposits | |
| Insured, or collateralized with securities held by the County or its agent in the County's name | \$ 1,626,467 |
| Collateralized with securities held by the pledging financial institution's agent in the County's name | <u>23,368,498</u> |
| Total covered deposits | \$ 24,994,965 |
| Uncollateralized | <u>-</u> |
| Total | <u>\$ 24,994,965</u> |

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

| | Category | | | Fair Value |
|-----------------------------|----------|------|------------|----------------------|
| | 1 | 2 | 3 | |
| Investments | | | | |
| Government securities | \$ - | \$ - | \$ 323,887 | \$ 323,887 |
| Petty cash and change funds | | | | 2,965 |
| Departmental cash | | | | 37,314 |
| Checking | | | | 5,633,592 |
| Money market savings | | | | 9,038,481 |
| Certificates of deposit | | | | 9,600,000 |
| Prime investment fund | | | | 1,400,000 |
| MAGIC fund | | | | 1,774,196 |
| Mutual fund | | | | 2,432 |
| | | | | <u>27,812,867</u> |
| Total | | | | <u>\$ 27,812,867</u> |

2. Receivables

Receivables as of December 31, 2004, year-end 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 | \$ 96,020 | \$ - |
| Special assessments | 1,779,858 | 1,338,890 |
| Accounts | 26,959 | - |
| Interest | 62,668 | - |
| Leases | 719,075 | 574,663 |
| Due from other governments | 1,011,008 | - |
| | <u>3,695,588</u> | <u>1,913,553</u> |
| Total Governmental Activities | <u>\$ 3,695,588</u> | <u>\$ 1,913,553</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. 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 | \$ 376,478 | \$ - |
| Interest | 881 | - |
| Due from other governments | 14,173 | - |
| Total Business-Type Activities | \$ 391,532 | \$ - |

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|----------------------|--------------|------------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 790,846 | \$ - | \$ - | \$ 790,846 |
| Right-of-way | 484,650 | - | - | 484,650 |
| Construction in progress | - | - | - | - |
| Total capital assets not depreciated | \$ 1,275,496 | \$ - | \$ - | \$ 1,275,496 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 398,983 | \$ 16,574 | \$ - | \$ 415,557 |
| Buildings | 12,144,295 | - | - | 12,144,295 |
| Machinery and equipment | 4,593,689 | 265,502 | 160,813 | 4,698,378 |
| Infrastructure | 51,713,984 | 1,910,061 | - | 53,624,045 |
| Total capital assets depreciated | \$ 68,850,951 | \$ 2,192,137 | \$ 160,813 | \$ 70,882,275 |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--|----------------------|--------------|------------|-------------------|
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 134,003 | \$ 28,542 | \$ - | \$ 162,545 |
| Buildings | 2,329,762 | 179,737 | - | 2,509,499 |
| Machinery and equipment | 2,662,154 | 410,659 | 160,813 | 2,912,000 |
| Infrastructure | 11,788,980 | 1,072,481 | - | 12,861,461 |
| Total accumulated depreciation | \$ 16,914,899 | \$ 1,691,419 | \$ 160,813 | \$ 18,445,505 |
| Total capital assets depreciated, net | \$ 51,936,052 | \$ 500,718 | \$ - | \$ 52,436,770 |
| Governmental Activities Capital Assets, Net | \$ 53,211,548 | \$ 500,718 | \$ - | \$ 53,712,266 |

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 | 1,062,239 | 266,078 | - | 1,328,317 |
| Total capital assets depreciated | \$ 1,195,186 | \$ 266,078 | \$ - | \$ 1,461,264 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 36,627 | \$ 4,432 | \$ - | \$ 41,059 |
| Machinery and equipment | 668,897 | 112,788 | - | 781,685 |
| Total accumulated depreciation | \$ 705,524 | \$ 117,220 | \$ - | \$ 822,744 |
| Total capital assets depreciated, net | \$ 489,662 | \$ 148,858 | \$ - | \$ 638,520 |
| Business-Type Activities Capital Assets, Net | \$ 880,095 | \$ 148,858 | \$ - | \$ 1,028,953 |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

| | | |
|---|----|-----------|
| Governmental Activities | | |
| General government | \$ | 175,478 |
| Public safety | | 106,666 |
| Highways and streets, including depreciation of infrastructure assets | | 1,374,895 |
| Culture and recreation | | 27,649 |
| Sanitation | | 2,679 |
| Conservation of natural resources | | 4,052 |
| Total Depreciation Expense - Governmental Activities | \$ | 1,691,419 |
| Business-Type Activities | | |
| Landfill | \$ | 117,220 |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount |
|--------------------------------------|--------------------------------------|-----------|
| General Fund | Road and Bridge Special Revenue Fund | \$ 192 |
| Road and Bridge Special Revenue Fund | General Fund | 4,931 |
| | Landfill Fund | 1,208 |
| | Ditch Special Revenue Fund | 4,113 |
| Total Due To/From Other Funds | | \$ 10,444 |

