

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

For the Year Ended December 31, 2005



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

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**LYON COUNTY
MARSHALL, MINNESOTA**

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MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

ORGANIZATION
2005

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
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 2005 and 2006

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

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, 2005, 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, 2005, 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 July 27, 2006, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(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, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2005, by \$73,697,757 (net assets). Of this amount, \$15,317,618 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Lyon County's total net assets increased by \$5,374,226 in 2005. This is attributable primarily to an increase in cash and investments of \$1,549,502, which is offset by an increase in liabilities of \$238,056. The result is a net increase in cash and investments of \$1,311,446.
- As of the close of 2005, Lyon County's governmental funds reported combined ending fund balances of \$16,183,867, an increase of \$192,831 in comparison with 2004 combined ending fund balances. Of this balance amount, \$6,748,639 was unreserved and undesignated by Lyon County, and thus available for spending at the government's discretion.
- At the end of 2005, unreserved fund balance for the General Fund was \$6,921,734, or 87 percent of the total General Fund expenditures for that year. This represents a slight increase over 2004, which had 84 percent of the total General Fund expenditures.
- Lyon County's total long-term liabilities increased by \$39,478 during 2005. Lyon County entered into an energy efficiency project to upgrade the heating, ventilation, and air conditioning system in the Government Center. Under this arrangement, the contractor installing the equipment guarantees energy and maintenance savings in an amount to offset the cost of the lease over the lease period. The lease contract was \$463,827 for a term of ten years. The County retired \$588,318 in long-term debt during the year. General obligation bonds remain unchanged at \$5,275,000 at the end of 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

Lyon County's government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from those 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, and interest. Lyon County has only one business-type activity known as the Lyon County Landfill.

Fund Level Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on

near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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

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

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

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 56 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 \$73,697,757 at the close of 2005. The largest portion of Lyon County's net assets (72 percent) reflects the County's investment in capital assets (for

example, land, buildings, equipment and infrastructure such as roads and bridges), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	2005			2004
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 20,036,230	\$ 8,744,564	\$ 28,780,794	\$ 26,627,214
Capital assets	57,152,645	1,047,276	58,199,921	54,741,219
Total Assets	\$ 77,188,875	\$ 9,791,840	\$ 86,980,715	\$ 81,368,433
Liabilities				
Long-term liabilities	\$ 10,170,663	\$ 2,205,474	\$ 12,376,137	\$ 12,177,354
Other liabilities	827,118	79,703	906,821	867,548
Total Liabilities	\$ 10,997,781	\$ 2,285,177	\$ 13,282,958	\$ 13,044,902
Net Assets				
Invested in capital assets, net of related debt	\$ 52,378,234	\$ 1,047,276	\$ 53,425,510	\$ 52,103,997
Restricted	2,267,400	2,687,229	4,954,629	3,658,898
Unrestricted	11,545,460	3,772,158	15,317,618	12,560,636
Total Net Assets	\$ 66,191,094	\$ 7,506,663	\$ 73,697,757	\$ 68,323,531

The unrestricted net assets amount of \$15,317,618 as of December 31, 2005, 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 2005 by \$5,374,226, representing an eight 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

	2005			2004
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 1,453,919	\$ 2,237,165	\$ 3,691,084	\$ 3,416,945
Operating grants and contributions	2,596,332	-	2,596,332	4,054,434
Capital grants and contributions	3,501,699	-	3,501,699	407,891
General revenues				
Property taxes	8,227,841	-	8,227,841	7,361,404
Other	3,267,940	93,997	3,361,937	2,435,221
Total Revenues	\$ 19,047,731	\$ 2,331,162	\$ 21,378,893	\$ 17,675,895

	2005			2004
	Governmental Activities	Business-Type Activities	Total	
Expenses				
General government	\$ 3,483,056	\$ -	\$ 3,483,056	\$ 2,734,437
Public safety	2,842,043	-	2,842,043	2,923,481
Highways	4,338,423	-	4,338,423	4,064,035
Sanitation	511,028	1,222,060	1,733,088	1,697,282
Human services	2,212,232	-	2,212,232	2,213,688
Health	160,090	-	160,090	160,090
Culture and recreation	433,928	-	433,928	467,593
Conservation of natural resources	459,693	-	459,693	483,222
Interest	342,114	-	342,114	299,555
Total Expenses	\$ 14,782,607	\$ 1,222,060	\$ 16,004,667	\$ 15,043,383
Increase in Net Assets	\$ 4,265,124	\$ 1,109,102	\$ 5,374,226	\$ 2,632,512
Net Assets - January 1	61,925,970	6,397,561	68,323,531	65,691,019
Net Assets - December 31	\$ 66,191,094	\$ 7,506,663	\$ 73,697,757	\$ 68,323,531

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 2005, Lyon County's governmental funds reported combined ending fund balances of \$16,183,867, an increase of \$192,831 in comparison with the prior year. Of the ending fund balance, \$9,963,844 represents unreserved fund balance which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Lyon County. At the end of the current fiscal year, it had an unreserved fund balance of \$6,921,734. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 87 percent of total General Fund expenditures.

The Road and Bridge Fund had an unreserved fund balance of \$2,400,534 at year-end, representing 30 percent of the fund's annual expenditures. Unreserved fund balance increased \$373,761 during 2005, primarily due to an increased amount of intergovernmental revenues.

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 Lincoln, Lyon, & Murray Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had an unreserved ending balance of \$641,576. This ending balance represents a \$115,652 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 2005.

Actual General Fund revenues exceeded budgeted revenues by \$335,998, primarily due to a greater than expected return on investments.

