STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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LYON COUNTY
MARSHALL, MINNESOTA

For the Year Ended December 31, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LYON COUNTY
MARSHALL, MINNESOTA

TABLE OF CONTENTS

LYON COUNTY
MARSHALL, MINNESOTA

TABLE OF CONTENTS

Introductory Section

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LYON COUNTY
MARSHALL, MINNESOTA

ORGANIZATION
2008

Office	Name	Term Expires
Commissioners		
1st District	Rodney Stensrud**	January 2011
2nd District	Robert Fenske	January 2011
3rd District	Philip Nelson	January 2011
4th District	Steve Ritter	January 2009
5th District	Mark Goodenow*	January 2009
Officers		
Elected		
Attorney	Rick Maes	January 2011
Auditor/Treasurer	Paula Van Overbeke	January 2011
County Recorder	Jeanine Barker	January 2011
Sheriff	Joel Dahl	January 2011
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	Indefinite
Public Works Director/ Highway Engineer	Suhail Kanwar	Indefinite
Environmental Administrator	Paul Henriksen	Indefinite
Veterans Service Officer	Jim Hubley	Indefinite

*Chair 2008
**Chair 2009

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2008, 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, 2008, 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.

As discussed in Note 4.C. to the financial statements, during the year ended December 31, 2008, the County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis and Schedules 1 through 5 as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of Lyon County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto *・*

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 30, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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LYON COUNTY
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. We encourage readers to consider the information presented here in conjunction with additional information in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2008, by $87,674,393 (net assets). Of this amount, $14,035,695 (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 $5,158,047 in 2008. This is attributable primarily to an increase in cash and cash, investments, and receivables of $4,714,326 and capital assets of $7,735,247, which was offset by an increase in liabilities of $7,442,880.

- As of the close of 2008, Lyon County's governmental funds reported combined ending fund balances of $22,913,213, an increase of $8,068,911 in comparison with 2007 combined ending fund balances. Of this balance amount, $10,709,108 was unreserved and undesignated by Lyon County and, thus, available for spending at the government's discretion.

- At the end of 2008, unreserved fund balance for the General Fund was $7,117,819, or 51 percent, of the total General Fund expenditures for that year. This represents a decrease from 2007, which had 86 percent of the total General Fund expenditures.

- Lyon County's total debt for governmental activities increased by $6,771,482 during 2008 due primarily to the issuance of bonds for the jail expansion project.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of Lyon County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support Lyon County's own programs or activities. The accounting for fiduciary funds is much like that used for 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 63 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Lyon County's assets exceeded liabilities by $87,674,393 at the close of 2008. The largest portion of Lyon County's net assets (67 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

	2008 Governmental Activities	2008 Business-Type Activities	2008 Total	2007
Assets				
Current and other assets	$ 27,630,204	$ 7,953,228	$ 35,583,432	$ 30,717,753
Capital assets	66,682,476	4,964,748	71,647,224	63,911,977
Total Assets	$ 94,312,680	$ 12,917,976	$ 107,230,656	$ 94,629,730
Liabilities				
Long-term liabilities	$ 15,947,216	$ 1,509,228	$ 17,456,444	$ 11,006,101
Other liabilities	1,653,309	446,510	2,099,819	1,107,282
Total Liabilities	$ 17,600,525	$ 1,955,738	$ 19,556,263	$ 12,113,383
Net Assets				
Invested in capital assets, net of related debt	$ 59,107,328	$ 4,964,748	$ 64,072,076	$ 57,782,207
Restricted	6,503,722	3,062,900	9,566,622	6,880,107
Unrestricted	11,101,105	2,934,590	14,035,695	17,854,033
Total Net Assets	$ 76,712,155	$ 10,962,238	$ 87,674,393	$ 82,516,347

The unrestricted net assets amount of $14,035,695 as of December 31, 2008, 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 2008 by $5,158,047, representing a 6.3 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