2. Advances From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------|----------------------------|------------|
| General Fund | Ditch Special Revenue Fund | \$ 260,155 |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

| | | |
|--|-------------------|-----------------|
| Transfer to Road and Bridge Special Revenue Fund from General Fund | \$ 55,807 | Provide funding |
| Transfer to Road Bond Debt Service Fund from Road and Bridge Special Revenue Fund | <u>150,854</u> | Provide funding |
| Total Interfund Transfers | <u>\$ 206,661</u> | |

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|--------------------------|------------------------------------|-------------------------------------|
| Accounts | \$ 149,683 | \$ 23,719 |
| Salaries | 179,087 | 6,838 |
| Contracts | 109,817 | 45,149 |
| Due to other governments | <u>79,193</u> | <u>5,220</u> |
| Total Payables | <u>\$ 517,780</u> | <u>\$ 80,926</u> |

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

| | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|--|----------------------|---------------------------------|
| Governmental Activities Roads and bridges | <u>\$ 1,846,188</u> | <u>\$ 52,233</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Postemployment Benefits

Retired Officials' and Employees' Health Insurance Benefits

The County pays the health and dental insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to May 1, 1997, and retiring while in active service shall be entitled to four percent per year of service towards the County dental and health insurance premium. To be eligible, employees and elected officials must have worked for Lyon County for a minimum of 15 years and be at least 55 years old; or the employee's age and years of service, added together, total 75 or more. The County-paid portion shall not exceed the amount currently paid by the County on behalf of active employees. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County's contributions for the year ended December 31, 2004, were:

| | Number of Participants | Contribution |
|-------------------------|---------------------------|--------------|
| Governmental Activities | | |
| Elected officials | 4 | \$ 13,968 |
| Employees | 18 | 65,412 |
| Totals | 22 | \$ 79,380 |

4. Capital Leases

The County has entered into lease agreements with the Economic Development Authority of the City of Marshall as lessee for financing of the construction of a joint jail and law enforcement center and construction of a public works building. The County also purchased a mower for the parks on a capital lease. These lease

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2004:

| <u>Capital Leases</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Interest Rates (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2004</u> |
|--|-----------------------|----------------------------|---------------------------|------------------------------|--|
| 2002 mower | 2006 | \$4,144 | - | \$ 20,720 | \$ 8,288 |
| 1998 joint jail and law enforcement center | 2009 | \$195,000 - \$280,000 | 4.05 to 4.60 | 2,115,000 | 1,280,000 |
| Public works building | 2012 | \$135,000 - \$185,000 | 3.50 to 4.40 | 1,555,000 | 1,290,000 |
| CIS Windows system | 2006 | \$29,467 - \$33,066 | - | 92,000 | 58,934 |
| Total Capital Leases | | | | <u>\$ 3,782,720</u> | <u>\$ 2,637,222</u> |

Payments on the capital leases are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

| <u>Year Ending December 31</u> | <u>Governmental Activities</u> |
|---|--------------------------------|
| 2005 | \$ 510,015 |
| 2006 | 509,526 |
| 2007 | 474,389 |
| 2008 | 471,728 |
| 2009 | 477,842 |
| 2010 | 189,450 |
| 2011 | 192,010 |
| 2012 | 189,070 |
| Total minimum lease payments | \$ 3,014,030 |
| Less: amount representing interest | <u>(376,808)</u> |
| Present Value of Minimum Lease Payments | <u>\$ 2,637,222</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Long-Term Debt

Governmental Activities

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Installment Amounts</u> | <u>Average Interest Rates (%)</u> | <u>Original Issue Amount</u> | <u>Outstanding Balance December 31, 2004</u> |
|---|-----------------------|----------------------------|-----------------------------------|------------------------------|--|
| Special assessment bonds with government commitment | | | | | |
| 1994 G.O. drainage bonds | 2010 | \$45,000 - \$10,000 | 4.20 to 6.00 | \$ 385,000 | \$ 70,000 |
| 1994 G.O. drainage bonds | 2011 | \$15,000 - \$25,000 | 5.80 to 6.70 | 310,000 | 160,000 |
| 1997 G.O. drainage bonds | 2019 | \$35,000 | 5.00 to 5.50 | 700,000 | 525,000 |
| 1998 G.O. drainage bonds | 2010 | \$35,000 - \$30,000 | 4.40 to 4.75 | 325,000 | 185,000 |
| 1999 G.O. drainage bonds | 2015 | \$45,000 | 4.00 to 5.00 | <u>675,000</u> | <u>495,000</u> |
| Total special assessment bonds with government commitment | | | | <u>\$ 2,395,000</u> | <u>\$ 1,435,000</u> |
| General obligation bonds | | | | | |
| 2004 G.O. capital improvement bonds | 2015 | \$460,000 - \$615,000 | 3.00 to 3.75 | <u>\$ 5,275,000</u> | \$ 5,275,000 |
| Plus: unamortized premium | | | | | <u>31,546</u> |
| General Obligation Bonds, net | | | | | <u>\$ 5,306,546</u> |

