STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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LYON COUNTY
MARSHALL, MINNESOTA

For the Year Ended December 31, 2006

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

ORGANIZATION
2006

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 2009
5th District	Mark Goodenow**	January 2009
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 2006
**Chair 2007

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Financial Section

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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, 2006, 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, 2006, 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 September 18, 2007, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 18, 2007

MANAGEMENT’S DISCUSSION AND ANALYSIS

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LYON COUNTY
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and 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, 2006, by $79,020,213 (net assets). Of this amount, $17,679,950 (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 $4,858,629 in 2006. This is attributable primarily to an increase in cash and capital assets of $6,751,096 and a decrease in liabilities of $817,074, which is offset by a decrease in investments of $2,401,970.

- As of the close of 2006, Lyon County's governmental funds reported combined ending fund balances of $15,973,217, a decrease of $210,650 in comparison with 2005 combined ending fund balances. Of this balance amount, $8,460,236 was unreserved and undesignated by Lyon County and thus, available for spending at the government's discretion.

- At the end of 2006, unreserved fund balance for the General Fund was $8,063,992, or 90 percent, of the total General Fund expenditures for that year. This represents a slight increase over 2005, which had 87 percent of the total General Fund expenditures.

- Lyon County's total debt decreased by $841,500 during 2006 due to the scheduled payment of long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 57 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lyon County's assets exceeded liabilities by $79,020,213 at the close of 2006. The largest portion of Lyon County's net assets (71 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	2006 Governmental Activities	2006 Business-Type Activities	2006 Total	2005 (Restated)
Assets				
Current and other assets	$ 19,955,459	$ 9,809,970	$ 29,765,429	$ 29,244,621
Capital assets	60,768,646	952,022	61,720,668	58,199,921
Total Assets	$ 80,724,105	$ 10,761,992	$ 91,486,097	$ 87,444,542
Liabilities				
Long-term liabilities	$ 9,329,163	$ 2,417,113	$ 11,746,276	$ 12,376,137
Other liabilities	610,690	108,918	719,608	906,821
Total Liabilities	$ 9,939,853	$ 2,526,031	$ 12,465,884	$ 13,282,958
Net Assets				
Invested in capital assets, net of related debt	$ 55,040,901	$ 952,022	$ 55,992,923	$ 53,425,510
Restricted	2,543,530	2,803,810	5,347,340	4,954,629
Unrestricted	13,199,821	4,480,129	17,679,950	15,781,445
Total Net Assets	$ 70,784,252	$ 8,235,961	$ 79,020,213	$ 74,161,584

The unrestricted net assets amount of $17,679,950 as of December 31, 2006, 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 2006 by $4,858,629, representing a 6.6 percent increase, primarily because of the County's investment in capital assets. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2006 Governmental Activities	2006 Business-Type Activities	2006 Total	2005 (Restated)
Revenues				
Program revenues				
Charges for services	$ 1,492,371	$ 2,101,092	$ 3,593,463	$ 3,691,084
Operating grants and contributions	2,542,156	-	2,542,156	2,596,332
Capital grants and contributions	2,239,401	-	2,239,401	3,501,699
General revenues				
Property taxes	8,718,927	-	8,718,927	8,227,841
Other	3,898,885	147,460	4,046,345	3,361,937
Total Revenues	$ 18,891,740	$ 2,248,552	$ 21,140,292	$ 21,378,893

	2006			
	Governmental Activities	Business-Type Activities	Total	2005 (Restated)
Expenses				
General government	$ 3,234,118	$ -	$ 3,234,118	$ 3,019,229
Public safety	3,145,255	-	3,145,255	2,842,043
Highways and streets	4,290,989	-	4,290,989	4,338,423
Sanitation	258,342	1,519,254	1,777,596	1,733,088
Human services	2,191,590	-	2,191,590	2,212,232
Health	224,957	-	224,957	160,090
Culture and recreation	441,107	-	441,107	433,928
Conservation of natural resources	598,480	-	598,480	459,693
Economic development	52,985	-	52,985	-
Interest	324,586	-	324,586	342,114
Total Expenses	$ 14,762,409	$ 1,519,254	$ 16,281,663	$ 15,540,840
Increase in Net Assets	$ 4,129,331	$ 729,298	$ 4,858,629	$ 5,838,053
Net Assets - January 1	66,654,921	7,506,663	74,161,584	68,323,531
Net Assets - December 31	$ 70,784,252	$ 8,235,961	$ 79,020,213	$ 74,161,584

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of fiscal year 2006, Lyon County's governmental funds reported combined ending fund balances of $15,973,217, a decrease of $210,650 in comparison with the prior year. Of the ending fund balance, $11,693,757 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Lyon County. At the end of the current fiscal year, it had an unreserved fund balance of $8,063,992. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 90 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $2,981,119 at year-end, representing 40 percent of the fund's annual expenditures.

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

The Ditch Special Revenue Fund had an unreserved ending balance of $648,646. This ending balance represents a $7,070 increase in fund balance from the prior year. The increase is attributed to an increase in special assessment collections held for future repairs to the various county ditches.

General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and the final amended budget were experienced in 2006.

Actual General Fund revenues exceeded budgeted revenues by $1,511,414 primarily due to a greater than expected return on investments and greater than expected intergovernmental revenues.

Actual expenditures were greater than budgeted expenditures by $907,337. This is attributed to increased costs in operating the buildings and complying with federal Helping America Vote Act (HAVA).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2006, totaled $59,467,634 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in capital assets increased $3,616,001, or 6.5 percent, from the previous year. The increase is due primarily to the County's investment in equipment and infrastructure.

Depreciable Governmental Capital Assets

	2006	2005
Capital assets depreciated		
Land improvements	$ 415,557	$ 415,557
Buildings	12,687,415	12,273,088
Machinery and equipment	5,332,329	4,816,049
Infrastructure	62,453,906	58,122,783
Total capital assets depreciated	$ 80,889,207	$ 75,627,477
Less: accumulated depreciation for		
Land improvements	$ 220,549	$ 191,547
Buildings	2,865,878	2,686,765
Machinery and equipment	3,062,152	2,873,616
Infrastructure	15,272,994	14,023,916
Total accumulated depreciations	$ 21,421,573	$ 19,775,844
Total Capital Assets Depreciated, Net	$ 59,467,634	$ 55,851,633

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $9,329,163 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	2006	2005
Special assessment debt	$ 1,140,000	$ 1,280,000
General obligation debt	4,815,000	5,275,000
Unamortized premium	24,536	28,041
Leases payable	2,230,059	2,692,438
Loans payable	530,418	337,958
Compensated absences	589,150	557,226
Total	$ 9,329,163	$ 10,170,663

The County's debt related to special assessment obligation bonds and notes decreased by $140,000 (11 percent) during the fiscal year due to repayment of principal.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value of $2,132,113,300. At the end of 2006, Lyon County's debt was 0.4 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 2006 was 4.9 percent, which is greater than the 3.3 percent rate at the end of 2006. This compares favorably with the state unemployment rate of 5.4 percent and nationally at 5.0 percent.

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

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

County Tax Rate and Levy History

2007	49.282%	$ 10,102,126
2006	52.794%	9,508,510
2005	55.560%	9,100,000
2004	52.092%	8,140,507

On December 15, 2006, the Lyon County Board of Commissioners approved the 2007 budget and adopted a property tax levy of $10,102,126, which represents a 6.24 percent increase over the 2006 property tax levy of $9,508,510.