	2008 Governmental Activities	2008 Business-Type Activities	2008 Total	2007
Revenues				
Program revenues				
Charges for services	$ 2,493,709	$ 1,979,013	$ 4,472,722	$ 3,881,290
Operating grants and contributions	3,729,663	-	3,729,663	3,962,017
Capital grants and contributions	2,105,161	-	2,105,161	621,681
General revenues				
Property taxes	10,334,285	-	10,334,285	9,298,234
Other	3,154,747	89,851	3,244,598	3,920,832
Total Revenues	$ 21,817,565	$ 2,068,864	$ 23,886,429	$ 21,684,054

	2008			
	Governmental Activities	Business-Type Activities	Total	2007
Expenses				
General government	$ 4,470,586	$ -	$ 4,470,586	$ 3,658,391
Public safety	3,826,846	-	3,826,846	3,328,640
Highways and streets	5,141,566	-	5,141,566	5,487,364
Sanitation	602,173	396,819	998,992	2,043,189
Human services	2,491,956	-	2,491,956	2,424,875
Health	225,963	-	225,963	225,895
Culture and recreation	546,600	-	546,600	498,570
Conservation of natural resources	564,125	-	564,125	531,686
Economic development	58,155	-	58,155	54,155
Interest	403,593	-	403,593	286,725
Total Expenses	$ 18,331,563	$ 396,819	$ 18,728,382	$ 18,539,490
Increase in Net Assets	$ 3,486,002	$ 1,672,045	$ 5,158,047	$ 3,144,564
Net Assets - January 1	73,226,153	9,290,193	82,516,346	79,371,783
Net Assets - December 31	$ 76,712,155	$ 10,962,238	$ 87,674,393	$ 82,516,347

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 2008, Lyon County's governmental funds reported combined ending fund balances of $22,913,213, an increase of $8,068,911 in comparison with the prior year. Of the ending fund balance, $15,746,857 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 $9,484,943, a $1,455,056 increase from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 67 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $4,081,461 at year-end, an increase of $1,062,669 over the previous year.

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

The Ditch Special Revenue Fund had an unreserved ending balance of $868,588. This ending balance represents a $195,423 increase in fund balance from the prior year. The increase is attributed to an increase in special assessment collections held for future repairs to the various County ditches.

General Fund Budgetary Highlights

A $108,792 difference between the original General Fund expenditure budget and the final amended budget were experienced in 2008 due to an amendment in the expenditure budget for building and plant.

Actual General Fund revenues exceeded budgeted revenues by $233,905 primarily due to a greater than expected increase in charges for services and intergovernmental revenues.

Actual expenditures were greater than budgeted expenditures by $3,627,521 due to the jail expansion project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2008, totaled $60,021,504 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in depreciable capital assets decreased $689,132, or 1.1 percent, from the previous year.

Depreciable Governmental Capital Assets

	2008	2007
Capital assets depreciated		
Land improvements	$ 504,797	$ 415,557
Buildings	12,687,415	12,687,415
Machinery and equipment	5,758,159	5,644,293
Infrastructure	66,087,444	65,132,487
Total capital assets depreciated	$ 85,037,815	$ 83,879,752
Less: accumulated depreciation for		
Land improvements	$ 273,273	$ 249,551
Buildings	3,301,392	3,084,402
Machinery and equipment	3,544,253	3,259,519
Infrastructure	17,897,393	16,575,644
Total accumulated depreciation	$ 25,016,311	$ 23,169,116
Total Capital Assets Depreciated, Net	$ 60,021,504	$ 60,710,636

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $15,180,502 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

	2008	2007
Special assessment debt	$ 864,497	$ 1,000,000
General obligation debt	12,603,515	4,366,031
Leases payable	342,900	1,784,770
Loans payable	738,381	641,040
Compensated absences	631,209	617,179
Total	$ 15,180,502	$ 8,409,020

The County's debt related to special assessment obligation bonds and notes decreased by $135,503 (13.6 percent) during the fiscal year due to repayment of principal, and the County's debt related to general obligation increased $8,237,484 (189 percent) due to the issuance of jail construction bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

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

The largest employer and the largest taxpayer is the Schwan 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

2009	51.877%	$ 12,164,341
2008	50.353%	11,066,558
2007	49.282%	10,102,126
2006	52.794%	9,508,510
2005	55.560%	9,100,000

On December 16, 2008, the Lyon County Board of Commissioners approved the 2009 budget and adopted a property tax levy of $12,164,341, which represents a 9.9 percent increase over the 2008 property tax levy of $11,066,558.