Loans Payable

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Loans Payable (Continued)

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rates (%) | Original Issue Amount | Outstanding Balance December 31, 2004 |
|--|-------------------|------------------------|--------------------------|-----------------------------|--|
| Cottonwood River Restoration CWP Project | 2013 | \$3,528 | 2.00 | \$ 162,656 | \$ 153,895 |
| Yellow Medicine River Watershed CWP Project | 2015 | \$3,667 | 2.00 | 66,174 | 58,395 |
| Redwood Watershed Phosphorus CWP Project | | | | 24,395 | 24,395 |
| Total Loans Payable | | | | <u>\$ 253,225</u> | <u>\$ 236,685</u> |

No repayment schedule was available for the Redwood Watershed Phosphorus CWP Project.

6. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

| Year Ending December 31 | General Obligation Bonds | | Special Assessment Bonds | |
|----------------------------|--------------------------|---------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2005 | \$ - | \$ 171,079 | \$ 155,000 | \$ 70,678 |
| 2006 | 460,000 | 164,179 | 140,000 | 63,450 |
| 2007 | 470,000 | 150,229 | 140,000 | 56,465 |
| 2008 | 485,000 | 135,904 | 145,000 | 49,148 |
| 2009 | 495,000 | 120,894 | 145,000 | 41,586 |
| 2010 - 2014 | 2,750,000 | 352,030 | 490,000 | 115,480 |
| 2015 - 2019 | 615,000 | 11,377 | 220,000 | 25,187 |
| Total | <u>\$ 5,275,000</u> | <u>\$ 1,105,692</u> | <u>\$ 1,435,000</u> | <u>\$ 421,994</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

| Year Ending December 31 | Loans Payable | |
|----------------------------|-------------------|------------------|
| | Principal | Interest |
| 2005 | \$ 8,993 | \$ 1,730 |
| 2006 | 12,209 | 2,181 |
| 2007 | 12,454 | 1,935 |
| 2008 | 12,704 | 1,685 |
| 2009 | 12,960 | 1,430 |
| 2010 - 2014 | 58,123 | 3,242 |
| 2015 | 3,631 | 36 |
| Total | <u>\$ 121,074</u> | <u>\$ 12,239</u> |

The debt service requirements do not include all of the loans because no fixed repayment schedule was available at December 31, 2004, for some loans.

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|---------------------|-------------------|----------------------|------------------------|
| Bonds payable | | | | | |
| Special assessment debt with government commitment | \$ 1,590,000 | \$ - | \$ 155,000 | \$ 1,435,000 | \$ 155,000 |
| General obligation bonds | - | 5,275,000 | - | 5,275,000 | - |
| Unamortized premium | - | 35,051 | 3,505 | 31,546 | - |
| Leases payable | 2,937,432 | 92,000 | 392,210 | 2,637,222 | 408,611 |
| Loans payable | 150,157 | 92,397 | 5,869 | 236,685 | 8,993 |
| Compensated absences | 541,640 | - | 25,908 | 515,732 | 35,750 |
| Governmental Activity Long-Term Liabilities | <u>\$ 5,219,229</u> | <u>\$ 5,494,448</u> | <u>\$ 582,492</u> | <u>\$ 10,131,185</u> | <u>\$ 608,354</u> |

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|------------------|-------------|---------------------|---------------------------|
| Estimated liability for landfill Closure and postclosure care | \$ 1,959,199 | \$ 66,628 | \$ - | \$ 2,025,827 | \$ - |
| Compensated absences | 19,630 | 712 | - | 20,342 | - |
| Business-Type Activity Long-Term Liabilities | <u>\$ 1,978,829</u> | <u>\$ 67,340</u> | <u>\$ -</u> | <u>\$ 2,046,169</u> | <u>\$ -</u> |

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,025,827 landfill closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of 85.6 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$340,540 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. Based on the current permitted capacity, the landfill has an estimated operating life of 55 months. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2004, investments of \$2,611,389 are held for these purposes. These are reported as restricted assets on the balance sheet. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Landfill Closure and Postclosure Care Costs (Continued)