Actual expenditures were less than budgeted expenditures by \$164,105.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2005, totaled \$55,851,633 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in depreciable capital assets increased \$3,414,863, 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

	2004	2005
Capital assets depreciated		
Land improvements	\$ 415,557	\$ 415,557
Buildings	12,144,295	12,273,088
Machinery and equipment	4,698,378	4,816,049
Infrastructure	53,624,045	58,122,783
Total capital assets depreciated	\$ 70,882,275	\$ 75,627,477

	<u>2004</u>	<u>2005</u>
Less: accumulated depreciation for		
Land improvements	\$ 162,545	\$ 191,547
Buildings	2,509,499	2,686,765
Machinery and equipment	2,912,000	2,873,616
Infrastructure	<u>12,861,461</u>	<u>14,023,916</u>
Total accumulated depreciation	<u>\$ 18,445,505</u>	<u>\$ 19,775,844</u>
Depreciable Capital Assets Depreciated, Net	<u>\$ 52,436,770</u>	<u>\$ 55,851,633</u>

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 liabilities of \$10,170,663 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

	<u>2004</u>	<u>2005</u>
Special assessment debt	\$ 1,435,000	\$ 1,280,000
General obligation debt	5,275,000	5,275,000
Unamortized premium	31,546	28,041
Leases payable	2,637,222	2,692,438
Loans payable	236,685	337,958
Compensated absences	<u>515,732</u>	<u>557,226</u>
Total	<u>\$ 10,131,185</u>	<u>\$ 10,170,663</u>

The County's debt related to special assessment obligation bonds and notes decreased by \$155,000 (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 \$1,890,475,300. At the end of 2005, Lyon County's debt was 0.5 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 2005 was 3.3 percent. This compares favorably with the state unemployment rate of 4.0 percent and nationally at 5.1 percent and shows a decrease from the 3.9 percent rate of one year ago.

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

2006	52.794%	\$ 9,508,510
2005	55.560	9,100,000
2004	52.092	8,140,507
2003	53.006	6,687,771

On December 15, 2005, the Lyon County Board of Commissioners approved the 2006 budget and adopted a property tax levy of \$9,508,510, which represents a 4.49 percent increase over the 2005 property tax levy of \$9,100,000.

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, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 10,865,269	\$ 5,083,547	\$ 15,948,816
Investments	4,436,697	708,000	5,144,697
Receivables - net	4,325,572	263,507	4,589,079
Internal balances	219	(219)	-
Inventories	350,023	-	350,023
Prepaid items	26,274	2,500	28,774
Restricted assets			
Cash and pooled investments	-	141,466	141,466
Investments	-	2,538,055	2,538,055
Accrued interest receivable	-	7,708	7,708
Deferred debt issuance costs	32,176	-	32,176
Capital assets			
Non-depreciable capital assets	1,301,012	390,433	1,691,445
Depreciable capital assets - net of accumulated depreciation	55,851,633	656,843	56,508,476
Total Assets	\$ 77,188,875	\$ 9,791,840	\$ 86,980,715
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 682,159	\$ 70,516	\$ 752,675
Accrued interest payable	142,159	-	142,159
Unearned revenue	2,800	9,187	11,987
Long-term liabilities			
Due within one year	1,112,160	-	1,112,160
Due in more than one year	9,058,503	2,205,474	11,263,977
Total Liabilities	\$ 10,997,781	\$ 2,285,177	\$ 13,282,958
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 52,378,234	\$ 1,047,276	\$ 53,425,510
Restricted for			
Highways and streets	1,506,849	-	1,506,849
Landfill postclosure	-	2,687,229	2,687,229
Debt service	760,551	-	760,551
Unrestricted	11,545,460	3,772,158	15,317,618
Total Net Assets	\$ 66,191,094	\$ 7,506,663	\$ 73,697,757

**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 3,483,056	\$ 619,682
Public safety	2,842,043	328,040
Highways and streets	4,338,423	270,195
Sanitation	511,028	29,411
Human services	2,212,232	-
Health	160,090	-
Culture and recreation	433,928	41,132
Conservation of natural resources	459,693	165,459
Interest	342,114	-
Total governmental activities	\$ 14,782,607	\$ 1,453,919
Business-type activities		
Landfill	1,222,060	2,237,165
Total	\$ 16,004,667	\$ 3,691,084

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 37,546	\$ 44,000	\$ (2,781,828)	\$ -	\$ (2,781,828)
225,181	662	(2,288,160)	-	(2,288,160)
1,838,677	3,457,037	1,227,486	-	1,227,486
343,036	-	(138,581)	-	(138,581)
-	-	(2,212,232)	-	(2,212,232)
-	-	(160,090)	-	(160,090)
-	-	(392,796)	-	(392,796)
151,892	-	(142,342)	-	(142,342)
-	-	(342,114)	-	(342,114)
\$ 2,596,332	\$ 3,501,699	\$ (7,230,657)	\$ -	\$ (7,230,657)
-	-	-	1,015,105	1,015,105
\$ 2,596,332	\$ 3,501,699	\$ (7,230,657)	\$ 1,015,105	\$ (6,215,552)
		\$ 8,227,841	\$ -	\$ 8,227,841
		22,930	-	22,930
		92,320	-	92,320
		2,214,003	-	2,214,003
		591,413	93,997	685,410
		347,274	-	347,274
		\$ 11,495,781	\$ 93,997	\$ 11,589,778
		\$ 4,265,124	\$ 1,109,102	\$ 5,374,226
		61,925,970	6,397,561	68,323,531
		\$ 66,191,094	\$ 7,506,663	\$ 73,697,757

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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, 2005**

	General	Special Revenue Funds			Road Bond	Total
		Road and Bridge	Human Services	Ditch	Debt Service	
<u>Assets</u>						
Cash and pooled investments	\$ 6,221,386	\$ 2,948,252	\$ -	\$ 471,464	\$ 738,181	\$ 10,379,283
Undistributed cash in agency funds	87,372	26,638	28,866	4,780	9,168	156,824
Petty cash and change funds	2,765	-	-	-	-	2,765
Cash with fiscal agent	326,397	-	-	-	-	326,397
Investments	1,165,721	2,900,000	-	370,976	-	4,436,697
Taxes receivable						
Prior	49,249	19,325	21,292	-	4,952	94,818
Special assessments receivable						
Prior	11,956	-	-	5,086	-	17,042
Noncurrent	244,798	-	-	1,288,238	-	1,533,036
Accounts receivable	37,630	23,415	-	-	-	61,045
Accrued interest receivable	61,137	-	-	841	13,202	75,180
Due from other funds	23,737	8,409	-	-	-	32,146
Due from other governments	112,110	1,853,372	-	4,305	-	1,969,787
Advance to other funds	181,248	-	-	-	-	181,248
Leases receivable	574,664	-	-	-	-	574,664
Inventories	-	350,023	-	-	-	350,023
Prepaid items	26,274	-	-	-	-	26,274
Total Assets	\$ 9,126,444	\$ 8,129,434	\$ 50,158	\$ 2,145,690	\$ 765,503	\$ 20,217,229