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, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 16,429,106	$ 3,943,331	$ 20,372,437
Investments	6,493,416	708,000	7,201,416
Receivables - net	4,213,679	238,997	4,452,676
Inventories	376,472	-	376,472
Prepaid items	46,157	-	46,157
Restricted assets			
Cash and pooled investments	-	219,868	219,868
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	4,977	4,977
Deferred debt issuance costs	71,374	-	71,374
Capital assets			
Non-depreciable capital assets	6,660,972	4,570,961	11,231,933
Depreciable capital assets - net of accumulated depreciation	60,021,504	393,787	60,415,291
Total Assets	**$ 94,312,680**	**$ 12,917,976**	**$ 107,230,656**
Liabilities			
Accounts payable and other current liabilities	$ 1,368,647	$ 446,510	$ 1,815,157
Accrued interest payable	253,520	-	253,520
Unearned revenue	31,142	-	31,142
Long-term liabilities			
Due within one year	936,577	-	936,577
Due in more than one year	15,010,639	1,509,228	16,519,867
Total Liabilities	**$ 17,600,525**	**$ 1,955,738**	**$ 19,556,263**
Net Assets			
Invested in capital assets - net of related debt	$ 59,107,328	$ 4,964,748	$ 64,072,076
Restricted for			
Public safety	362,368	-	362,368
Highways and streets	4,578,298	-	4,578,298
Landfill postclosure	-	3,062,900	3,062,900
Debt service	903,401	-	903,401
Capital projects	270,175	-	270,175
Other purposes	389,480	-	389,480
Unrestricted	11,101,105	2,934,590	14,035,695
Total Net Assets	**$ 76,712,155**	**$ 10,962,238**	**$ 87,674,393**

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

LYON COUNTY
MARSHALL, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	$ 4,470,586	$ 591,635
Public safety	3,826,846	391,805
Highways and streets	5,141,566	441,371
Sanitation	602,173	426,411
Human services	2,491,956	-
Health	225,963	-
Culture and recreation	546,600	26,572
Conservation of natural resources	564,125	615,915
Economic development	58,155	-
Interest	403,593	-
Total governmental activities	**$ 18,331,563**	**$ 2,493,709**
Business-type activities		
Landfill	396,819	1,979,013
Total	**$ 18,728,382**	**$ 4,472,722**

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
$ 80,313	$ -	$ (3,798,638)	$ -	$ (3,798,638)
294,443	-	(3,140,598)	-	(3,140,598)
3,205,296	2,105,161	610,262	-	610,262
107,058	-	(68,704)	-	(68,704)
-	-	(2,491,956)	-	(2,491,956)
-	-	(225,963)	-	(225,963)
4,530	-	(515,498)	-	(515,498)
38,023	-	89,813	-	89,813
-	-	(58,155)	-	(58,155)
-	-	(403,593)	-	(403,593)
$ 3,729,663	**$ 2,105,161**	**$ (10,003,030)**	**$ -**	**$ (10,003,030)**
-	-	-	1,582,194	1,582,194
$ 3,729,663	**$ 2,105,161**	**$ (10,003,030)**	**$ 1,582,194**	**$ (8,420,836)**
		$ 10,334,285	$ -	$ 10,334,285
		15,561	-	15,561
		132,599	-	132,599
		1,935,611	-	1,935,611
		558,880	89,851	648,731
		512,096	-	512,096
		$ 13,489,032	**$ 89,851**	**$ 13,578,883**
		$ 3,486,002	**$ 1,672,045**	**$ 5,158,047**
		73,226,153	**9,290,193**	**82,516,346**
		$ 76,712,155	**$ 10,962,238**	**$ 87,674,393**

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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, 2008