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.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1 and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

| | |
|---------------------------------------|--------|
| Public Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 5.53 |
| Public Employees Police and Fire Fund | 9.30 |
| Public Employees Correctional Fund | 8.75 |

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | Public Employees Retirement Fund | Public Employees Police and Fire Fund | Public Employees Correctional Fund |
|------|---|--|---|
| 2004 | \$ 188,906 | \$ 64,230 | \$ 39,539 |
| 2003 | 169,531 | 56,863 | 34,183 |
| 2002 | 171,574 | 60,264 | 34,384 |

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

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$0, \$14, and \$765, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

Premiums are paid by the General Fund, which is reimbursed from other funds for their shares.

B. Subsequent Events

On October 18, 2005, the County agreed to participate in a governmental lease purchase with Johnson Controls, Inc., financed by Citi Bank Mortgage, Inc., to retrofit the courthouse heating and cooling system. Citi Bank Mortgage, Inc. loaned the County \$463,827 at an interest rate of 3.89 percent. The County is to make semi-annual payments of \$28,212 through 2015.

C. Contingent Liabilities

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

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

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.

On August 16, 1996, the United States Environmental Protection Agency (EPA) filed a complaint against the Lyon County Landfill for the handling of asbestos material. In April 2000, an administrative law judge ruled in favor of the EPA and assessed Lyon County a civil fine of \$45,800. The Environmental Appeals Board affirmed the decision but reduced the penalty to \$18,800. The Lyon County Board has decided to appeal the decision in U.S. District Court. Arguments have been made, and a decision is pending.

D. Joint Ventures

Lincoln, Lyon, & Murray Human Services

Lincoln, Lyon, & Murray Human Services was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. The Board 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 |

Lincoln, Lyon, & Murray Human Services is governed by 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 2004 was \$2,209,636.

At December 31, 2004, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,797,784. In addition, under the new reporting model, the Board reported total net assets of \$5,544,165. The Human Services Board's long-term debt at

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

December 31, 2004, is composed of \$401,365 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services. Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, 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, Pipestone Public Health Services and was established August 1, 1978. The governing Board is composed of nine members: two Commissioners representing Lyon County, one Board 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 2004 was \$155,133.

At December 31, 2003 (latest information available), the Health Services had retained earnings of \$718,969 and long-term liabilities of \$77,259. Complete financial statements of the Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Lyon County, along with Lincoln, Murray, Nobles, Rock, Pipestone, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges. The Lincoln-Pipestone Rural Water System is governed by the District Court. The water system's Board is solely responsible for the budgeting and financing of the water system.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2004 financial report shows total net assets of \$37,728,801, including unrestricted of \$1,239,240. The increase in net assets for the year ended December 31, 2004, was \$2,037,687. Outstanding obligations at December 31, 2004, were \$20,374,465.

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 the County. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2003 (the most recent information available), were \$7,115,000, and notes payable were \$55,437. Retained earnings were \$1,164,138.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

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

E. Jointly-Governed Organizations

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

Area II River Basin Project

Area II River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$19,437 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area

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 \$14,256 of the County levy to the RCRCA.