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, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 13,124,598	$ 6,054,567	$ 19,179,165
Investments	2,034,727	708,000	2,742,727
Receivables - net	4,296,169	249,964	4,546,133
Internal balances	6,371	(6,371)	-
Inventories	446,562	-	446,562
Prepaid items	18,878	-	18,878
Restricted assets			
Cash and pooled investments	-	246,787	246,787
Investments	-	2,538,055	2,538,055
Accrued interest receivable	-	18,968	18,968
Deferred debt issuance costs	28,154	-	28,154
Capital assets			
Non-depreciable capital assets	1,301,012	390,433	1,691,445
Depreciable capital assets - net of accumulated depreciation	59,467,634	561,589	60,029,223
Total Assets	**$ 80,724,105**	**$ 10,761,992**	**$ 91,486,097**
Liabilities			
Accounts payable and other current liabilities	$ 484,167	$ 108,918	$ 593,085
Accrued interest payable	126,523	-	126,523
Long-term liabilities			
Due within one year	1,106,733	-	1,106,733
Due in more than one year	8,222,430	2,417,113	10,639,543
Total Liabilities	**$ 9,939,853**	**$ 2,526,031**	**$ 12,465,884**
Net Assets			
Invested in capital assets - net of related debt	$ 55,040,901	$ 952,022	$ 55,992,923
Restricted for			
Highways and streets	1,721,278	-	1,721,278
Landfill postclosure	-	2,803,810	2,803,810
Debt service	822,252	-	822,252
Unrestricted	13,199,821	4,480,129	17,679,950
Total Net Assets	**$ 70,784,252**	**$ 8,235,961**	**$ 79,020,213**

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

LYON COUNTY
MARSHALL, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	$ 3,234,118	$ 613,645
Public safety	3,145,255	316,328
Highways and streets	4,290,989	374,990
Sanitation	258,342	40,782
Human services	2,191,590	-
Health	224,957	-
Culture and recreation	441,107	15,283
Conservation of natural resources	598,480	131,343
Economic development	52,985	-
Interest	324,586	-
Total governmental activities	**$ 14,762,409**	**$ 1,492,371**
Business-type activities		
Landfill	1,519,254	2,101,092
Total	**$ 16,281,663**	**$ 3,593,463**

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
Gain on sale of capital assets

Total general revenues

Change in net assets

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

Net Assets - Ending

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Business-Type Activities	Total
$ 279,589	$ -	$ (2,340,884)	$ -	$ (2,340,884)
264,862	-	(2,564,065)	-	(2,564,065)
1,471,466	2,239,401	(205,132)	-	(205,132)
285,428	-	67,868	-	67,868
-	-	(2,191,590)	-	(2,191,590)
-	-	(224,957)	-	(224,957)
4,488	-	(421,336)	-	(421,336)
236,323	-	(230,814)	-	(230,814)
-	-	(52,985)	-	(52,985)
-	-	(324,586)	-	(324,586)
$ 2,542,156	**$ 2,239,401**	**$ (8,488,481)**	**$ -**	**$ (8,488,481)**
-	-	-	581,838	581,838
$ 2,542,156	**$ 2,239,401**	**$ (8,488,481)**	**$ 581,838**	**$ (7,906,643)**
		$ 8,718,927	$ -	$ 8,718,927
		18,693	-	18,693
		136,998	-	136,998
		2,171,219	-	2,171,219
		993,897	147,460	1,141,357
		437,689	-	437,689
		140,389	-	140,389
		$ 12,617,812	**$ 147,460**	**$ 12,765,272**
		$ 4,129,331	**$ 729,298**	**$ 4,858,629**
		66,654,921	**7,506,663**	**74,161,584**
		$ 70,784,252	**$ 8,235,961**	**$ 79,020,213**

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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, 2006

		Special Revenue Funds			Road Bond	
	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Assets						
Cash and pooled investments	$ 7,516,571	$ 3,793,414	$ -	$ 387,707	$ 927,159	$ 12,624,851
Undistributed cash in agency fund	103,499	25,766	26,903	2,420	8,413	167,001
Petty cash and change funds	2,765	-	-	-	-	2,765
Cash with fiscal agent	329,981	-	-	-	-	329,981
Investments	1,128,721	500,000	-	406,006	-	2,034,727
Taxes receivable						
Prior	60,206	22,523	23,960	-	7,004	113,693
Special assessments receivable						
Prior	11,680	-	-	4,728	-	16,408
Noncurrent	400,225	-	-	1,102,859	-	1,503,084
Accounts receivable	28,868	19,158	-	-	-	48,026
Accrued interest receivable	103,043	-	-	1,142	1,781	105,966
Due from other funds	81,308	22,319	-	-	-	103,627
Due from other governments	130,730	1,943,159	-	4,599	-	2,078,488
Advance to other funds	121,895	-	-	-	-	121,895
Leases receivable	430,504	-	-	-	-	430,504
Inventories	-	446,562	-	-	-	446,562
Prepaid items	17,725	1,153	-	-	-	18,878
Total Assets	**$ 10,467,721**	**$ 6,774,054**	**$ 50,863**	**$ 1,909,461**	**$ 944,357**	**$ 20,146,456**

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

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Special Revenue Funds: Road and Bridge	Special Revenue Funds: Human Services	Special Revenue Funds: Ditch	Road Bond Debt Service	Total
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 88,872	$ 39,309	$ -	$ 2,028	$ -	$ 130,209
Salaries payable	134,395	52,673	-	-	-	187,068
Contracts payable	-	65,321	-	-	-	65,321
Due to other funds	15,453	58	-	25,173	56,572	97,256
Due to other governments	67,526	3,008	26,903	4,132	-	101,569
Deferred revenue - unavailable	485,415	1,844,174	23,960	1,107,587	8,785	3,469,921
Advance from other funds	-	-	-	121,895	-	121,895
Total Liabilities	**$ 791,661**	**$ 2,004,543**	**$ 50,863**	**$ 1,260,815**	**$ 65,357**	**$ 4,173,239**
Fund Balances						
Reserved for						
Debt service	$ -	$ -	$ -	$ -	$ 879,000	$ 879,000
Encumbrances	-	23,363	-	-	-	23,363
Advance to other funds	121,895	-	-	-	-	121,895
Inventories	-	446,562	-	-	-	446,562
Prepaid items	17,725	1,153	-	-	-	18,878
Missing heirs	2,483	-	-	-	-	2,483
Law library	72,571	-	-	-	-	72,571
Recorder's technology fund	78,904	-	-	-	-	78,904
Recorder's compliance fund	92,510	-	-	-	-	92,510
E-911	162,570	-	-	-	-	162,570
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	9,888	-	-	-	-	9,888
Attorney's forfeited property	15,797	-	-	-	-	15,797
Canteen fund	15,395	-	-	-	-	15,395
Gun permit fees	9,114	-	-	-	-	9,114
Leases receivable	430,504	-	-	-	-	430,504
Governmental lease obligation	329,981	-	-	-	-	329,981
Fish and wildlife trust	52,641	-	-	-	-	52,641
Probation supervision fees	50,373	-	-	-	-	50,373
Future road projects	-	1,317,314	-	-	-	1,317,314
Septic/sewer loans	130,193	-	-	-	-	130,193
DARE program	5,285	-	-	-	-	5,285
Election equipment grant	9,239	-	-	-	-	9,239
Unreserved						
Designated for future expenditures	3,069,237	-	-	-	-	3,069,237
Designated for County road projects	-	164,284	-	-	-	164,284
Undesignated	4,994,755	2,816,835	-	648,646	-	8,460,236
Total Fund Balances	**$ 9,676,060**	**$ 4,769,511**	**$ -**	**$ 648,646**	**$ 879,000**	**$ 15,973,217**
Total Liabilities and Fund Balances	**$ 10,467,721**	**$ 6,774,054**	**$ 50,863**	**$ 1,909,461**	**$ 944,357**	**$ 20,146,456**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2006

Fund balances - total governmental funds (Exhibit 3)			**$**	**15,973,217**
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.				60,768,646
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				3,469,921
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.				
General obligation bonds	$	(5,955,000)		
Capital leases		(2,230,059)		
Compensated absences		(589,150)		
Loans payable		(530,418)		
Accrued interest payable		(126,523)		
Unamortized premium on general obligation bonds		(24,536)		
Deferred debt issuance costs		28,154		(9,427,532)
Net assets of governmental activities (Exhibit 1)			**$**	**70,784,252**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