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Special Revenue Funds			Road Bond	Total
		Road and Bridge	Human Services	Ditch	Debt Service	
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 57,117	\$ 60,082	\$ -	\$ 938	\$ -	\$ 118,137
Salaries payable	129,728	49,467	-	-	-	179,195
Contracts payable	-	260,166	-	-	-	260,166
Due to other funds	8,175	115	-	23,637	-	31,927
Due to other governments	85,864	4,964	28,866	4,967	-	124,661
Deferred revenue - unavailable	306,003	1,509,657	21,292	1,293,324	4,952	3,135,228
Deferred revenue - unearned	2,800	-	-	-	-	2,800
Advance from other funds	-	-	-	181,248	-	181,248
Total Liabilities	\$ 589,687	\$ 1,884,451	\$ 50,158	\$ 1,504,114	\$ 4,952	\$ 4,033,362
Fund Balances						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 760,551	\$ 760,551
Encumbrances	-	116,896	-	-	-	116,896
Advance to other funds	181,248	-	-	-	-	181,248
Inventories	-	350,023	-	-	-	350,023
Prepaid items	26,274	-	-	-	-	26,274
Missing heirs	2,483	-	-	-	-	2,483
Law library	67,875	-	-	-	-	67,875
Recorder's equipment purchases	24,497	-	-	-	-	24,497
E-911	155,993	-	-	-	-	155,993
Sheriff's contingency	1,788	-	-	-	-	1,788
Sheriff's forfeited property	8,820	-	-	-	-	8,820
Attorney's forfeited property	11,422	-	-	-	-	11,422
Canteen fund	21,595	-	-	-	-	21,595
Gun permit fees	7,000	-	-	-	-	7,000
Highway allotments	-	184,503	-	-	-	184,503
Leases receivable	574,664	-	-	-	-	574,664
Governmental lease obligation	326,397	-	-	-	-	326,397
Fish and wildlife trust	52,259	-	-	-	-	52,259
Probation supervision fees	29,765	-	-	-	-	29,765
Future road projects	-	3,193,027	-	-	-	3,193,027
Septic/sewer loans	91,976	-	-	-	-	91,976
Recorder's compliance fund	25,916	-	-	-	-	25,916
DARE program	5,051	-	-	-	-	5,051
Unreserved						
Designated for future expenditures	3,084,928	-	-	-	-	3,084,928
Designated for county road projects	-	130,277	-	-	-	130,277
Undesignated	3,836,806	2,270,257	-	641,576	-	6,748,639
Total Fund Balances	\$ 8,536,757	\$ 6,244,983	\$ -	\$ 641,576	\$ 760,551	\$ 16,183,867
Total Liabilities and Fund Balances	\$ 9,126,444	\$ 8,129,434	\$ 50,158	\$ 2,145,690	\$ 765,503	\$ 20,217,229

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, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	16,183,867
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.		57,152,645
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,135,228
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (6,555,000)	
Capital leases	(2,692,438)	
Compensated absences	(557,226)	
Loans payable	(337,958)	
Accrued interest payable	(142,159)	
Unamortized premium on general obligation bonds	(28,041)	
Deferred debt issuance costs	32,176	
	(10,280,646)	(10,280,646)
Net assets of governmental activities (Exhibit 1)	\$	<u>66,191,094</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Special Revenue Funds				Road Bond Debt Service	Total
	General	Road and Bridge	Human Services	Ditch		
Revenues						
Taxes	\$ 4,314,442	\$ 1,614,819	\$ 1,733,598	\$ -	\$ 589,114	\$ 8,251,973
Special assessments	271,276	-	-	451,595	-	722,871
Licenses and permits	24,612	-	-	-	-	24,612
Intergovernmental	1,786,115	4,833,161	478,634	-	67,111	7,165,021
Charges for services	710,423	37,461	-	-	-	747,884
Gifts and contributions	2,977	-	-	-	-	2,977
Investment earnings	489,352	-	-	7,143	94,918	591,413
Miscellaneous	631,729	234,405	-	8,800	-	874,934
Total Revenues	\$ 8,230,926	\$ 6,719,846	\$ 2,212,232	\$ 467,538	\$ 751,143	\$ 18,381,685
Expenditures						
Current						
General government	\$ 3,215,120	\$ -	\$ -	\$ -	\$ -	\$ 3,215,120
Public safety	2,793,642	-	-	-	-	2,793,642
Highways and streets	-	7,811,104	-	-	-	7,811,104
Sanitation	508,926	-	-	-	-	508,926
Culture and recreation	240,619	-	-	-	-	240,619
Conservation of natural resources	339,815	-	-	122,442	-	462,257
Intergovernmental	357,399	252,758	2,212,232	-	-	2,822,389
Debt service						
Principal	429,813	-	-	155,000	-	584,813
Interest	103,134	-	-	70,678	171,079	344,891
Administrative (fiscal) fees	1,314	-	-	3,766	1,502	6,582
Total Expenditures	\$ 7,989,782	\$ 8,063,862	\$ 2,212,232	\$ 351,886	\$ 172,581	\$ 18,790,343
Excess of Revenues Over (Under) Expenditures	\$ 241,144	\$ (1,344,016)	\$ -	\$ 115,652	\$ 578,562	\$ (408,658)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 8,406	\$ -	\$ -	\$ -	\$ 8,406
Transfers out	(8,406)	-	-	-	-	(8,406)
Capital lease installment purchase	463,827	-	-	-	-	463,827
Loans issued	122,475	-	-	-	-	122,475
Total Other Financing Sources (Uses)	\$ 577,896	\$ 8,406	\$ -	\$ -	\$ -	\$ 586,302
Net Change in Fund Balances	\$ 819,040	\$ (1,335,610)	\$ -	\$ 115,652	\$ 578,562	\$ 177,644
Fund Balances - January 1	7,717,717	7,565,406	-	525,924	181,989	15,991,036
Increase (decrease) in reserved for inventories	-	15,187	-	-	-	15,187
Fund Balances - December 31	\$ 8,536,757	\$ 6,244,983	\$ -	\$ 641,576	\$ 760,551	\$ 16,183,867