Yellow Medicine River Watershed District

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 4,653,484 | \$ 4,653,484 | \$ 4,245,025 | \$ (408,459) |
| Special assessments | 187,944 | 187,944 | 280,571 | 92,627 |
| Licenses and permits | 26,645 | 26,645 | 27,885 | 1,240 |
| Intergovernmental | 748,445 | 748,445 | 1,514,996 | 766,551 |
| Charges for services | 534,800 | 534,800 | 612,183 | 77,383 |
| Fines and forfeits | - | - | 20,751 | 20,751 |
| Gifts and contributions | - | - | 50,500 | 50,500 |
| Investment earnings | 155,740 | 155,740 | 178,786 | 23,046 |
| Miscellaneous | 400,666 | 400,666 | 643,688 | 243,022 |
| Total Revenues | \$ 6,707,724 | \$ 6,707,724 | \$ 7,574,385 | \$ 866,661 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 157,164 | \$ 158,070 | \$ 163,882 | \$ (5,812) |
| Law library | - | - | 20,332 | (20,332) |
| Administrator | 113,840 | 117,367 | 114,905 | 2,462 |
| Auditor/Treasurer | 372,891 | 399,975 | 388,410 | 11,565 |
| Assessor | 151,450 | 142,605 | 157,683 | (15,078) |
| Elections | 19,997 | 19,997 | 33,871 | (13,874) |
| Accounting and auditing | 37,000 | 37,000 | 31,175 | 5,825 |
| Information technology | 100,600 | 100,600 | 166,517 | (65,917) |
| Attorney | 256,126 | 287,170 | 281,735 | 5,435 |
| Recorder | 270,402 | 278,120 | 272,901 | 5,219 |
| Planning and zoning | 146,476 | 146,476 | 190,232 | (43,756) |
| Geographic information system | 57,155 | 67,585 | 75,039 | (7,454) |
| Buildings and plant | 532,097 | 540,714 | 440,855 | 99,859 |
| Veterans service officer | 63,373 | 65,180 | 66,870 | (1,690) |
| Other general government | 469,000 | 256,000 | 168,262 | 87,738 |
| Total general government | \$ 2,747,571 | \$ 2,616,859 | \$ 2,572,669 | \$ 44,190 |
| Public safety | | | | |
| Sheriff | \$ 1,001,140 | \$ 1,452,570 | \$ 1,506,777 | \$ (54,207) |
| Emergency services | 47,815 | 50,260 | 84,870 | (34,610) |
| Coroner | 18,000 | 18,000 | 10,671 | 7,329 |
| E-911 system | 45,750 | 45,750 | 57,301 | (11,551) |
| Law enforcement center | 1,165,400 | 828,425 | 938,289 | (109,864) |
| Criminal justice | - | - | 42,086 | (42,086) |
| Sentence to serve | - | - | 32,500 | (32,500) |
| Probation and parole | 230,019 | 235,330 | 233,970 | 1,360 |
| Total public safety | \$ 2,508,124 | \$ 2,630,335 | \$ 2,906,464 | \$ (276,129) |

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Sanitation | | | | |
| Recycling | \$ 237,578 | \$ 237,578 | \$ 262,455 | \$ (24,877) |
| Hazardous waste | 137,366 | 137,366 | 146,380 | (9,014) |
| Total sanitation | \$ 374,944 | \$ 374,944 | \$ 408,835 | \$ (33,891) |
| Culture and recreation | | | | |
| Historical society | \$ 17,500 | \$ 17,500 | \$ 17,574 | \$ (74) |
| Fairgrounds | 39,937 | 39,937 | 43,481 | (3,544) |
| Minnesota trails | - | - | 22,450 | (22,450) |
| Parks | 137,533 | 153,274 | 158,207 | (4,933) |
| Other | 2,300 | 2,300 | 6,861 | (4,561) |
| Total culture and recreation | \$ 197,270 | \$ 213,011 | \$ 248,573 | \$ (35,562) |
| Conservation of natural resources | | | | |
| Extension | \$ 114,979 | \$ 107,739 | \$ 89,355 | \$ 18,384 |
| Soil and water conservation | - | 64,000 | 64,100 | (100) |
| Agricultural inspection | 12,461 | 12,461 | 6,324 | 6,137 |
| Agricultural society | 5,000 | 5,000 | 12,750 | (7,750) |
| River basin | - | 19,437 | 19,437 | - |
| RCRCA | - | 14,256 | 14,256 | - |
| Water quality loan program | - | - | 92,397 | (92,397) |
| Ditch inspector | - | - | 3,160 | (3,160) |
| Water planning | 5,400 | 5,400 | 52,171 | (46,771) |
| Environmental services | 26,502 | 26,502 | 30,045 | (3,543) |
| Other | 27,000 | 27,000 | 5,025 | 21,975 |
| Total conservation of natural resources | \$ 191,342 | \$ 281,795 | \$ 389,020 | \$ (107,225) |
| Intergovernmental | | | | |
| Health | \$ 156,000 | \$ 156,000 | \$ 160,090 | \$ (4,090) |
| Culture and recreation | \$ 189,000 | \$ 189,000 | \$ 191,615 | \$ (2,615) |
| Debt service | | | | |
| Principal retirement | \$ 257,397 | \$ 257,397 | \$ 398,079 | \$ (140,682) |
| Interest | \$ 28,578 | \$ 28,578 | \$ 117,188 | \$ (88,610) |
| Administrative (fiscal) fees | \$ - | \$ - | \$ 2,439 | \$ (2,439) |
| Total Expenditures | \$ 6,650,226 | \$ 6,747,919 | \$ 7,394,972 | \$ (647,053) |