		Special Revenue Funds			Road Bond	
	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Revenues						
Taxes	$ 4,758,967	$ 1,688,641	$ 1,744,450	$ -	$ 526,687	$ 8,718,745
Special assessments	236,668	9,415	-	286,053	-	532,136
Licenses and permits	26,378	-	-	-	-	26,378
Intergovernmental	1,989,202	3,796,079	447,140	-	129,756	6,362,177
Charges for services	822,511	64,998	-	-	-	887,509
Gifts and contributions	3,888	-	-	-	-	3,888
Investment earnings	879,774	-	-	11,922	87,116	978,812
Miscellaneous	576,298	301,148	-	29,567	-	907,013
Total Revenues	**$ 9,293,686**	**$ 5,860,281**	**$ 2,191,590**	**$ 327,542**	**$ 743,559**	**$ 18,416,658**
Expenditures						
Current						
General government	$ 3,755,734	$ -	$ -	$ -	$ -	$ 3,755,734
Public safety	3,130,726	-	-	-	-	3,130,726
Highways and streets	-	7,183,415	-	-	-	7,183,415
Sanitation	273,856	-	-	-	-	273,856
Culture and recreation	239,326	-	-	-	-	239,326
Conservation of natural resources	482,607	-	-	114,097	-	596,704
Economic development	52,985	-	-	-	-	52,985
Intergovernmental	445,226	248,877	2,191,590	-	-	2,885,693
Debt service						
Principal	474,588	-	-	140,000	460,000	1,074,588
Interest	105,752	-	-	63,451	164,179	333,382
Administrative (fiscal) fees	2,468	-	-	2,924	931	6,323
Total Expenditures	**$ 8,963,268**	**$ 7,432,292**	**$ 2,191,590**	**$ 320,472**	**$ 625,110**	**$ 19,532,732**
Excess of Revenues Over (Under) Expenditures	**$ 330,418**	**$ (1,572,011)**	**$ -**	**$ 7,070**	**$ 118,449**	**$ (1,116,074)**
Other Financing Sources (Uses)						
Loans issued	$ 204,669	$ -	$ -	$ -	$ -	$ 204,669
Proceeds from sale of assets	140,389	-	-	-	-	140,389
Total Other Financing Sources (Uses)	**$ 345,058**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 345,058**
Net Change in Fund Balances	**$ 675,476**	**$ (1,572,011)**	**$ -**	**$ 7,070**	**$ 118,449**	**$ (771,016)**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 5
(Continued)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

		Special Revenue Funds			Road Bond	
	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Fund Balances - January 1, as previously reported	$ 8,536,757	$ 6,244,983	$ -	$ 641,576	$ 760,551	$ 16,183,867
Prior period adjustment (Note 1.E.)	463,827	-	-	-	-	463,827
Fund Balances - January 1, as restated	**$ 9,000,584**	**$ 6,244,983**	**$ -**	**$ 641,576**	**$ 760,551**	**$ 16,647,694**
Increase (decrease) in reserved for inventories	**$ -**	**$ 96,539**	**$ -**	**$ -**	**$ -**	**$ 96,539**
Fund Balances - December 31	**$ 9,676,060**	**$ 4,769,511**	**$ -**	**$ 648,646**	**$ 879,000**	**$ 15,973,217**

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, 2006

Net change in fund balances - total governmental funds (Exhibit 5)			**$**	**(771,016)**
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	$	3,469,921		
Deferred revenue - January 1		(3,135,228)		334,693
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	$	5,675,604		
Current year depreciation		(2,059,603)		3,616,001
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				
ISTS loans				(204,669)
Debt principal repayments				
General obligation bonds	$	600,000		
Capital leases		462,379		
Loans payable		12,209		1,074,588
Amortization of premiums and deferred issuance charges				(517)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				
Change in accrued interest payable	$	15,636		
Change in compensated absences		(31,924)		
Change in inventories		96,539		80,251
Change in net assets of governmental activities (Exhibit 2)			**$**	**4,129,331**

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

PROPRIETARY FUND

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2006

Assets		
Current assets		
Cash and pooled investments	$	6,054,367
Petty cash and change funds		200
Investments		708,000
Accounts receivable - net		234,477
Accrued interest receivable		2,677
Due from other governments		12,810
Restricted assets		
Cash and pooled investments		246,787
Investments		2,538,055
Accrued interest receivable		18,968
Total current assets	**$**	**9,816,341**
Noncurrent assets		
Capital assets		
Nondepreciable	$	390,433
Depreciable - net		561,589
Total noncurrent assets	**$**	**952,022**
Total Assets	**$**	**10,768,363**
Liabilities		
Current liabilities		
Accounts payable	$	69,973
Salaries payable		10,189
Contracts payable		24,205
Due to other funds		6,371
Due to other governments		4,551
Total current liabilities	**$**	**115,289**
Noncurrent liabilities		
Compensated absences payable - long-term	$	21,963
Estimated liability for landfill closure/postclosure		2,395,150
Total noncurrent liabilities	**$**	**2,417,113**
Total Liabilities	**$**	**2,532,402**
Net Assets		
Invested in capital assets	$	952,022
Restricted for postclosure		2,803,810
Unrestricted		4,480,129
Total Net Assets	**$**	**8,235,961**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating Revenues		
Charges for services	$	2,090,073
Miscellaneous		11,019
Total Operating Revenues	**$**	**2,101,092**
Operating Expenses		
Personal services	$	328,854
Professional services		400,443
Administration and fiscal services		4,411
Other services and charges		473,170
Utilities		6,299
Depreciation		95,254
Landfill closure and postclosure costs		210,823
Total Operating Expenses	**$**	**1,519,254**
Operating Income (Loss)	**$**	**581,838**
Nonoperating Revenues (Expenses)		
Investment earnings		147,460
Change in Net Assets	**$**	**729,298**
Net Assets - January 1		**7,506,663**
Net Assets - December 31	**$**	**8,235,961**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Flows From Operating Activities		
Receipts from customers and users	$	2,335,849
Payments to suppliers		(1,067,003)
Payments to employees		(328,084)
Net cash provided by (used in) operating activities	**$**	**940,762**
Cash Flows From Noncapital Financing Activities		
Investment earnings		135,579
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**1,076,341**
Cash and Cash Equivalents - January 1		**5,225,013**
Cash and Cash Equivalents - December 31	**$**	**6,301,354**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7		
Cash and pooled investments	$	6,054,367
Petty cash and change funds		200
Restricted cash and pooled investments		246,787
Total Cash and Cash Equivalents - December 31	**$**	**6,301,354**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**581,838**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	95,254
(Increase) decrease in accounts receivable		14,883
(Increase) decrease in due from other governments		(719)
(Increase) decrease in due from other funds		15
(Increase) decrease in prepaid items		2,500
Increase (decrease) in accounts payable		44,268
Increase (decrease) in salaries payable		(46)
Increase (decrease) in contracts payable		(6,891)
Increase (decrease) in due to other funds		6,137
Increase (decrease) in due to other governments		1,071
Increase (decrease) in deferred revenue - unearned		(9,187)
Increase (decrease) in landfill closure costs		210,823
Increase (decrease) in compensated absences payable		816
Total adjustments	**$**	**358,924**
Net cash provided by (used in) operating activities	**$**	**940,762**

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

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FIDUCIARY FUNDS

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	Investment Trust Fund		Agency	
Assets				
Cash and pooled investments	$	3,506,972	$	485,286
Accrued interest receivable		10,254		-
Total Assets	**$**	**3,517,226**	**$**	**485,286**
Liabilities and Net Assets				
Liabilities				
Due to other governments	$	-	$	485,286
Net Assets				
Net assets held in trust for pool participants		3,517,226		-
Total Liabilities and Net Assets	**$**	**3,517,226**	**$**	**485,286**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Investment Trust Fund
Additions	
Contributions from participants	$ 11,610,985
Investment earnings	117,915
Total Additions	**$ 11,728,900**
Deductions	
Distributions to participants	13,158,594
Change in net assets	**$ (1,429,694)**
Net Assets - Beginning of the Year	**4,946,920**
Net Assets - End of the Year	**$ 3,517,226**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

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

      2. Fund Financial Statements

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

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 revenue, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The Road and Bridge Special Revenue Fund is used to account for revenue and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

- The Road Bond Debt Service Fund is used to account for the financial resources to be used for payment of long-term debt principal, interest, and related costs.

The County reports the following major enterprise fund:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

- The Investment Trust Fund is used to account for the external pooled investments held for Lincoln, Lyon, & Murray Human Services.

- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Lyon County considers all revenue as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Investment earnings on business-type activities are credited to the Lyon County Landfill Enterprise Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were $843,896.