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 177,644**

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	\$ 3,135,228	
Deferred revenue - January 1	(2,469,690)	665,538

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	\$ 5,315,198	
Current year depreciation	(1,874,819)	3,440,379

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		
Capital leases	\$ (463,827)	
ISTS loans	(122,475)	(586,302)

Debt principal repayments		
General obligation bonds	\$ 155,000	
Capital leases	408,611	
Loans payable	21,202	584,813

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	\$ 9,876	
Change in compensated absences	(41,494)	
Change in inventories	15,187	(16,431)

Change in net assets of governmental activities (Exhibit 2) **\$ 4,265,124**

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PROPRIETARY FUND

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2005**

Assets

Current assets	
Cash and pooled investments	\$ 5,083,347
Petty cash and change funds	200
Investments	708,000
Accounts receivable - net	249,360
Accrued interest receivable	2,056
Due from other funds	15
Due from other governments	12,091
Prepaid items	2,500
Restricted assets	
Cash and pooled investments	141,466
Investments	2,538,055
Accrued interest receivable	7,708
Total current assets	\$ 8,744,798
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 390,433
Depreciable - net	656,843
Total noncurrent assets	\$ 1,047,276
Total Assets	\$ 9,792,074

Liabilities

Current liabilities	
Accounts payable	\$ 25,705
Salaries payable	10,235
Contracts payable	31,096
Due to other funds	234
Due to other governments	3,480
Deferred revenue - unearned	9,187
Total current liabilities	\$ 79,937
Noncurrent liabilities	
Compensated absences payable - long-term	\$ 21,147
Estimated liability for landfill closure/postclosure	2,184,327
Total noncurrent liabilities	\$ 2,205,474
Total Liabilities	\$ 2,285,411

Net Assets

Invested in capital assets	\$ 1,047,276
Restricted for postclosure	2,687,229
Unrestricted	3,772,158
Total Net Assets	\$ 7,506,663

**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, 2005**

Operating Revenues	
Charges for services	\$ 2,215,462
Miscellaneous	21,703
	<hr/>
Total Operating Revenues	\$ 2,237,165
Operating Expenses	
Personal services	\$ 313,780
Professional services	172,459
Administration and fiscal services	7,009
Other services and charges	434,667
Utilities	3,685
Depreciation	131,960
Landfill closure and postclosure costs	158,500
	<hr/>
Total Operating Expenses	\$ 1,222,060
Operating Income (Loss)	\$ 1,015,105
Nonoperating Revenues (Expenses)	
Investment earnings	93,997
	<hr/>
Change in Net Assets	\$ 1,109,102
Net Assets - January 1	6,397,561
	<hr/>
Net Assets - December 31	\$ 7,506,663

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,520,600
Payments to suppliers	(777,664)
Payments to employees	(309,578)
	\$ 1,433,358
Cash Flows From Noncapital Financing Activities	
Investment earnings	101,241
Cash Flows From Capital and Related Financing Activities	
Purchases of capital assets	(150,283)
	\$ 1,384,316
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,384,316
Cash and Cash Equivalents - January 1	3,840,697
	\$ 5,225,013
	\$ 5,225,013
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	\$ 5,083,347
Petty cash and change funds	200
Restricted cash and pooled investments	141,466
	\$ 5,225,013
	\$ 5,225,013
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 1,015,105
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 131,960
(Increase) decrease in accounts receivable	127,118
(Increase) decrease in due from other governments	2,082
(Increase) decrease in due from other funds	(15)
Increase (decrease) in accounts payable	1,986
Increase (decrease) in salaries payable	3,397
Increase (decrease) in contracts payable	(14,053)
Increase (decrease) in due to other funds	(974)
Increase (decrease) in due to other governments	(1,740)
Increase (decrease) in deferred revenue - unearned	9,187
Increase (decrease) in landfill closure costs	158,500
Increase (decrease) in compensated absences payable	805
	\$ 418,253
Total adjustments	\$ 418,253
Net cash provided by (used in) operating activities	\$ 1,433,358
	\$ 1,433,358

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, 2005**

	Investment Trust Fund	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 4,929,032	\$ 384,761
Accrued interest receivable	17,888	-
Total Assets	\$ 4,946,920	\$ 384,761
<u>Liabilities and Net Assets</u>		
Liabilities		
Due to other governments	\$ -	\$ 384,761
Net Assets		
Net assets held in trust for pool participant	4,946,920	-
Total Liabilities and Net Assets	\$ 4,946,920	\$ 384,761

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 11,983,544
Investment earnings	<u>94,521</u>
Total additions	\$ 12,078,065
<u>Deductions</u>	
Distributions to participants	<u>12,473,838</u>
Change in net assets	\$ (395,773)
Net Assets - Beginning of the Year	<u>5,342,693</u>
Net Assets - End of the Year	<u>\$ 4,946,920</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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, 2005. 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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activity 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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

transactions are those in which each party receives and gives up essentially equal values. Nonoperating 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, 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 2005 were \$448,928.

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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

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

4. Special Assessments Receivable

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

5. Inventories and Prepaid Items

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Human Services Special Revenue Fund	\$ 2,212,232	\$ 2,184,291	\$ 27,941
Ditch Special Revenue Fund	351,886	231,679	120,207

**LYON COUNTY
MARSHALL, MINNESOTA**

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	\$ 10,865,269
Investments	4,436,697
Business-type activities	
Cash and pooled investments	5,083,547
Investments	708,000
Cash and pooled investments - restricted assets	141,466
Investments - restricted assets	2,538,055
Statement of fiduciary net assets	
Cash and pooled investments	
Investment trust fund	4,929,032
Agency funds	384,761
Total Cash and Investments	\$ 29,086,827