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Excess of Revenues Over (Under) Expenditures | \$ 57,498 | \$ (40,195) | \$ 179,413 | \$ 219,608 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | \$ - | \$ - | \$ (55,807) | \$ (55,807) |
| Proceeds from capital lease | - | - | 92,000 | 92,000 |
| Proceeds from loans issued | - | - | 92,397 | 92,397 |
| Total Other Financing Sources (Uses) | \$ - | \$ - | \$ 128,590 | \$ 128,590 |
| Net Change in Fund Balance | \$ 57,498 | \$ (40,195) | \$ 308,003 | \$ 348,198 |
| Fund Balance - January 1 | 7,409,714 | 7,409,714 | 7,409,714 | - |
| Fund Balance - December 31 | \$ 7,467,212 | \$ 7,369,519 | \$ 7,717,717 | \$ 348,198 |

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,477,084 | \$ 1,477,084 | \$ 1,322,132 | \$ (154,952) |
| Intergovernmental | 2,650,744 | 2,650,744 | 4,436,791 | 1,786,047 |
| Charges for services | - | - | 12,293 | 12,293 |
| Interest on investments | - | - | 17,593 | 17,593 |
| Miscellaneous | 270,491 | 270,491 | 204,787 | (65,704) |
| Total Revenues | \$ 4,398,319 | \$ 4,398,319 | \$ 5,993,596 | \$ 1,595,277 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 399,261 | \$ 399,261 | \$ 229,690 | \$ 169,571 |
| Maintenance | 1,591,449 | 1,591,449 | 1,447,166 | 144,283 |
| Construction | 1,703,651 | 1,703,651 | 2,250,500 | (546,849) |
| Equipment and maintenance shops | 703,958 | 703,958 | 616,797 | 87,161 |
| Total highways and streets | \$ 4,398,319 | \$ 4,398,319 | \$ 4,544,153 | \$ (145,834) |
| Intergovernmental | | | | |
| Highways and streets | - | - | 261,581 | (261,581) |
| Debt service | | | | |
| Bond issuance costs | - | - | 40,220 | (40,220) |
| Administrative (fiscal) charges | - | - | 36,570 | (36,570) |
| Total Expenditures | \$ 4,398,319 | \$ 4,398,319 | \$ 4,882,524 | \$ (484,205) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 1,111,072 | \$ 1,111,072 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ - | \$ 55,807 | \$ 55,807 |
| Transfers out | - | - | (150,854) | (150,854) |
| Proceeds from sale of bonds | - | - | 5,275,000 | 5,275,000 |
| Premium on bonds/notes issued | - | - | 35,051 | 35,051 |
| Total Other Financing Sources (Uses) | \$ - | \$ - | \$ 5,215,004 | \$ 5,215,004 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 6,326,076 | \$ 6,326,076 |
| Fund Balance - January 1 | 1,174,166 | 1,174,166 | 1,174,166 | - |
| Increase (decrease) in reserved for inventories | - | - | 65,164 | 65,164 |
| Fund Balance - December 31 | \$ 1,174,166 | \$ 1,174,166 | \$ 7,565,406 | \$ 6,391,240 |

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 2,007,842 | \$ 2,007,842 | \$ 1,796,353 | \$ (211,489) |
| Intergovernmental | 176,449 | 176,449 | 411,237 | 234,788 |
| Miscellaneous | - | - | 2,046 | 2,046 |
| Total Revenues | \$ 2,184,291 | \$ 2,184,291 | \$ 2,209,636 | \$ 25,345 |
| Expenditures | | | | |
| Intergovernmental | | | | |
| Human services | <u>2,184,291</u> | <u>2,184,291</u> | <u>2,209,636</u> | <u>(25,345)</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> |

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**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and most special revenue funds. The Ditch Special Revenue Fund was not budgeted. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. In 2004, the County Board amended the General Fund budget.

2. Budget Basis of Accounting

Budgets for the General Fund and the budgeted special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The expenditure budget was amended in the General Fund:

| | Original Budget | Increase (Decrease) | Final Budget |
|--------------|--------------------|------------------------|-----------------|
| General Fund | \$ 6,650,226 | \$ 97,693 | \$ 6,747,919 |

Over the course of the year, the County Board revised this budget several times. The budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues or costs, and new grant awards.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

| Fund | Expenditures | Budget | Excess |
|-----------------|--------------|--------------|------------|
| General | \$ 7,394,972 | \$ 6,747,919 | \$ 647,053 |
| Road and Bridge | 4,882,524 | 4,398,319 | 484,205 |
| Human Services | 2,209,636 | 2,184,291 | 25,345 |

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SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|--------------|--------------|------------------------|
| <u>ASSURANCE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 89 | \$ 570 | \$ 540 | \$ 119 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 89 | \$ 570 | \$ 540 | \$ 119 |
| <u>ENTERPRISE DEVELOPMENT</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 85,782 | \$ 19,196 | \$ 39,409 | \$ 65,569 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 85,782 | \$ 19,196 | \$ 39,409 | \$ 65,569 |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 59,145 | \$ 1,191,227 | \$ 1,196,605 | \$ 53,767 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 59,145 | \$ 1,191,227 | \$ 1,196,605 | \$ 53,767 |