	General	Special Revenue Funds: Road and Bridge	Special Revenue Funds: Human Services	Special Revenue Funds: Ditch	Debt Service	Total
Assets						
Cash and pooled investments	$ 8,491,930	$ 5,958,586	$ 27,146	$ 639,579	$ 1,311,865	$ 16,429,106
Investments	6,159,025	-	-	334,391	-	6,493,416
Taxes receivable						
Prior	54,530	22,396	22,376	-	8,308	107,610
Special assessments receivable						
Prior	14,170	-	-	6,426	-	20,596
Noncurrent	500,534	-	-	1,193,993	-	1,694,527
Accounts receivable	15,020	26,956	-	-	-	41,976
Accrued interest receivable	30,489	-	-	131	-	30,620
Due from other funds	61,196	1,896	-	-	-	63,092
Due from other governments	96,274	2,077,996	-	-	-	2,174,270
Advance to other funds	39,695	-	-	-	-	39,695
Leases receivable	144,080	-	-	-	-	144,080
Inventories	-	376,472	-	-	-	376,472
Prepaid items	39,171	6,986	-	-	-	46,157
Total Assets	**$ 15,646,114**	**$ 8,471,288**	**$ 49,522**	**$ 2,174,520**	**$ 1,320,173**	**$ 27,661,617**
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 138,247	$ 85,161	$ -	$ 444	$ -	$ 223,852
Salaries payable	190,565	72,721	-	-	-	263,286
Contracts payable	645,835	111,001	-	-	-	756,836
Due to other funds	1,896	60	-	61,136	-	63,092
Due to other governments	86,342	6,947	27,146	4,238	-	124,673
Deferred revenue - unavailable	569,334	1,445,391	22,376	1,200,419	8,308	3,245,828
Deferred revenue - unearned	31,142	-	-	-	-	31,142
Advance from other funds	-	-	-	39,695	-	39,695
Total Liabilities	**$ 1,663,361**	**$ 1,721,281**	**$ 49,522**	**$ 1,305,932**	**$ 8,308**	**$ 4,748,404**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Special Revenue Funds: Road and Bridge	Special Revenue Funds: Human Services	Special Revenue Funds: Ditch	Debt Service	Total
Liabilities and Fund Balances (Continued)						
Fund Balances						
Reserved for						
Encumbrances	$ 3,075,803	$ 29,388	$ -	$ -	$ -	$ 3,105,191
Advance to other funds	39,695	-	-	-	-	39,695
Inventories	-	376,472	-	-	-	376,472
Prepaid items	39,171	6,986	-	-	-	46,157
DARE program	4,947	-	-	-	-	4,947
Missing heirs	2,483	-	-	-	-	2,483
Law library	95,297	-	-	-	-	95,297
Recorder's technology fund	146,180	-	-	-	-	146,180
Recorder's compliance fund	204,076	-	-	-	-	204,076
Enhanced 911	333,655	-	-	-	-	333,655
Sheriff's contingency	639	-	-	-	-	639
Sheriff's forfeited property	13,066	-	-	-	-	13,066
Attorney's forfeited property	16,613	-	-	-	-	16,613
Fish and wildlife trust	51,834	-	-	-	-	51,834
Canteen fund	16,171	-	-	-	-	16,171
Gun permit fees	15,008	-	-	-	-	15,008
Leases receivable	144,080	-	-	-	-	144,080
Capital projects	2,367,124	-	-	-	-	2,367,124
Probation supervision fees	44,595	-	-	-	-	44,595
Septic/sewer loans	234,369	-	-	-	-	234,369
Election equipment grant	9,840	-	-	-	-	9,840
Highway allotments	-	2,255,700	-	-	-	2,255,700
Unspent grant monies	10,288	-	-	-	-	10,288
Unreserved						
Designated for						
Future expenditures	2,455,940	-	-	-	-	2,455,940
County road projects	-	214,685	-	-	-	214,685
Undesignated	4,661,879	3,866,776	-	868,588	1,311,865	10,709,108
Total Fund Balances	**$ 13,982,753**	**$ 6,750,007**	**$ -**	**$ 868,588**	**$ 1,311,865**	**$ 22,913,213**
Total Liabilities and Fund Balances	**$ 15,646,114**	**$ 8,471,288**	**$ 49,522**	**$ 2,174,520**	**$ 1,320,173**	**$ 27,661,617**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Fund balance - total governmental funds (Exhibit 3)		**$ 22,913,213**
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.		66,682,476
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,245,828
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (13,275,000)	
Capital leases	(342,900)	
Compensated absences	(631,209)	
Net OPEB obligation	(766,714)	
Loans payable	(738,381)	
Accrued interest payable	(253,520)	
Unamortized premium on general obligation bonds	(281,728)	
Unamortized discount on general obligation bonds	88,716	
Deferred debt issuance costs	71,374	(16,129,362)
Net Assets of Governmental Activities (Exhibit 1)		**$ 76,712,155**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2008