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard 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 that is not owned or controlled by the financial institution furnishing the collateral.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a deposit policy for custodial credit risk. As of December 31, 2005, \$374,383 of the County's bank balance of \$26,385,116 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 374,383</u>
--------------------------------	-------------------

b. Investments

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

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

outside party. The County's policy does not address custodial credit risk for investments. On December 31, 2005, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's deposits and investment balances at December 31, 2005, along with information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 1,821,300
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Prime Investment Money Market Fund	AAAm	Standards & Poor	N/A	N/A	1,400,000
Total investment pools/mutual funds					\$ 3,223,732
Checking					8,453,303
Savings					9,080,430
Petty cash and change funds					2,965
Certificates of deposit					8,000,000
Cash with fiscal agent					326,397
Total Cash and Investments					\$ 29,086,827

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, 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	\$ 94,818	\$ -
Special assessments	1,550,078	1,533,036
Accounts	61,045	-
Interest	75,180	-
Leases	574,664	430,504
Due from other governments	1,969,787	-
Total Governmental Activities	\$ 4,325,572	\$ 1,963,540
	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	\$ 249,360	\$ -
Interest	2,056	-
Due from other governments	12,091	-
Total Business-Type Activities	\$ 263,507	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 790,846	\$ -	\$ -	\$ 790,846
Right-of-way	484,650	25,516	-	510,166
 Total capital assets not depreciated	 \$ 1,275,496	 \$ 25,516	 \$ -	 \$ 1,301,012
Capital assets depreciated				
Land improvements	\$ 415,557	\$ -	\$ -	\$ 415,557
Buildings	12,144,295	135,367	6,574	12,273,088
Machinery and equipment	4,698,378	655,577	537,906	4,816,049
Infrastructure	53,624,045	4,498,738	-	58,122,783
 Total capital assets depreciated	 \$ 70,882,275	 \$ 5,289,682	 \$ 544,480	 \$ 75,627,477
Less: accumulated depreciation for				
Land improvements	\$ 162,545	\$ 29,002	\$ -	\$ 191,547
Buildings	2,509,499	183,840	6,574	2,686,765
Machinery and equipment	2,912,000	499,522	537,906	2,873,616
Infrastructure	12,861,461	1,162,455	-	14,023,916
 Total accumulated depreciation	 \$ 18,445,505	 \$ 1,874,819	 \$ 544,480	 \$ 19,775,844
 Total capital assets depreciated, net	 \$ 52,436,770	 \$ 3,414,863	 \$ -	 \$ 55,851,633
 Governmental Activities Capital Assets, Net	 \$ 53,712,266	 \$ 3,440,379	 \$ -	 \$ 57,152,645

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ -	\$ 390,433
Capital assets depreciated				
Buildings	\$ 132,947	\$ -	\$ -	\$ 132,947
Machinery and equipment	1,328,317	150,283	141,158	1,337,442
Total capital assets depreciated	\$ 1,461,264	\$ 150,283	\$ 141,158	\$ 1,470,389
Less: accumulated depreciation for				
Buildings	\$ 41,059	\$ 4,432	\$ -	\$ 45,491
Machinery and equipment	781,685	127,528	141,158	768,055
Total accumulated depreciation	\$ 822,744	\$ 131,960	\$ 141,158	\$ 813,546
Total capital assets depreciated, net	\$ 638,520	\$ 18,323	\$ -	\$ 656,843
Business-Type Activities Capital Assets, Net	<u>\$ 1,028,953</u>	<u>\$ 18,323</u>	<u>\$ -</u>	<u>\$ 1,047,276</u>

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

Governmental Activities	
General government	\$ 296,770
Public safety	98,990
Highways and streets, including depreciation of infrastructure assets	1,453,374
Culture and recreation	18,170
Sanitation	2,679
Conservation of natural resources	4,836
Total Depreciation Expense - Governmental Activities	<u>\$ 1,874,819</u>
Business-Type Activities	
Landfill	<u>\$ 131,960</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and Bridge Special Revenue Fund	\$ 100
	Ditch Special Revenue Fund	23,637
Road and Bridge Special Revenue Fund	General Fund	8,175
	Landfill Enterprise Fund	234
Landfill Enterprise Fund	Road and Bridge Special Revenue Fund	<u>15</u>
Total Due To/From Other Funds		<u>\$ 32,161</u>

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	<u>\$ 181,248</u>

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to Road and Bridge Special Revenue Fund from General Fund	<u>\$ 8,406</u>	Provide funding
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**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 118,137	\$ 25,705
Salaries	179,195	10,235
Contracts	260,166	31,096
Due to other governments	124,661	3,480
Total Payables	\$ 682,159	\$ 70,516

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 6,450,341	\$ 745,891
Truck purchase	-	28,286
Business-Type Activities		
Leachate recirculation expansion	\$ 310,964	67,650

3. Retired Officials' and Employees' Health Insurance Benefits

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

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2005, were:

	Number of Participants	Contribution
Governmental Activities		
Elected officials	4	\$ 14,658
Employees	18	68,396
Totals	22	\$ 83,054

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, 2005:

Capital Leases	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2002 mower	2006	\$4,144	-	\$ 20,720	\$ 4,144
1998 joint jail and law enforcement center	2009	\$195,000 - \$280,000	4.05 to 4.60	2,115,000	1,045,000
Public works building	2012	\$135,000 - \$185,000	3.50 to 4.40	1,555,000	1,150,000
CIS windows system	2006	\$29,467 - \$33,066	-	92,000	29,467
Heating and cooling retrofit project	2015	\$56,423	3.89	463,827	463,827
Total Capital Leases				\$ 4,246,547	\$ 2,692,438

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2005, were as follows:

Year Ending December 31	Governmental Activities
2006	\$ 565,949
2007	530,812
2008	528,151
2009	534,265
2010	245,873
2011 - 2015	663,195
Total minimum lease payments	\$ 3,068,245
Less: amount representing interest	(375,807)
Present Value of Minimum Lease Payments	\$ 2,692,438

5. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2010	\$10,000 - \$45,000	4.20 to 6.00	\$ 385,000	\$ 50,000
1994 G.O. drainage bonds	2011	\$15,000 - \$25,000	5.80 to 6.70	310,000	140,000
1997 G.O. drainage bonds	2019	\$35,000	5.00 to 5.50	700,000	490,000
1998 G.O. drainage bonds	2010	\$30,000 - \$35,000	4.40 to 4.75	325,000	150,000
1999 G.O. drainage bonds	2015	\$45,000	4.00 to 5.00	675,000	450,000
Total Special Assessment Bonds With Government Commitment				\$ 2,395,000	\$ 1,280,000