**LYON COUNTY
MARSHALL, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|---------------|---------------|------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 190,768 | \$ 24,291,534 | \$ 24,251,923 | \$ 230,379 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 190,768 | \$ 24,291,534 | \$ 24,251,923 | \$ 230,379 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 335,784 | \$ 25,502,527 | \$ 25,488,477 | \$ 349,834 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 335,784 | \$ 25,502,527 | \$ 25,488,477 | \$ 349,834 |

OTHER SCHEDULE

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

| | | |
|-------------------------|----|-----------|
| Highway users tax | \$ | 4,132,122 |
| PERA rate reimbursement | | 41,797 |
| Police aid | | 56,863 |
| Enhanced 911 | | 50,710 |
| Market value credit | | 871,334 |
| County program aid | | 715,238 |
| | | 715,238 |

Total Shared Revenue **\$ 5,868,064**

Payments

| | | |
|---------------------------|----|--------|
| Payments in lieu of taxes | \$ | 84,838 |
| Local grants | | 14,198 |
| | | 14,198 |

Total Payments **\$ 99,036**

Grants

State

| | | |
|--|----|---------|
| Minnesota Department/Board of Public Safety | \$ | 11,959 |
| Corrections | | 45,332 |
| Legislature | | 28,060 |
| Natural Resources | | 23,239 |
| Water and Soil Resources | | 37,665 |
| Office of Environmental Assistance | | 185,772 |
| Police Officers Board | | 4,655 |
| | | 4,655 |

Total State **\$ 336,682**

Federal

| | | |
|--------------------------|----|--------|
| Department of Justice | \$ | 3,041 |
| Transportation | | 19,833 |
| Homeland Security | | 36,368 |
| | | 36,368 |

Total Federal **\$ 59,242**

Total State and Federal Grants **\$ 395,924**

Total Intergovernmental Revenue **\$ 6,363,024**

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 5

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various Lyon County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Although this is not unusual in small departmental situations, 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.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

Lyon County management is aware of the situation and provides additional oversight to ensure that internal controls are being implemented by staff.

PREVIOUSLY REPORTED ITEM RESOLVED

County Travel Policy (99-1)

The County Board approved a travel policy effective February 15, 2001, and approved an updated policy in 2003. The County put limits on meal expense reimbursement and tips, required original receipts for meals, and reimbursed meals only outside the County. During the 2003 audit, we noted reimbursements made that did not follow the policy.

Resolution

The County enforces its travel policy and allows only claims that have the proper itemization and supporting documentation attached and are in accordance with the County travel policy.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

01-2 Unrecorded Transactions

The County Auditor/Treasurer does not book all the necessary entries to record cash with fiscal agent. The fiscal agent cash placed in trust by the Economic Development Authority of the City of Marshall at US Bank for the County was misstated by \$165,332.

Minn. Stat. § 385.04 states, in part, “The county treasurer shall keep a full and accurate account of all money received, showing the amount thereof, the time when, by whom, and on what account paid and shall keep books so as to show the amount received and paid. . . .”

We recommend that the County Treasurer comply with Minn. Stat. § 385.04 by recording all transactions in the books of the County.

Client’s Response:

The County will adjust its records accordingly to reflect an accurate cash and investment balance.

03-1 Ditch Fund Cash and Fund Deficits

One of the 96 individual ditch systems had a deficit cash balance at December 31, 2004, of \$121,247. Minn. Stat. § 385.31 permits payments of expenditures provided there is money in that fund for that purpose. Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures. If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer. Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other County funds and, as such, is in noncompliance with Minnesota law.

We recommend the County eliminate the ditch system cash balance deficit by borrowing from an eligible fund with a surplus cash balance and by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system and repay the General Fund for the loans advanced to the Ditch Special Revenue Fund.

Client's Response:

Lyon County has enacted maintenance levies to bring ditch funds into a positive balance.

ITEMS ARISING THIS YEAR

04-1

Collateral Substitution

The procedures used for pledging new collateral and for collateral substitutions changed for various banks. The Depository Pledge Agreement states the

“...Bank may substitute Eligible Securities for any of the Collateral held by Custodian at any time by providing Custodian with a substitution notice signed by an authorized representative of the Bank, provided that the market value of the Collateral following such substitution would equal or exceed the Required Collateral Value. If Bank elects to require Depositor's written consent on a substitution notice in connection with any substitution complies with the proceeding sentence, Depositor agrees to provide it promptly upon Bank's request.”