		Special Revenue Funds				
	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Revenues						
Taxes	$ 5,298,037	$ 2,102,773	$ 2,089,827	$ -	$ 831,157	$ 10,321,794
Special assessments	368,627	-	-	409,074	667	778,368
Licenses and permits	28,453	-	-	-	-	28,453
Intergovernmental	1,643,962	6,616,959	402,129	-	153,463	8,816,513
Charges for services	851,760	47,336	-	-	-	899,096
Gifts and contributions	4,530	-	-	-	-	4,530
Investment earnings	574,023	-	-	7,216	-	581,239
Miscellaneous	690,766	436,425	-	69,678	-	1,196,869
Total Revenues	**$ 9,460,158**	**$ 9,203,493**	**$ 2,491,956**	**$ 485,968**	**$ 985,287**	**$ 22,626,862**
Expenditures						
Current						
General government	$ 7,165,363	$ -	$ -	$ -	$ -	$ 7,165,363
Public safety	3,480,921	-	-	-	-	3,480,921
Highways and streets	-	5,662,398	-	-	-	5,662,398
Sanitation	575,151	-	-	-	-	575,151
Culture and recreation	251,595	-	-	-	-	251,595
Conservation of natural resources	462,943	-	-	89,670	-	552,613
Economic development	58,155	-	-	-	-	58,155
Intergovernmental	481,617	252,916	2,491,956	-	-	3,226,489
Debt service						
Principal	1,495,091	-	-	845,000	485,000	2,825,091
Interest	69,941	-	-	51,654	135,904	257,499
Bond issuance costs	43,077	-	-	9,945	-	53,022
Administrative (fiscal) fees	1,344	-	-	3,556	1,206	6,106
Total Expenditures	**$ 14,085,198**	**$ 5,915,314**	**$ 2,491,956**	**$ 999,825**	**$ 622,110**	**$ 24,114,403**
Excess of Revenues Over (Under) Expenditures	**$ (4,625,040)**	**$ 3,288,179**	**$ -**	**$ (513,857)**	**$ 363,177**	**$ (1,487,541)**
Other Financing Sources (Uses)						
Proceeds from sale of bonds	$ 8,545,000	$ -	$ -	$ 715,000	$ -	$ 9,260,000
Premium on bonds	272,950	-	-	-	-	272,950
Discount on bonds	(85,968)	-	-	(5,720)	-	(91,688)
Loans issued	150,562	-	-	-	-	150,562
Total Other Financing Sources (Uses)	**$ 8,882,544**	**$ -**	**$ -**	**$ 709,280**	**$ -**	**$ 9,591,824**
Net Change in Fund Balance	**$ 4,257,504**	**$ 3,288,179**	**$ -**	**$ 195,423**	**$ 363,177**	**$ 8,104,283**
Fund Balance - January 1	**9,725,249**	**3,497,200**	**-**	**673,165**	**948,688**	**14,844,302**
Increase (decrease) in reserved for inventories	**-**	**(35,372)**	**-**	**-**	**-**	**(35,372)**
Fund Balance - December 31	**$ 13,982,753**	**$ 6,750,007**	**$ -**	**$ 868,588**	**$ 1,311,865**	**$ 22,913,213**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 8,104,283**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 3,245,828	
Deferred revenue - January 1	(4,055,125)	(809,297)
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	$ 5,898,977	
Current year depreciation	(2,038,146)	3,860,831
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Debt issued		
Bond principal	$ (9,260,000)	
Bond issuance costs	53,022	
Bond premium	(272,950)	
Bond discount	91,688	
ISTS loans	(150,562)	(9,538,802)
Debt principal repayments		
General obligation bonds	$ 1,330,000	
Capital leases payment	1,441,870	
Loans payable	53,221	2,825,091
Amortization of premiums, discounts, and deferred issuance charges		3,501
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	$ (143,489)	
Change in compensated absences	(14,030)	
Change in net OPEB liability	(766,714)	
Change in inventories	(35,372)	(959,605)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 3,486,002**