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

3. Receivables and Payables

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Special Assessments Receivable

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

5. Inventories and Prepaid Items

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

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

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

      8. Compensated Absences

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

      9. Deferred Revenue

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

      10. Long-Term Obligations

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

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

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

E. Prior Period Adjustment

During 2006, the County determined that it had incorrectly recorded 2005 capital lease financing activity in the General Fund. The effect on beginning net assets for governmental activities and beginning fund balance for the General Fund is:

	Governmental Activities	General Fund
Beginning Net Assets/Fund Balance	$ 66,191,094	$ 8,536,757
Correction of an error - lease proceeds escrowed	463,827	463,827
Net Assets/Fund Balance, Restated	$ 66,654,921	$ 9,000,584

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General Fund	$ 8,963,268	$ 8,055,931	$ 907,337
Human Services Special Revenue Fund	2,191,590	2,184,291	7,299
Ditch Special Revenue Fund	320,472	294,737	25,735

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	$ 13,124,598
Investments	2,034,727
Business-type activities	
Cash and pooled investments	6,054,567
Investments	708,000
Cash and pooled investments - restricted assets	246,787
Investments - restricted assets	2,538,055
Statement of fiduciary net assets	
Cash and pooled investments	
Investment trust fund	3,506,972
Agency funds	485,286
Total Cash and Investments	$ 28,698,992

a. Deposits

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2006, the County's investments were not exposed to custodial credit risk

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy to diversify the investment portfolio so that the impact of potential losses from one type of security will be minimized.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2006, along with information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	$ 1,392,332
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Prime Investment Money Market Fund	AAA	Standards & Poor's	N/A	N/A	1,400,000
Total investment pools/mutual funds					$ 2,794,764
Checking					10,472,637
Savings					9,898,645
Petty cash and change funds					2,965
Certificates of deposit					5,200,000
Cash with fiscal agent					329,981
Total Cash and Investments					$ 28,698,992

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

2. Receivables

Receivables as of December 31, 2006, 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	$ 113,693	$ -
Special assessments	1,519,492	1,503,084
Accounts	48,026	-
Interest	105,966	-
Leases	430,504	286,880
Due from other governments	2,078,488	-
Total Governmental Activities	$ 4,296,169	$ 1,789,964

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	$	234,477	$	-
Interest		2,677		-
Due from other governments		12,810		-
Total Business-Type Activities	$	249,964	$	-

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance		Increase		Decrease		Ending Balance	
Capital assets not depreciated								
Land	$	790,846	$	-	$	-	$	790,846
Right-of-way		510,166		-		-		510,166
Total capital assets not depreciated	$	1,301,012	$	-	$	-	$	1,301,012
Capital assets depreciated								
Land improvements	$	415,557	$	-	$	-	$	415,557
Buildings		12,273,088		463,827		49,500		12,687,415
Machinery and equipment		4,816,049		880,654		364,374		5,332,329
Infrastructure		58,122,783		4,331,123		-		62,453,906
Total capital assets depreciated	$	75,627,477	$	5,675,604	$	413,874	$	80,889,207
Less: accumulated depreciation for								
Land improvements	$	191,547	$	29,002	$	-	$	220,549
Buildings		2,686,765		228,613		49,500		2,865,878
Machinery and equipment		2,873,616		552,910		364,374		3,062,152
Infrastructure		14,023,916		1,249,078		-		15,272,994
Total accumulated depreciation	$	19,775,844	$	2,059,603	$	413,874	$	21,421,573
Total capital assets depreciated, net	$	55,851,633	$	3,616,001	$	-	$	59,467,634
Governmental Activities Capital Assets, Net	$	57,152,645	$	3,616,001	$	-	$	60,768,646

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 390,433	$ -	$ -	$ 390,433
Capital assets depreciated				
Buildings	$ 132,947	$ -	$ -	$ 132,947
Machinery and equipment	1,337,442	-	-	1,337,442
Total capital assets depreciated	$ 1,470,389	$ -	$ -	$ 1,470,389
Less: accumulated depreciation for				
Buildings	$ 45,491	$ 4,432	$ -	$ 49,923
Machinery and equipment	768,055	90,822	-	858,877
Total accumulated depreciation	$ 813,546	$ 95,254	$ -	$ 908,800
Total capital assets depreciated, net	$ 656,843	$ (95,254)	$ -	$ 561,589
Business-Type Activities Capital Assets, Net	$ 1,047,276	$ (95,254)	$ -	$ 952,022

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

Governmental Activities	
General government	$ 254,177
Public safety	93,281
Highways and streets, including depreciation of infrastructure assets	1,687,238
Culture and recreation	19,108
Sanitation	5,799
Total Depreciation Expense - Governmental Activities	$ 2,059,603
Business-Type Activities	
Landfill	$ 95,254

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	$ 58
	Ditch Special Revenue Fund	24,678
	Road Bond Debt Service Fund	56,572
Road and Bridge Special Revenue Fund	General Fund	15,453
	Ditch Special Revenue Fund	495
	Landfill Enterprise Fund	6,371
Total Due To/From Other Funds		$ 103,627

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	$ 121,895

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

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 130,209	$ 69,973
Salaries	187,068	10,189
Contracts	65,321	24,205
Due to other governments	101,569	4,551
Total Payables	$ 484,167	$ 108,918

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 149,216	$ 2,885
Shop fuel system	-	20,478

3. Retired Officials' and Employees' Health Insurance Benefits

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

3. Detailed Notes on All Funds

C. Liabilities

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

behalf of active employees. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County's contributions for the year ended December 31, 2006, were:

	Number of Participants	Contribution
Governmental Activities		
Elected officials	4	$ 16,298
Employees	18	74,248
Totals	22	$ 90,546

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. In 2005, the County entered into a governmental lease purchase with Johnson Controls, Inc., financed by Citi Bank Mortgage, Inc., to retrofit the courthouse heating and cooling system. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2006:

Capital Leases	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
1998 joint jail and law enforcement center	2009	$195,000 - $280,000	4.05 to 4.60	$ 2,115,000	$ 800,000
Public works building	2012	$135,000 - $185,000	3.50 to 4.40	1,555,000	1,005,000
Heating and cooling retrofit project	2015	$56,423	3.89	463,827	425,059
Total Capital Leases				$ 4,133,827	$ 2,230,059

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

Payments on the capital leases are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Governmental Activities
2007	$ 530,812
2008	528,151
2009	534,265
2010	245,873
2011	248,433
2012 - 2015	414,762
Total minimum lease payments	$ 2,502,296
Less: amount representing interest	(272,237)
Present Value of Minimum Lease Payments	$ 2,230,059

5. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2010	$10,000 - $45,000	4.20 to 6.00	$ 385,000	$ 40,000
1994 G.O. drainage bonds	2011	$15,000 - $25,000	5.80 to 6.70	310,000	120,000
1997 G.O. drainage bonds	2019	$35,000	5.00 to 5.50	700,000	455,000
1998 G.O. drainage bonds	2010	$30,000 - $35,000	4.40 to 4.75	325,000	120,000
1999 G.O. drainage bonds	2015	$45,000	4.00 to 5.00	675,000	405,000
Total Special Assessment Bonds With Government Commitment				$ 2,395,000	$ 1,140,000

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
2004 G.O. capital improvement bonds	2015	$460,000 - $615,000	3.00 to 3.75	$ 5,275,000	$ 4,815,000
Plus: unamortized premium					24,536
General Obligation Bonds, Net					$ 4,839,536

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
Cottonwood River Restoration CWP Project	2013	$3,528	2.00	$ 243,362	$ 237,254
Yellow Medicine River Watershed CWP Project	2015	$3,667	2.00	157,016	150,915
Redwood Watershed Phosphorus CWP Project				142,249	142,249
Total Loans Payable				$ 542,627	$ 530,418

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

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Assessment Bonds Principal	Special Assessment Bonds Interest
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	510,000	105,191	145,000	33,920
2011	530,000	88,941	105,000	27,188
2012 - 2016	2,325,000	169,275	355,000	70,897
2017 - 2019	-	-	105,000	8,662
Total	$ 4,815,000	$ 770,434	$ 1,140,000	$ 287,866

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2007	$ 12,454	$ 1,935
2008	12,705	1,685
2009	12,960	1,430
2010	13,220	1,169
2011	13,486	904
2012 - 2016	35,048	1,205
Total	$ 99,873	$ 8,328

The debt service requirements do not include all of the loans because no fixed repayment schedule was available at December 31, 2006, for some loans.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	$ 1,280,000	$ -	$ 140,000	$ 1,140,000	$ 140,000
General obligation bonds	5,275,000	-	460,000	4,815,000	470,000
Unamortized premium	28,041	-	3,505	24,536	-
Leases payable	2,692,438	-	462,379	2,230,059	445,289
Loans payable	337,958	204,669	12,209	530,418	12,454
Compensated absences	557,226	31,924	-	589,150	38,990
Governmental Activity Long-Term Liabilities	$ 10,170,663	$ 236,593	$ 1,078,093	$ 9,329,163	$ 1,106,733

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	$ 2,184,327	$ 210,823	$ -	$ 2,395,150	$ -
Compensated absences	21,147	816	-	21,963	-
Business-Type Activity Long-Term Liabilities	$ 2,205,474	$ 211,639	$ -	$ 2,417,113	$ -

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 $2,395,150 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date

3. Detailed Notes on All Funds

   C. Liabilities

      8. Landfill Closure and Postclosure Care Costs (Continued)

based on the use of 92.8 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $186,292 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Based on the current permitted capacity, the landfill has an estimated operating life of 24.4 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, 2006, restricted assets of $2,803,810 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

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.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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

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

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.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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.