Minn. Stat. § 118A.03, subd. 5, states “[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County Attorney review these procedural changes for compliance with Minn. Stat. § 118A.03, subd. 5.

Client's Response:

We will have the County Attorney review this.

04-2 Depository Pledge Agreement

The depository pledge agreement between the County and Minnwest Bank states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

We will have the County Attorney review this.

04-3 Collateral Assignments

Lyon County did not have safekeeping agreements on file for collateral pledged by Wells Fargo Bank to cover balances in excess of FDIC insurance.

Minn. Stat. § 118A.03, subd. 4, states that “Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution.” Agreements should be received and dated for the time the bank pledged the collateral.

We recommend that the County obtain the safekeeping agreements as the collateral is pledged and keep this documentation on file.

Client's Response:

We are working on this.

PREVIOUSLY REPORTED ITEMS RESOLVED

Undistributed Collections in Taxes and Penalties Agency Fund (01-3)

At December 31, 2003, undistributed collections in the Taxes and Penalties Agency Fund were \$8,835, of which only \$3,540 was settled in January 2004. Minn. Stat. § 276.111 requires the County Treasurer to “pay to each of the taxing districts on or before January 25, the balance of the tax amounts collected [to December 31] on behalf of each taxing district.”

Resolution

The County complies with the provisions of Minn. Stat. § 276.111.

Forfeited Tax Property Settlement (02-2)

The County had not made a forfeited tax property settlement annually. As of December 31, 2003, \$6,449 in this account had not been settled. According to Minn. Stat. § 282.09, a County Auditor is to make an annual settlement of the net proceeds received from sales of forfeited tax properties.

Resolution

The County made a settlement of the forfeited tax properties in the proportions given in Minn. Stat. § 282.09 .

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-3 Preparation of the Annual Financial Report

The County Board has oversight responsibility to ensure that the annual financial report is prepared for audit in a timely manner. Generally, this means that the County Board should provide the necessary directives to County staff for the preparation and the timely completion of the annual financial report. The annual financial report consists of County fund financial statements prepared in accordance with generally accepted accounting principles for governments, related notes to the financial statements, and schedules. As part of the fund financial statements, summary schedules and worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report.

These objectives can be achieved by using the IFS. The IFS has been upgraded to accommodate the modified accrual basis of accounting in a separate general ledger system. The first step in the process is to change accounting practices and account structure to be COFARS compliant and code all receipts and disbursements to revenue and expenditure accounts.

During our audit, we noted the following that will prevent the IFS from providing modified accrual financial statements:

- The General Fund has 12 liability accounts and 28 designated or reserved fund balance accounts with cash transactions entered directly into them, causing revenues and expenditures to be misstated.
- The General Fund consists of components of five different funds.
- County budget information on the IFS is inaccurate. The “original” budget in IFS does not match the Board-approved amounts from the December 16, 2003, Board minutes.
- The County made numerous transfers between balance sheet, revenue, and disbursement account codes. The report translations go to various functions. It is not clear why these transactions are not entered directly to their respective functions.
- A large number of revenue accounts have multiple sources/types of revenue and even some expenditures in them. For example:
 - Account code 01-201-5861 has been translated as miscellaneous revenue by County personnel. In 2004, that code included three different federal grants, two different state grants, receipts to reduce expenditures, charges for services, and miscellaneous revenue.
 - Account code 01-281-5301 has been translated as intergovernmental revenue by County personnel. In 2004, that code included three different federal grants, one state grant, and three disbursements.

We recommend that the County Board work directly with County staff to provide the necessary directives to prepare modified accrual financial statements on the IFS. In order to accomplish this, the County Board should ensure that staff assigned to prepare this information have a good understanding of generally accepted accounting principles for government and the time necessary to have the draft financial report completed by the date mutually agreed to with the Office of the State Auditor.

Client's Response:

The County will dedicate appropriate resources to prepare the annual financial statement.

02-5

Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form. In addition, the summary budget on file did not agree with the expenditure guidelines on the accounting system. The budgets for Highway, Human Services, and Landfill Departments did not have revenue and expenditure budgets approved by the Board and the Ditch Fund did not have a budget.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that the expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board-approved and documented in the Board minutes.

Schedule 5
(Continued)

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenues and expenditures budget. We also recommend that any changes to the original budget be approved by formal Board resolution and be so documented.

Client's Response:

Modifications to the budget process have been put in place to improve this situation.



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PATRICIA ANDERSON
STATE AUDITOR

**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 remaining fund information of Lyon County as of and for the year ended December 31, 2004, and have issued our report thereon dated December 28, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 98-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lyon County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 01-2, 03-1, and 04-1 through 04-3.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 28, 2005