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

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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, 2008

Assets		
Current assets		
Cash and pooled investments	$	3,943,331
Investments		708,000
Accounts receivable - net		229,687
Accrued interest receivable		993
Due from other governments		8,317
Restricted assets		
Cash and pooled investments		219,868
Investments		2,838,055
Accrued interest receivable		4,977
Total current assets	**$**	**7,953,228**
Noncurrent assets		
Capital assets		
Nondepreciable	$	4,570,961
Depreciable - net		393,787
Total noncurrent assets	**$**	**4,964,748**
Total Assets	**$**	**12,917,976**
Liabilities		
Current liabilities		
Accounts payable	$	35,308
Salaries payable		13,756
Contracts payable		384,047
Due to other governments		13,399
Total current liabilities	**$**	**446,510**
Noncurrent liabilities		
Compensated absences payable - long-term	$	28,384
Estimated liability for landfill closure/postclosure		1,480,844
Total noncurrent liabilities	**$**	**1,509,228**
Total Liabilities	**$**	**1,955,738**
Net Assets		
Invested in capital assets - net of related debt	$	4,964,748
Restricted for postclosure		3,062,900
Unrestricted		2,934,590
Total Net Assets	**$**	**10,962,238**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

Operating Revenues		
Charges for services	$	1,968,124
Miscellaneous		10,889
Total Operating Revenues	**$**	**1,979,013**
Operating Expenses		
Personal services	$	349,476
Professional services		603,993
Administration and fiscal services		8,909
Other services and charges		188,198
Utilities		18,346
Depreciation		316,111
Landfill closure and postclosure costs		(1,088,214)
Total Operating Expenses	**$**	**396,819**
Operating Income (Loss)	**$**	**1,582,194**
Nonoperating Revenues (Expenses)		
Investment earnings		89,851
Change in net assets	**$**	**1,672,045**
Net Assets - January 1		**9,290,193**
Net Assets - December 31	**$**	**10,962,238**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

Cash Flows from Operating Activities	
Receipts from customers and users	$ 2,030,148
Payments to suppliers	(475,694)
Payments to employees	(347,894)
Net cash provided by (used in) operating activities	**$ 1,206,560**
Cash Flows from Noncapital Financing Activities	
Investment earnings	101,591
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(4,190,528)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (2,882,377)**
Cash and Cash Equivalents - January 1	**7,045,576**
Cash and Cash Equivalents - December 31	**$ 4,163,199**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7	
Cash and pooled investments	$ 3,943,331
Restricted cash and pooled investments	219,868
Total Cash and Cash Equivalents - December 31	**$ 4,163,199**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	**$ 1,582,194**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	$ 316,111
(Increase) decrease in accounts receivable	49,231
(Increase) decrease in due from other governments	1,904
Increase (decrease) in accounts payable	(45,515)
Increase (decrease) in salaries payable	1,221
Increase (decrease) in contracts payable	384,047
Increase (decrease) in due to other funds	(296)
Increase (decrease) in due to other governments	5,516
Increase (decrease) in landfill closure costs	(1,088,214)
Increase (decrease) in compensated absences payable	361
Total adjustments	**$ (375,634)**
Net Cash Provided by (Used in) Operating Activities	**$ 1,206,560**