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2005
General obligation bonds 2004 G.O. capital improvement bonds	2015	\$460,000 - \$615,000	3.00 to 3.75	<u>\$ 5,275,000</u>	\$ 5,275,000
Plus: unamortized premium					<u>28,041</u>
General Obligation Bonds, net					<u>\$ 5,303,041</u>

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Cottonwood River Restoration CWP Project	2013	\$3,528	2.00	\$ 205,991	\$ 191,272
Yellow Medicine River Watershed CWP Project	2015	\$3,667	2.00	94,158	83,344
Redwood Watershed Phosphorus CWP Project				<u>63,342</u>	<u>63,342</u>
Total Loans Payable				<u>\$ 363,491</u>	<u>\$ 337,958</u>

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 460,000	\$ 164,179	\$ 140,000	\$ 63,450
2007	470,000	150,229	140,000	56,465
2008	485,000	135,904	145,000	49,148
2009	495,000	120,894	145,000	41,586
2010	510,000	105,191	145,000	33,920
2011 - 2015	2,855,000	258,216	425,000	91,347
2016 - 2019	-	-	140,000	15,400
Total	<u>\$ 5,275,000</u>	<u>\$ 934,613</u>	<u>\$ 1,280,000</u>	<u>\$ 351,316</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 12,209	\$ 2,181
2007	12,454	1,935
2008	12,705	1,685
2009	12,960	1,430
2010	13,220	1,169
2011 - 2015	48,534	2,109
Total	<u>\$ 112,082</u>	<u>\$ 10,509</u>

The debt service requirements do not include all of the loans because no fixed repayment schedule was available at December 31, 2005, for some loans.

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2005, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Special assessment debt with government commitment	\$ 1,435,000	\$ -	\$ 155,000	\$ 1,280,000	\$ 140,000
General obligation bonds	5,275,000	-	-	5,275,000	460,000
Unamortized premium	31,546	-	3,505	28,041	-
Leases payable	2,637,222	463,827	408,611	2,692,438	462,379
Loans payable	236,685	122,475	21,202	337,958	12,209
Compensated absences	515,732	41,494	-	557,226	37,572
	<u>10,131,185</u>	<u>627,796</u>	<u>588,318</u>	<u>10,170,663</u>	<u>1,112,160</u>
Governmental Activity Long-Term Liabilities	<u>\$ 10,131,185</u>	<u>\$ 627,796</u>	<u>\$ 588,318</u>	<u>\$ 10,170,663</u>	<u>\$ 1,112,160</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 2,025,827	\$ 158,500	\$ -	\$ 2,184,327	\$ -
Compensated absences	20,342	805	-	21,147	-
	<u>2,046,169</u>	<u>159,305</u>	<u>-</u>	<u>2,205,474</u>	<u>-</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 2,046,169</u>	<u>\$ 159,305</u>	<u>\$ -</u>	<u>\$ 2,205,474</u>	<u>\$ -</u>

8. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,184,327 landfill closure and postclosure care liability at December 31, 2005, represents the cumulative amount reported to date

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

8. Landfill Closure and Postclosure Care Costs (Continued)

based on the use of 89.2 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$263,493 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Based on the current permitted capacity, the landfill has an estimated operating life of 18 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, 2005, cash and investments of \$2,687,229 are held for these purposes. These are reported as restricted assets on the balance sheet. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. 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 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2005, 2004, and 2003, 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
2005	\$ 188,641	\$ 61,711	\$ 36,344
2004	188,906	64,230	39,539
2003	169,531	56,863	34,183

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$867, \$0, and \$14, 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 \$760,000 per claim in 2005 and \$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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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 2005 was \$2,212,232.

At December 31, 2005, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,160,132. In addition, under the new reporting model, the LLMHS reported total net assets of \$4,920,285. The LLMHS's long-term debt at December 31, 2005, is composed of \$416,630 of compensated absences payable. The debt will be

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

funded by intergovernmental revenue and revenue from computer services. Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, Pipestone Public Health Services

Lyon County has joined with surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, Pipestone Public Health Services and was established August 1, 1978. The governing Board is composed of nine members: two Commissioners representing Lyon County, one Board member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lyon County's contribution in 2005 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, Pipestone Public Health Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

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

The Lincoln-Pipestone Rural Water System's 2005 financial report 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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, 2004 (the most recent information available), were \$6,425,534, and notes payable were \$267,419. Fund balance was \$1,443,112.

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

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.

**LYON COUNTY
MARSHALL, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$14,256 of the County levy to the RCRCA.

Yellow Medicine River Watershed District

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

REQUIRED SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,429,939	\$ 5,429,939	\$ 4,314,442	\$ (1,115,497)
Special assessments	229,256	229,256	271,276	42,020
Licenses and permits	21,860	21,860	24,612	2,752
Intergovernmental	914,109	914,109	1,786,115	872,006
Charges for services	528,250	528,250	710,423	182,173
Gifts and contributions	-	-	2,977	2,977
Investment earnings	127,150	127,150	489,352	362,202
Miscellaneous	644,364	644,364	631,729	(12,635)
Total Revenues	\$ 7,894,928	\$ 7,894,928	\$ 8,230,926	\$ 335,998
Expenditures				
Current				
General government				
Commissioners	\$ 165,725	\$ 165,725	\$ 163,664	\$ 2,061
Courts	-	-	10,951	(10,951)
Law library	-	-	14,578	(14,578)
Administrator	130,325	130,325	123,996	6,329
Auditor/Treasurer	408,385	408,385	407,696	689
Assessor	167,570	167,570	159,158	8,412
Elections	21,497	21,497	2,893	18,604
Accounting and auditing	37,000	37,000	22,895	14,105
Information technology	100,600	100,600	92,869	7,731
Central services	214,500	214,500	276,013	(61,513)
Safety	4,500	4,500	2,583	1,917
Attorney	313,020	313,020	298,966	14,054
Recorder	275,785	275,785	262,684	13,101
Planning and zoning	176,405	176,405	155,960	20,445
Geographic information system	73,085	73,085	84,965	(11,880)
Buildings and plant	591,130	591,130	951,408	(360,278)
Veterans service officer	83,840	83,840	83,910	(70)
Other general government	81,191	81,191	99,931	(18,740)
Total general government	\$ 2,844,558	\$ 2,844,558	\$ 3,215,120	\$ (370,562)
Public safety				
Sheriff	\$ 1,634,590	\$ 1,634,590	\$ 1,533,984	\$ 100,606
Boat and water safety	-	-	1,251	(1,251)
Emergency services	54,800	54,800	63,839	(9,039)
Coroner	18,000	18,000	12,372	5,628
E-911 system	46,000	46,000	13,031	32,969
Law enforcement center	867,700	867,700	815,028	52,672
Criminal justice	63,355	63,355	85,186	(21,831)
Sentence to serve	42,000	42,000	16,948	25,052
Probation and parole	219,547	219,547	252,003	(32,456)
Total public safety	\$ 2,945,992	\$ 2,945,992	\$ 2,793,642	\$ 152,350