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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

2. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	$ 217,410	$ 70,011	$ 39,838
2005	188,641	61,711	36,344
2004	188,906	64,230	39,539

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

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.

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were $912, $867, and $0, 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.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

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

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

Lincoln, Lyon, & Murray Human Services is governed by a Board made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. At least one lay Board member is to be a woman. Financing is provided by state grants and appropriations from member counties. Lyon County's contribution in 2006 was $2,191,590.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

At December 31, 2006, Lincoln, Lyon, & Murray Human Services reported a total fund balance of $3,727,407. In addition, LLMHS reported total net assets of $3,674,957. LLMHS's long-term debt at December 31, 2006, is composed of $464,084 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, and Pipestone Public Health Services

Lyon County has joined with surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, and Pipestone Public Health Services and was established August 1, 1978. The governing board is composed of nine members: two Commissioners representing Lyon County, one member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lyon County's contribution in 2005 (the latest information available) was $155,133.

At December 31, 2005, the Health Services had net assets of $905,772 and long-term liabilities of $98,580.

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

Lincoln-Pipestone Rural Water System

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

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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

The Lincoln-Pipestone Rural Water System's 2005 financial report (the latest information available) shows total net assets of $38,281,293, including unrestricted of $17,280,678. The increase in net assets for the year ended December 31, 2005, was $552,492. Outstanding obligations at December 31, 2005, were $19,479,940.

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, 2005 (the most recent information available), were $6,490,000, and notes payable were $263,397. Total net assets was $17,443,501.

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

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

D. Jointly-Governed Organizations

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

Area II River Basin Project

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

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $15,048 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.

REQUIRED SUPPLEMENTARY INFORMATION

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 5,138,282	$ 5,138,282	$ 4,758,967	$ (379,315)
Special assessments	219,594	219,594	236,668	17,074
Licenses and permits	21,130	21,130	26,378	5,248
Intergovernmental	915,650	915,650	1,989,202	1,073,552
Charges for services	617,590	617,590	822,511	204,921
Gifts and contributions	-	-	3,888	3,888
Investment earnings	266,326	266,326	879,774	613,448
Miscellaneous	603,700	603,700	576,298	(27,402)
Total Revenues	**$ 7,782,272**	**$ 7,782,272**	**$ 9,293,686**	**$ 1,511,414**
Expenditures				
Current				
General government				
Commissioners	$ 171,635	$ 171,635	$ 173,802	$ (2,167)
Courts	25,000	25,000	23,046	1,954
Law library	-	-	21,935	(21,935)
Administrator	146,350	146,350	148,555	(2,205)
Auditor/Treasurer	481,093	481,093	495,289	(14,196)
Assessor	175,946	175,946	170,593	5,353
Elections	52,997	52,997	285,353	(232,356)
Accounting and auditing	37,000	37,000	41,158	(4,158)
Information technology	73,375	73,375	64,586	8,789
Central services	324,300	324,300	210,390	113,910
Safety	4,500	4,500	4,693	(193)
Attorney	321,425	321,425	307,547	13,878
Recorder	274,100	274,100	273,392	708
Planning and zoning	189,950	189,950	168,597	21,353
Geographic information system	149,760	149,760	150,732	(972)
Buildings and plant	675,300	675,300	1,133,681	(458,381)
Veterans service officer	69,475	69,475	82,385	(12,910)
Total general government	**$ 3,172,206**	**$ 3,172,206**	**$ 3,755,734**	**$ (583,528)**
Public safety				
Sheriff	$ 1,605,345	$ 1,605,345	$ 1,662,325	$ (56,980)
Sheriff's contingency	-	-	8,000	(8,000)
Boat and water safety	-	-	728	(728)
Emergency services	54,350	54,350	53,218	1,132
Coroner	18,000	18,000	12,608	5,392
E-911 system	50,750	50,750	97,313	(46,563)
Law enforcement center	893,250	893,250	983,150	(89,900)
Criminal justice	11,500	11,500	26,954	(15,454)
Sentence to serve	42,000	42,000	33,894	8,106
Probation and parole	284,827	284,827	252,536	32,291
Total public safety	**$ 2,960,022**	**$ 2,960,022**	**$ 3,130,726**	**$ (170,704)**

The notes to the required supplementary information are an integral part of this statement.

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Recycling	$ 243,920	$ 243,920	$ 78,732	$ 165,188
Hazardous waste	146,174	146,174	164,306	(18,132)
Environmental	41,250	41,250	30,818	10,432
Total sanitation	**$ 431,344**	**$ 431,344**	**$ 273,856**	**$ 157,488**
Culture and recreation				
Fairgrounds	$ 37,325	$ 37,325	$ 69,955	$ (32,630)
Parks	168,094	168,094	147,796	20,298
Other	32,100	32,100	21,575	10,525
Total culture and recreation	**$ 237,519**	**$ 237,519**	**$ 239,326**	**$ (1,807)**
Conservation of natural resources				
Extension	$ 99,995	$ 99,995	$ 118,305	$ (18,310)
Agricultural inspection	10,900	10,900	13,233	(2,333)
Water quality loan program	-	-	204,669	(204,669)
Ditch inspector	24,965	24,965	956	24,009
Water planning	6,000	6,000	16,719	(10,719)
Other	140,786	140,786	128,725	12,061
Total conservation of natural resources	**$ 282,646**	**$ 282,646**	**$ 482,607**	**$ (199,961)**
Economic development				
Community development	**$ 52,985**	**$ 52,985**	**$ 52,985**	**$ -**
Intergovernmental				
Health	**$ 221,000**	**$ 221,000**	**$ 224,957**	**$ (3,957)**
Culture and recreation	**$ 218,484**	**$ 218,484**	**$ 220,269**	**$ (1,785)**
Debt service				
Principal	**$ 395,000**	**$ 395,000**	**$ 474,588**	**$ (79,588)**
Interest	**$ 83,400**	**$ 83,400**	**$ 105,752**	**$ (22,352)**
Administrative (fiscal) fees	**$ 1,325**	**$ 1,325**	**$ 2,468**	**$ (1,143)**
Total Expenditures	**$ 8,055,931**	**$ 8,055,931**	**$ 8,963,268**	**$ (907,337)**
Excess of Revenues Over (Under) Expenditures	**$ (273,659)**	**$ (273,659)**	**$ 330,418**	**$ 604,077**

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other Financing Sources (Uses)				
Loans issued	$ -	$ -	$ 204,669	$ 204,669
Proceeds from sale of assets	-	-	140,389	140,389
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 345,058**	**$ 345,058**
Net Change in Fund Balance	**$ (273,659)**	**$ (273,659)**	**$ 675,476**	**$ 949,135**
Fund Balance - January 1, as previously reported	$ 8,536,757	$ 8,536,757	$ 8,536,757	$ -
Prior period adjustment (Note 1. E.)	463,827	463,827	463,827	-
Fund Balance - January 1, as restated	**$ 9,000,584**	**$ 9,000,584**	**$ 9,000,584**	**$ -**
Fund Balance - December 31	**$ 8,726,925**	**$ 8,726,925**	**$ 9,676,060**	**$ 949,135**