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, 2008

	Investment Trust Fund	Agency
Assets		
Cash and pooled investments	$ 4,388,105	$ 304,967
Accrued interest receivable	3,346	-
Total Assets	**$ 4,391,451**	**$ 304,967**
Liabilities and Net Assets		
Liabilities		
Due to other governments	$ -	$ 304,967
Net Assets		
Net assets, held in trust for pool participants	4,391,451	-
Total Liabilities and Net Assets	**$ 4,391,451**	**$ 304,967**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 11

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Investment Trust Fund
Additions	
Contributions from participants	$ 13,648,620
Investment earnings	48,981
Total Additions	**$ 13,697,601**
Deductions	
Distributions to participants	13,414,681
Change in net assets	**$ 282,920**
Net Assets - Beginning of the Year	**4,108,531**
Net Assets - End of the Year	**$ 4,391,451**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. 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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

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

      2. Fund Financial Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The County reports the following major governmental funds:

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

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

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

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

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

The County reports the following major enterprise fund:

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

         Additionally, the County reports the following fund types:

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

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

   C. Measurement Focus and Basis of Accounting

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

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

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were $459,410.

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

3. Receivables and Payables

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

4. Special Assessments Receivable

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

5. Inventories and Prepaid Items

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

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

1. Summary of Significant Accounting Policies

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

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

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

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Expenditures exceeded budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	$ 14,085,198	$ 9,402,956	$ 4,682,242
Ditch Special Revenue Fund	999,825	347,897	651,928
Debt Service Fund	622,110	-	622,110

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	$	16,429,106
Investments		6,493,416
Business-type activities		
Cash and pooled investments		3,943,331
Investments		708,000
Cash and pooled investments - restricted assets		219,868
Investments - restricted assets		2,838,055
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		4,388,105
Agency funds		304,967
Total Cash and Investments	$	35,324,848

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 at the close of the financial institution's banking day, not covered by insurance or bonds.

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

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 adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

(3) 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;

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 short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. On December 31, 2008, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2008, along with information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	$ 8,220,773
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Prime Investment Money Market Fund	AAA	Standard & Poor's	N/A	N/A	1,400,000
Total investment pools/mutual funds					$ 9,623,205
Checking					9,652,316
Savings					11,396,462
Petty cash and change funds					2,865
Certificates of deposit					4,650,000
Total Cash and Investments					$ 35,324,848

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, 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	$ 107,610	$ -
Special assessments	1,715,123	1,694,527
Accounts	41,976	-
Interest	30,620	-
Due from other governments	2,174,270	-
Leases	144,080	-
Total Governmental Activities	$ 4,213,679	$ 1,694,527
Business-Type Activities		
Accounts	$ 229,687	$ -
Interest	993	-
Due from other governments	8,317	-
Total Business-Type Activities	$ 238,997	$ -

3. <u>Detailed Notes on All Funds</u>

A. <u>Assets</u> (Continued)

3. <u>Capital Assets</u>

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Governmental Activities</u>

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 980,448	$ -	$ -	$ 980,448
Right-of-way	510,166	69,069	-	579,235
Work in progress	620,396	4,977,157	496,264	5,101,289
Total capital assets not depreciated	$ 2,111,010	$ 5,046,226	$ 496,264	$ 6,660,972
Capital assets depreciated				
Land improvements	$ 415,557	$ 89,240	$ -	$ 504,797
Buildings	12,687,415	-	-	12,687,415
Machinery and equipment	5,644,293	398,204	284,338	5,758,159
Infrastructure	65,132,487	954,957	-	66,087,444
Total capital assets depreciated	$ 83,879,752	$ 1,442,401	$ 284,338	$ 85,037,815
Less: accumulated depreciation for				
Land improvements	$ 249,551	$ 23,722	$ -	$ 273,273
Buildings	3,084,402	216,990	-	3,301,392
Machinery and equipment	3,259,519	475,685	190,951	3,544,253
Infrastructure	16,575,644	1,321,749	-	17,897,393
Total accumulated depreciation	$ 23,169,116	$ 2,038,146	$ 190,951	$ 25,016,311
Total capital assets depreciated, net	$ 60,710,636	$ (595,745)	$ 93,387	$ 60,021,504
Governmental Activities Capital Assets, Net	$ 62,821,646	$ 4,450,481	$ 589,651	$ 66,682,476