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Recycling	\$ 256,982	\$ 256,982	\$ 275,687	\$ (18,705)
Hazardous waste	143,274	143,274	206,872	(63,598)
Environmental	37,427	37,427	26,367	11,060
Total sanitation	\$ 437,683	\$ 437,683	\$ 508,926	\$ (71,243)
Culture and recreation				
Fairgrounds	\$ 41,343	\$ 41,343	\$ 57,458	\$ (16,115)
Parks	167,438	167,438	163,586	3,852
Other	29,500	29,500	19,575	9,925
Total culture and recreation	\$ 238,281	\$ 238,281	\$ 240,619	\$ (2,338)
Conservation of natural resources				
Extension	\$ 89,464	\$ 89,464	\$ 88,699	\$ 765
Agricultural inspection	6,266	6,266	12,272	(6,006)
Water quality loan program	-	-	110,266	(110,266)
Water planning	6,000	6,000	42,368	(36,368)
Other	92,493	92,493	86,210	6,283
Total conservation of natural resources	\$ 194,223	\$ 194,223	\$ 339,815	\$ (145,592)
Intergovernmental				
Health	\$ 156,000	\$ 156,000	\$ 160,090	\$ (4,090)
Culture and recreation	\$ 195,524	\$ 195,524	\$ 197,309	\$ (1,785)
Debt service				
Principal	\$ 1,141,625	\$ 1,141,625	\$ 429,813	\$ 711,812
Interest	\$ 1	\$ 1	\$ 103,134	\$ (103,133)
Administrative (fiscal) fees	\$ -	\$ -	\$ 1,314	\$ (1,314)
Total Expenditures	\$ 8,153,887	\$ 8,153,887	\$ 7,989,782	\$ 164,105
Excess of Revenues Over (Under) Expenditures	\$ (258,959)	\$ (258,959)	\$ 241,144	\$ 500,103

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (8,406)	\$ (8,406)
Capital lease installment purchase	-	-	463,827	463,827
Proceeds from loans issued	-	-	122,475	122,475
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 577,896</u>	<u>\$ 577,896</u>
Net Change in Fund Balance	<u>\$ (258,959)</u>	<u>\$ (258,959)</u>	<u>\$ 819,040</u>	<u>\$ 1,077,999</u>
Fund Balance - January 1	<u>7,717,717</u>	<u>7,717,717</u>	<u>7,717,717</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,458,758</u>	<u>\$ 7,458,758</u>	<u>\$ 8,536,757</u>	<u>\$ 1,077,999</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,891,936	\$ 1,891,936	\$ 1,614,819	\$ (277,117)
Intergovernmental	4,485,465	4,485,465	4,833,161	347,696
Charges for services	-	-	37,461	37,461
Miscellaneous	400,103	400,103	234,405	(165,698)
Total Revenues	\$ 6,777,504	\$ 6,777,504	\$ 6,719,846	\$ (57,658)
Expenditures				
Current				
Highways and streets				
Administration	\$ 323,696	\$ 323,696	\$ 300,700	\$ 22,996
Public works	67,214	67,214	56,300	10,914
Maintenance	1,942,007	1,942,007	1,785,060	156,947
Construction	6,185,828	6,185,828	4,897,387	1,288,441
Equipment and maintenance shops	699,867	699,867	771,657	(71,790)
Total highways and streets	\$ 9,218,612	\$ 9,218,612	\$ 7,811,104	\$ 1,407,508
Intergovernmental				
Highways and streets	-	-	252,758	(252,758)
Total Expenditures	\$ 9,218,612	\$ 9,218,612	\$ 8,063,862	\$ 1,154,750
Excess of Revenues Over (Under) Expenditures	\$ (2,441,108)	\$ (2,441,108)	\$ (1,344,016)	\$ 1,097,092
Other Financing Sources (Uses)				
Transfers in	-	-	8,406	8,406
Net Change in Fund Balance	\$ (2,441,108)	\$ (2,441,108)	\$ (1,335,610)	\$ 1,105,498
Fund Balance - January 1	7,565,406	7,565,406	7,565,406	-
Increase (decrease) in reserved for inventories	-	-	15,187	15,187
Fund Balance - December 31	\$ 5,124,298	\$ 5,124,298	\$ 6,244,983	\$ 1,120,685

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,927,749	\$ 1,927,749	\$ 1,733,598	\$ (194,151)
Intergovernmental	256,542	256,542	478,634	222,092
Total Revenues	\$ 2,184,291	\$ 2,184,291	\$ 2,212,232	\$ 27,941
Expenditures				
Intergovernmental				
Human services	2,184,291	2,184,291	2,212,232	(27,941)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 159,449	\$ 159,449	\$ 451,595	\$ 292,146
Investment earnings	-	-	7,143	7,143
Miscellaneous	-	-	8,800	8,800
Total Revenues	\$ 159,449	\$ 159,449	\$ 467,538	\$ 308,089
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 1,000	\$ 1,000	\$ 122,442	\$ (121,442)
Debt service				
Principal	150,000	150,000	155,000	(5,000)
Interest	69,804	69,804	70,678	(874)
Administrative (fiscal) charges	10,875	10,875	3,766	7,109
Total Expenditures	\$ 231,679	\$ 231,679	\$ 351,886	\$ (120,207)
Net Change in Fund Balance	\$ (72,230)	\$ (72,230)	\$ 115,652	\$ 187,882
Fund Balance - January 1	525,924	525,924	525,924	-
Fund Balance - December 31	\$ 453,694	\$ 453,694	\$ 641,576	\$ 187,882