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,869,769	$ 1,869,769	$ 1,688,641	$ (181,128)
Special assessments	-	-	9,415	9,415
Intergovernmental	4,262,117	4,262,117	3,796,079	(466,038)
Charges for services	-	-	64,998	64,998
Miscellaneous	494,000	494,000	301,148	(192,852)
Total Revenues	**$ 6,625,886**	**$ 6,625,886**	**$ 5,860,281**	**$ (765,605)**
Expenditures				
Current				
Highways and streets				
Administration	$ 383,550	$ 383,550	$ 338,106	$ 45,444
Public works	62,750	62,750	47,534	15,216
Maintenance	1,770,600	1,770,600	1,706,029	64,571
Construction	5,938,436	5,938,436	4,263,790	1,674,646
Equipment and maintenance shops	722,850	722,850	794,799	(71,949)
Other - highways and streets	-	-	33,157	(33,157)
Total highways and streets	**$ 8,878,186**	**$ 8,878,186**	**$ 7,183,415**	**$ 1,694,771**
Intergovernmental				
Highways and streets	255,000	255,000	248,877	6,123
Total Expenditures	**$ 9,133,186**	**$ 9,133,186**	**$ 7,432,292**	**$ 1,700,894**
Net Change in Fund Balance	**$ (2,507,300)**	**$ (2,507,300)**	**$ (1,572,011)**	**$ 935,289**
Fund Balance - January 1	**6,244,983**	**6,244,983**	**6,244,983**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**96,539**	**96,539**
Fund Balance - December 31	**$ 3,737,683**	**$ 3,737,683**	**$ 4,769,511**	**$ 1,031,828**

The notes to the required supplementary information are an integral part of this statement.

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,931,984	$ 1,931,984	$ 1,744,450	$ (187,534)
Intergovernmental	252,307	252,307	447,140	194,833
Total Revenues	**$ 2,184,291**	**$ 2,184,291**	**$ 2,191,590**	**$ 7,299**
Expenditures				
Intergovernmental				
Human services	2,184,291	2,184,291	2,191,590	(7,299)
Net Change in Fund Balance	**$ -**	**$ -**	**$ -**	**$ -**
Fund Balance - January 1	**-**	**-**	**-**	**-**
Fund Balance - December 31	**$ -**	**$ -**	**$ -**	**$ -**

The notes to the required supplementary information are an integral part of this statement.

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Special assessments	$ 183,069	$ 183,069	$ 286,053	$ 102,984
Investment earnings	-	-	11,922	11,922
Miscellaneous	-	-	29,567	29,567
Total Revenues	**$ 183,069**	**$ 183,069**	**$ 327,542**	**$ 144,473**
Expenditures				
Current				
Conservation of natural resources				
Other	$ 1,000	$ 1,000	$ 114,097	$ (113,097)
Debt service				
Principal	293,737	293,737	140,000	153,737
Interest	-	-	63,451	(63,451)
Administrative (fiscal) charges	-	-	2,924	(2,924)
Total Expenditures	**$ 294,737**	**$ 294,737**	**$ 320,472**	**$ (25,735)**
Net Change in Fund Balance	**$ (111,668)**	**$ (111,668)**	**$ 7,070**	**$ 118,738**
Fund Balance - January 1	**641,576**	**641,576**	**641,576**	**-**
Fund Balance - December 31	**$ 529,908**	**$ 529,908**	**$ 648,646**	**$ 118,738**

The notes to the required supplementary information are an integral part of this statement.

LYON COUNTY
MARSHALL, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

1. General Budget Policies

   The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. The expenditure budget is approved at the fund level.

   The budgets may be amended or modified at any time by the County Board. In 2006, the County Board did not make any budget amendments.

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. Excess of Expenditures Over Budget

   Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Final Budget	Excess
General Fund	$ 8,963,268	$ 8,055,931	$ 907,337
Human Services Special Revenue Fund	2,191,590	2,184,291	7,299
Ditch Special Revenue Fund	320,472	294,737	25,735

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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, 2006

	Balance January 1	Additions	Deductions	Balance December 31
ASSURANCE				
Assets				
Cash and pooled investments	$ 108	$ 1,103	$ 1,065	$ 146
Liabilities				
Due to other governments	$ 108	$ 1,103	$ 1,065	$ 146
ENTERPRISE DEVELOPMENT				
Assets				
Cash and pooled investments	$ 30,263	$ 60,452	$ 47,741	$ 42,974
Liabilities				
Due to other governments	$ 30,263	$ 60,452	$ 47,741	$ 42,974
STATE REVENUE				
Assets				
Cash and pooled investments	$ 66,521	$ 723,353	$ 724,862	$ 65,012
Liabilities				
Due to other governments	$ 66,521	$ 723,353	$ 724,862	$ 65,012

LYON COUNTY
MARSHALL, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 287,869	$ 26,372,798	$ 26,283,513	$ 377,154
Liabilities				
Due to other governments	$ 287,869	$ 26,372,798	$ 26,283,513	$ 377,154
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 384,761	$ 27,157,706	$ 27,057,181	$ 485,286
Liabilities				
Due to other governments	$ 384,761	$ 27,157,706	$ 27,057,181	$ 485,286

OTHER SCHEDULE

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 5

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Shared Revenue		
State		
Highway users tax	$	2,894,643
PERA rate reimbursement		41,797
Disparity reduction aid		26,959
Police aid		59,505
Enhanced 911		103,538
Market value credit		862,749
County program aid		1,239,714
Total Shared Revenue	**$**	**5,228,905**
Payments		
Payments in lieu of taxes	$	136,998
Local grants		14,600
Total Payments	**$**	**151,598**
Grants		
State		
Minnesota Department/Board of		
Public Safety	$	1,978
Corrections		52,408
Natural Resources		38,985
Peace Officer Standards and Training		4,341
Veterans Affairs		1,214
Office of Environmental Assistance		49,327
Pollution Control Agency		55,662
Water and Soil Resources Board		32,642
Total State	**$**	**236,557**
Federal		
Department of		
Transportation	$	496,801
Homeland Security		15,356
Election Assisstance Commission		232,960
Total Federal	**$**	**745,117**
Total State and Federal Grants	**$**	**981,674**
Total Intergovernmental Revenue	**$**	**6,362,177**

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Management and Compliance Section

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Schedule 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Lyon County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lyon County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*" We consider some of the deficiencies to be material weaknesses.

C. No instances of noncompliance material to the financial statements of Lyon County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award program for Lyon County expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major program is:

Highway Planning and Construction	CFDA #20.205

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

I. Lyon County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Departments we noted this year that do not have sufficient segregation of duties include the Recorder and Sheriff.

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

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response (County Recorder):

It has been brought to my attention that you feel we do not have enough staff to have sufficient segregation of duties. This has always been a problem in small offices with limited employees. I have our workflow set up so no one person does both the entering of fees and the reporting and depositing of fees. For example, Vicky receipts the land transactions, and either Brenda or LuAnn does the balancing and depositing. Vicky also does the receipting of the UCC department, and Brenda or LuAnn would do the balancing and depositing. The department we have problem with is vital statistics. Everyone must be able to receipt a counter customer. Although everyone receipts here, Brenda also does most of the balancing and depositing with the Auditor/Treasurer. To *help with this control issue, our reports are computer generated where receipting it in the function causes us to have to have a set fee. We also have two people do the deposits and end of the month functions. Hopefully, something that was fishy or smelled like rotten fish would be hit by the 2nd person doing the balancing and deposit once a month without notice. We do our best to have duties segregated, but with the job that is almost 100% customer driven and a small staff, it is very hard to have someone cross checking everyone. Our reports and numbers have to cross check in many places. Each document gets a number, or it can't be put in the system. A recorded document without a number could not be found. Our customer would be aware of that. These are consecutive numbers. All birth and death certificates and UCC are given state numbers, and marriages are given a book and a page with a consecutive number. I know it is not perfect, but we do try to have some built-in controls. The deposit to the bank on our bank account is done by me, and deposit slips are prepared by other staff. Balance of the bank statement is done by someone else. Billing out our customers are done off of computer generated statements and are receipted into the computer by anyone taking the payment. Therefore, one person should not be able to alter those and collect more than the billing for services provided. I am always working at looking for better ways to ensure the integrity and reliability of the workflow in the Recorder's Office.*

Client's Response (County Sheriff):

The Sheriff will review cash receipts and receipting functions.

02-5 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detail estimated revenue source by fund, and the budgeted expenditure by fund, function, and departments are not always clearly documented. In addition**,** the Board has not developed and adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved budgets did not agree with the recorded budget in the County's general ledger. There were no expenditures listed in the Board-approved minutes for the Road and Bridge Special Revenue Fund and Human Services Special Revenue Fund. Also, the Board-approved budget did not match the general ledger for the Ditch Special Revenue Fund. Material audit adjustments were required to the budgets in order to present the budgets in the annual financial statements.

We recommend the County Board adopt and record in its minutes budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policies and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

The Auditor/Treasurer's Office will work with the County Administrator's Office.

ITEMS ARISING THIS YEAR

06-1 Adding New Vendors to the Accounting System

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

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically a report called "Vendors Added List by Number" should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about its business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client's Response:

Lyon County is in compliance starting August 2007. Procedures for adding new vendors to the accounting system:

> *The ability to set up new vendors in the County's accounts payable system is limited to Dar, Nancy T., and Paul (financial division) in the Auditor/Treasurer's Office. These three employees are the ones responsible for entering the Auditor's and Commissioner's vouchers to generate the warrants/checks for the County. The process of adding a new vendor to the IFS systems begins with a department head or similar person responsible for approving vouchers either emailing or calling one of the people of the financial division and requesting a new vendor be added. The email or phone call will include the necessary information of the vendor's name, address and telephone number. From this information, a search is started by looking in the appropriate telephone directory, searching on the internet or calling the telephone number on the invoice to verify that such a person or company does exist. Once the person or company is verified as being legitimate, they are entered into the IFS and join the list of existing vendors for Lyon County. Starting in August 2007, printouts of new vendors added are printed out and examined by Paula. Once she reviews the list, she signs off on it and it is kept on file in the financial division of the Auditor/Treasurer's Office.*

06-2 Controls Over the Accounting System Journal Entry Function

The County does not limit access to the accounting system journal entry function to select County employees. Several employees in the Auditor/Treasurer's Office have access to this function. The journal entries made to the accounting system are not reviewed or approved by anyone.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County Auditor/Treasurer strengthen the control over the journal entries by determining who has access to the journal entry function and determine whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. The person reviewing should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

The Auditor/Treasurer's Office changed this August 2007.

06-3 Access to the Computer Systems

The controls over computer access need to be strengthened. Currently, computer access is given to generic users "Auditor" and "Human Services." Once on the system, users have access to all vender files except one. This allows multiple users to add, change, or delete vendor files. Without strengthening the controls over access to the computer systems, there is increased risk of access to the system by unauthorized individuals.

We recommend that County management strengthen access controls to the County's information system by eliminating generic users or the sharing of usernames by employees. We also recommend that the County review access for all users to ensure that each employee's access is commensurate with his or her job duties and responsibilities.

Client's Response:

The Auditor/Treasurer's Office is in compliance for 2007.

06-4 Internal Control Over Investments

In Lyon County, the Auditor/Treasurer does the purchasing, selling, receiving of interest on the investments, and maintaining the investment records for the County. Investment transactions, interest revenue received, and monthly investment balances are not reviewed or approved by anyone other than the person doing the investing.

The responsibilities for investment transactions should be separated among employees or Investment Committee members so that a single employee or elected official is not able to authorize a transaction, record the investment in accounts, and have responsibility for custody of the investment resulting from the transaction.

We recommend the County segregate these functions as much as possible. If it is not possible to segregate these duties, Lyon County management should be aware of the lack of segregation of these functions and implement oversight procedures to ensure that adequate internal control over investment transactions is being provided. One possible oversight procedure is to have an Investment Committee review investment activity on a regular basis and determine that the interest revenues resulting from the investments are receipted into the general ledger. The investments should be reviewed for both legality and appropriateness.

Client's Response:

The County will develop a policy after further discussion with the County Board. One possibility is the Administrator may review investment activity for legality and appropriateness.

06-5 Internal Control Over Interest Receivable

Our review of interest receivable disclosed an overstatement of $25,000 on a certificate of deposit for the Road Bond Debt Service Fund. Interest receivable was calculated for the year ended December 31, 2007, instead of December 31, 2006.

We recommend that the County institute procedures to proof and recheck calculations as part of the process of preparing the financial statements.

Client's Response:

Lyon County is in compliance for 2007.

06-6 Recorder's Remittances

While auditing the County Recorder's accounting records, certain control matters came to our attention.

- Collections for the period April 21 to 25 were not remitted to the County Auditor/Treasurer until May 5. Collections from April 26 to 28 were not remitted until May 8. Collections from December 14 to 19 were not remitted until December 27. Collections from December 26 to 29 were not remitted until January 10, 2007.

- At the time of the cash count on March 5, 2007, funds ready to be deposited with the Auditor/Treasurer were still in the Recorder's Office. Untimely depositing of funds results in lost interest earnings to the County and makes these funds more susceptible to theft or loss.

We recommend that the collections in the Recorder's Office be deposited with the Auditor/Treasurer in a more timely manner.

Client's Response (County Recorder):

In our workflow, we schedule to deposit 3 or 4 days of cash at a time. Sometimes in the past, our workflow has not allowed us to make those deposits every 3 or 4 days. If we have someone on vacation and/or our workload is extremely high, we sometimes did not get that process accomplished. We also like to have the workload for those deposits to a certain point before we deposit it with the Auditor/Treasurer. This makes sure that if we need to return them, we don't have to issue any refund checks. Refund checks make it very confusing for our booking system and/or for our customer. At the end of the month, we usually get an extra heavy workload for some reason and no matter what or how we plan, there are always those times when someone is out sick, vacation, an emergency, or we get a draw on staff hours from the public to assist in research. In looking at our deposits for the year to date, I see we are running about the same as last year. It has always been our priority to get the documents of record so that the title people and attorneys could get the information. We have also always made it our goal to give counter customers immediate service.

We are re-working our work flow to try to make getting the deposit to the Auditor/Treasurer higher on the list of priorities. We now have another person trained, and hopefully even with staff shortage, we can make a deposit anyway. I have discussed *with my staff the importance of getting that money deposited. But, for an example, fees for documents on August 1 - 3 will be deposited on August 7, and fees for documents filed August 6 - 8 will be deposited on August 10. Sometimes documents won't be far enough along to do those deposits until the next day, but we do hope to get back on track as soon as they are available.*

06-7 County Sheriff's Canteen Operations

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

- When inmates are booked, any cash on them is taken, put in an envelope, and stored in an unlocked desk drawer. The amount of cash is logged into the computer system for tracking.

- Canteen service is offered on Mondays, Wednesdays, and Fridays, so orders must be in on the day before. Inmate canteen orders are recorded on sheets and when filled are filed in the inmate's file. On any given day, these order forms should agree with the amount placed in the cash drawer. Since the order forms are not pre-numbered, there is no way of knowing if all the collections have been accounted for. The filled orders are logged into the computer.

- Periodically, the Jail Administrator takes the envelopes to his office to determine the amount to turn over to the County Auditor/Treasurer's Office. He prints a report from the computer system giving him the ending balance after the activity has been recorded. He then leaves that balance in the envelopes and turns over the remainder to the County and discards the report.

- No regular physical count is taken of the canteen inventory (due to shortage in staff). Controls, including periodic inventory counts and reconciliation to inventory records, should be established and maintained.

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

Client's Response (County Sheriff):

To address the overall issue of canteen, we will be proceeding towards an automated system. This system will include vending (by a contracted source), debit cards, and the utilization of checks, as opposed to cash.

Currently, the cash, once collected from an inmate is stored in a cabinet with a lock. Also, the canteen revenues are brought to the Auditor/Treasurer's Office more frequently, not the once a month as was noted at the time of the inspection.

06-8 Antifraud Programs and Controls

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

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission's Internal Control – Integrated Framework specifies five components of an effective antifraud program: (1) performing fraud risk assessments; (2) creating a control environment; (3) designing and implementing antifraud control activities; (4) sharing information and communication; and (5) monitoring activities.

The County should communicate its philosophy on antifraud programs and controls throughout the organization. This should help ensure that employees understand the antifraud activities in place, know what is expected of them, and realize the organization takes fraud risks and prevention very seriously. All levels of the organization should have involvement in these communications and, if appropriate, communications should also be made to external parties (including clients, suppliers, and agents).

We recommend the County improve internal controls over antifraud programs and controls. The controls should address all five components of an effective antifraud program according to the COSO framework. We encourage Lyon County to not only obtain the training and expertise to implement a program that prevents, deters, and detects fraud, but also to monitor and test the controls in place to evaluate whether the controls are operating effectively and in the intended manner.