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

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 2005, 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 special revenue funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Human Services	\$ 2,212,232	\$ 2,184,291	\$ 27,941
Ditch	351,886	231,679	120,207

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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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 119	\$ 557	\$ 568	\$ 108
<u>Liabilities</u>				
Due to other governments	\$ 119	\$ 557	\$ 568	\$ 108
 <u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 65,569	\$ 4,250	\$ 39,556	\$ 30,263
<u>Liabilities</u>				
Due to other governments	\$ 65,569	\$ 4,250	\$ 39,556	\$ 30,263
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 53,767	\$ 807,565	\$ 794,811	\$ 66,521
<u>Liabilities</u>				
Due to other governments	\$ 53,767	\$ 807,565	\$ 794,811	\$ 66,521

**LYON COUNTY
MARSHALL, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 230,379	\$ 25,009,828	\$ 24,952,338	\$ 287,869
<u>Liabilities</u>				
Due to other governments	\$ 230,379	\$ 25,009,828	\$ 24,952,338	\$ 287,869
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 349,834	\$ 25,822,200	\$ 25,787,273	\$ 384,761
<u>Liabilities</u>				
Due to other governments	\$ 349,834	\$ 25,822,200	\$ 25,787,273	\$ 384,761

OTHER SCHEDULE

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue

State

Highway users tax	\$	2,796,118
PERA rate reimbursement		41,797
Disparity reduction aid		53,918
Police aid		64,230
Enhanced 911		78,092
Market value credit		907,040
County program aid		1,211,248
		1,211,248

Total Shared Revenue **\$ 5,152,443**

Payments

Payments in lieu of taxes	\$	92,320
Local grants		15,270
		15,270

Total Payments **\$ 107,590**

Grants

State

Minnesota Department of Corrections	\$	50,507
Natural Resources		23,468
Water and Soil Resources Board		43,489
Police Officer Standards and Training Board		4,582
Pollution Control Agency		28,063
Office of Environmental Assistance		90,338
		90,338

Total State **\$ 240,447**

Federal

Department of Transportation	\$	1,610,365
Homeland Security		54,176
		54,176

Total Federal **\$ 1,664,541**

Total State and Federal Grants **\$ 1,904,988**

Total Intergovernmental Revenue **\$ 7,165,021**

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**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 6

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Lyon County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Lyon County and is 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*." This reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Lyon County were disclosed during the audit.
- D. No reportable conditions relating to the audit of the major federal award program are 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 ITEM NOT RESOLVED

98-1 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various Lyon County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Client's Response:

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

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

Two of the 97 individual ditch systems had deficit cash balances at December 31, 2005, totalling \$104,514. 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 has enacted maintenance levies to bring ditch funds into a positive balance.

04-2 Depository Pledge Agreement

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

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

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

Client’s Response:

We will have the County Attorney review this.

ITEM ARISING THIS YEAR

05-1

Collateral Pledged to Secure Deposits

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2005, was insufficient for the amount on deposit at the Bank of the West by \$374,383.

Minn. Stat. § 118A.03 provides that, to the extent funds deposited are in excess of available federal deposit insurance, “[t]he total amount of the collateral computed at its market value 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”

We recommend that the County Auditor/Treasurer monitor the deposits in designated depositories to ensure that County funds are fully protected as required by Minn. Stat. § 118A.03 at all times.

Client’s Response:

We will comply with Minn. Stat. § 118A.03 at all times.

PREVIOUSLY REPORTED ITEMS RESOLVED

Unrecorded Transactions (01-2)

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

Resolution

The County Auditor/Treasurer complies with Minn. Stat. § 385.04 by recording all transactions in the books of the County.

Collateral Substitution (04-1)

The procedures used for pledging new collateral and for collateral substitutions changed for various banks to a process that allowed the financial institution to substitute collateral before it gave any notice to the County.

Resolution

The County complies with Minn. Stat. § 118A.03, subd. 5.

Collateral Assignments (04-3)

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

Resolution

The County obtained the safekeeping agreements as the collateral was pledged and keeps this documentation on file.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

02-3 Preparation of the Annual Financial Report

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

Schedule 6
(Continued)

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

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

- The General Fund has liability accounts and designated or reserved fund balance accounts with cash transactions entered directly into them, causing revenues and expenditures to be misstated.
- County budget information on the IFS is inaccurate. Not all budget amendments are in the IFS.
- Some federal grants are coded to state grant accounts.
- The County made numerous transfers between balance sheet, revenue, and disbursement account codes. The report translations go to various functions. It is not clear why these transactions are not entered directly to their respective functions.
- Reimbursements from other funds and other governments are mapped to revenue accounts rather than as a reduction to expenditures.
- Some special assessments are coded to property tax accounts.

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

Client's Response:

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

02-5 Budgeting Procedures

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

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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, like 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

Schedule 6
(Continued)

- 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, 2008 and 2009, respectively.

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2005, and have issued our report thereon dated July 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 98-1.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Lyon County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 03-1, 04-2, and 05-1.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 27, 2006



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PATRICIA ANDERSON
STATE AUDITOR

**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, 2005. 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, 2005.

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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, 2005, and have issued our report thereon dated July 27, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 27, 2006

**LYON COUNTY
MARSHALL, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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	\$ 29,814	\$ 29,814
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,600,897	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	7,545	-
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	302	-
Hazardous Materials Public Sector Training and Planning	20.703	1,621	-
Total U.S. Department of Transportation		\$ 1,610,365	\$ -
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 44,662	\$ -
Homeland Security Grant Program	97.067	9,514	-
Total U.S. Department of Homeland Security		\$ 54,176	\$ -
Total Federal Awards		\$ 1,694,355	\$ 29,814

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 2005, \$29,814 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.