Client's Response*:*

The County will work on this.

06-9 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

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

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

The Auditor/Treasurer's Office will work on this.

06-10 Computer Risk Management

The County has not developed a formal plan to identify and manage risks associated with its computer system.

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff's adherence to these policies and procedures should be monitored. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems.

Client's Response:

The County will look into this.

06-11 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it was more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

Although Lyon County has identified and been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and including the related notes to the financial statements.

Client's Response:

The County has ordered GASB publications on financial statement preparation and will continue to provide staff with educational opportunities, when available.

06-12 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate software system. Capital asset additions and deletions are entered into this system, and depreciation is calculated by the system. Capital asset policies utilized by the County in maintaining the capital asset system have not been formally approved. A capital assets policy should be adopted which defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The Board should also establish policies and procedures to identify capital asset additions and deletions. Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually.

Client's Response:

The Auditor/Treasurer's Office will work on this with the County Administrator and County Board.

06-13 Audit Adjustments and Restatements

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements including a material prior period adjustment. The prior period adjustment related to the proceeds from a capital lease that were deposited directly with an escrow agent. The County did not include the proceeds held by an escrow agent in its financial statements. The adjustments resulted from: County staff needed guidance on accounting principles and oversight to provide accurate and reliable information; accounting staff have not kept current on new accounting and reporting requirements; errors were made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's records understating assets, liabilities, revenues, and expenditures; and the County did not consider the need for control over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

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

Client's Response:

More communication is needed between departments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

03-1 Ditch Fund Cash and Fund Deficits

Three of the 97 individual ditch systems had deficit cash balances at December 31, 2006, totaling $253,268. 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 system 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 deficits 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 is still working on this process.

04-2 Depository Pledge Agreement

The depository pledge agreement between the County and Minnwest Bank South - Tracy, Bank of the West, Bremer Bank, Minnwest Bank MV, and Wells Fargo 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:

Lyon County now has an updated agreement. We are waiting for a response from the State Auditor's Attorney.

ITEMS ARISING THIS YEAR

06-14 Itemized Meal Receipts

The County travel policy states, "County employees and elected officials will be reimbursed, with itemized receipts, for the actual cost of meals including sales tax. . . ."

While testing expenditures, we noted that three of the ten claims tested did not have itemized receipts for meals that were reimbursed for travel. Two were paid from the motel receipt and did not include an itemized receipt, and the other one was a written document with no itemization of the meal.

The County policy requires itemized receipts, and Minn. Stat. § 471.38 requires itemization for all claims that can be itemized in the ordinary course of business. Minn. Stat. § 471.41 states, "Every member of such board who shall audit and allow any claim required to be itemized, without the same having been first duly itemized and verified, shall be guilty of a gross misdemeanor."

We recommend that the County Board enforce its travel policy as well as the requirements of Minn. Stat. §§ 471.38 and 471.41 and allow only claims that have the proper itemization and supporting documentation attached.

Client's Response:

The Auditor/Treasurer's Office will continue to look at this.

06-15 Debt Service Levy

The amount of gross tax levied by the County for the Road Bond Debt Service Fund for 2007 was $653,240. The amount of scheduled principal retirement and interest payments that should have been covered by the levy for 2007 was $628,179. The debt levy is $6,348 less than an amount to satisfy the 105 percent requirement of Minn. Stat. § 475.61, subd. 1.

Minn. Stat. § 475.61, subd. 1, requires counties issuing general obligation debt to levy an ad valorem tax on all taxable property in the county for each year of the term of the obligations. The tax levies for all years, together with other revenues pledged for the payment of the obligations, must produce at least five percent in excess of the amount needed to meet, when due, the principal and interest payments on the obligations.

We recommend that the County levy 105 percent to satisfy the requirement of Minn. Stat. § 475.61, subd. 1.

Client's Response:

Corrected for 2008.

06-16 Lack of Security Interest in Collateral Assignments Documentation

The County did not have documentation demonstrating a perfected interest in pledged collateral with Bank of the West, Bremer Bank, First Independent Bank, and Minnwest Bank South - Tracy. In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable.

The County is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the County must obtain a written assignment of collateral, which is approved by the depository bank's board of directors or loan committee and is a continuous official record of the bank.

We recommend that the County obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client's Response:

This should be taken care of in 2007.

06-17 Assignment of Collateral - Safekeeping Receipts

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

Minn. Stat. § 118A.03, subd. 4, states, "Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution."

We recommend that the County Auditor/Treasurer obtain the necessary safekeeping agreements and comply with Minnesota statutes.

Client's Response:

On file now.

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Pledged to Secure Deposits (05-1)
Federal deposit insurance (FDIC) and collateral pledged at December 31, 2005, was insufficient for the amount on deposit at Bank of the West by $374,383.

Resolution
The County has sufficient FDIC and collateral pledged to cover bank deposits.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM 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 resources and staff time 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 County's accounting system. The accounting system has been upgraded to accommodate the modified accrual basis of accounting in a separate general ledger system. The first step in the process is that counties change their accounting practices and account structure to be COFARS compliant and that all receipts and disbursements be coded to revenue and expenditure accounts.

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

- County budget information on the accounting system is inaccurate. Not all budget amounts are in the system.

- Intrafund transactions were in account codes mapped as revenues and expenditures.

- The tax levy and shared aids for a portion of General Fund debt was levied within the Debt Service Fund.

- Reimbursements from other funds and other governments are mapped to revenue accounts rather than as a reduction to expenditures.

- Client recorded intra-ditch activity as revenue and expenditures, overstating both.

- Client made modified accrual and full accrual closing entries in the cash general ledger.

- The closing entry to reclassify Road and Bridge Special Revenue Fund charges for services from miscellaneous revenue was not made.

We recommend that the County Board work directly with County staff to provide the necessary directives to prepare modified accrual and full accrual financial statements on the accounting system. In order to accomplish this, the County Board should ensure that staff assigned to prepare the annual financial statements and the required notes to the financial statements has adequate training and has a good understanding of the requirements of generally accepted accounting principles for governments. In addition, the Board should ensure that the staff has 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:

Will continue to work on.

ITEM ARISING THIS YEAR

06-18 Fully Depreciated Capital Assets

For financial reporting and asset management purposes, the County is required to keep records of its capital assets. The County is carrying a significant amount of fully depreciated assets.

Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board establish policies and procedures to more accurately estimate useful lives and to address the point the useful lives of current capital assets be reconsidered, when determined necessary.

Client's Response:

Will be worked on in 2007.

C. <u>OTHER ITEM FOR CONSIDERATION</u>

<u>Other Postemployment Benefits (OPEB)</u>

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

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

If applicable for Lyon County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

OTHER REQUIRED REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 18, 2007. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered Lyon County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 02-5, and 06-1 through 06-13 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 98-1, 02-5, 06-1 through 06-5, 06-8, 06-12, and 06-13 to be material weaknesses.

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 Questioned Costs as items 03-1, 04-2, and 06-14 through 06-17.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and other items for consideration. We believe these recommendations and information to be of benefit to Lyon County and reported for that purpose.

Lyon County's written response to the significant deficiencies, material weaknesses, and legal compliance findings identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 18, 2007

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

Board of County Commissioners
Lyon County

Compliance

We have audited the compliance of Lyon County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. Lyon County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Lyon County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Lyon County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 18, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 18, 2007

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 7

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	**$ 10,734**	**$ 10,734**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$ 484,334	$ -
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600	11,839	-
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	628	-
Total U.S. Department of Transportation		**$ 496,801**	**$ -**
U.S. Election Assistance Commission			
Passed Through Office of the Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	**$ 227,921**	**$ -**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grant	97.042	$ 12,185	$ -
Homeland Security Grant Program	97.067	3,171	-
Total U.S. Department of Homeland Security		**$ 15,356**	**$ -**
Total Federal Awards		**$ 750,812**	**$ 10,734**

Notes to Schedule of Expenditures of Federal Awards

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

2. The expenditures on this schedule are on the modified accrual basis of accounting.

3. During 2006, $10,734 of CFDA No. 16.523 was passed through to a subrecipient. These funds were not reported as either revenues or expenditures of the County, as they were passed through to another entity.

4. Pass-through grant numbers were not assigned by the pass-through agencies.