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance, as Restated	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 390,433	$ -	$ -	$ 390,433
Work in progress	-	4,180,528	-	4,180,528
Total capital assets not depreciated	$ 390,433	$ 4,180,528	$ -	$ 4,570,961
Capital assets depreciated				
Buildings	$ 132,947	$ -	$ -	$ 132,947
Machinery and equipment	1,322,343	10,000	-	1,332,343
Landfill cells	3,069,520	-	-	3,069,520
Total capital assets depreciated	$ 4,524,810	$ 10,000	$ -	$ 4,534,810
Less: accumulated depreciation for				
Buildings	$ 54,355	$ 4,432	$ -	$ 58,787
Machinery and equipment	926,042	86,674	-	1,012,716
Landfill cells	2,844,515	225,005	-	3,069,520
Total accumulated depreciation	$ 3,824,912	$ 316,111	$ -	$ 4,141,023
Total capital assets depreciated, net	$ 699,898	$ (306,111)	$ -	$ 393,787
Business-Type Activities Capital Assets, Net	$ 1,090,331	$ 3,874,417	$ -	$ 4,964,748

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

Governmental Activities	
General government	$ 231,436
Public safety	109,158
Highways and streets, including depreciation of infrastructure assets	1,663,559
Sanitation	7,359
Culture and recreation	26,634
Total Depreciation Expense - Governmental Activities	$ 2,038,146
Business-Type Activities	
Landfill	$ 316,111

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	$ 60
	Ditch Special Revenue Fund	61,136
Road and Bridge Special Revenue Fund	General Fund	1,896
Total Due To/From Other Funds		$ 63,092

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	$ 39,695

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

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 223,852	$ 35,308
Salaries	263,286	13,756
Contracts	756,836	384,047
Due to other governments	124,673	13,399
Total Payables	$ 1,368,647	$ 446,510

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund jail project	$ 2,051,749	$ 3,075,803
Road and bridge projects	1,376,519	3,487,695
Total Governmental Activities	$ 3,428,268	$ 6,563,498
Business-Type Activities		
Landfill project	$ 3,840,474	$ 145,150

3. Capital Leases

The County has entered into lease agreements with the Economic Development Authority of the City of Marshall as lessee for financing of the construction of a joint jail and law enforcement center and construction of a public works building. In 2005, the County entered into a governmental lease purchase with Johnson

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

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, 2008:

Capital Leases	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
1998 joint jail and law enforcement center	2009	$195,000 - $280,000	4.05 - 4.60	$ 2,115,000	$ -
Public works building	2012	$135,000 - $185,000	3.50 - 4.40	1,555,000	-
Heating and cooling retrofit project	2015	$56,423	3.89	463,827	342,900
Total Capital Leases				$ 4,133,827	$ 342,900

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, 2008, were as follows:

Year Ending December 31	Governmental Activities
2009	$ 56,423
2010	56,423
2011	56,423
2012	56,423
2013	56,423
2014 - 2015	112,849
Total minimum lease payments	$ 394,964
Less: amount representing interest	(52,064)
Present Value of Minimum Lease Payments	$ 342,900

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2010	$10,000 - $45,000	4.20 - 6.00	$ 385,000	$ 20,000
1994 G.O. drainage bonds	2011	$15,000 - $25,000	5.80 - 6.70	310,000	75,000
1997 G.O. drainage bonds	2019	$35,000	5.00 - 5.50	700,000	-
1998 G.O. drainage bonds	2010	$30,000 - $35,000	4.40 - 4.75	325,000	60,000
1999 G.O. drainage bonds	2015	$45,000	4.00 - 5.00	675,000	-
2008B G.O. drainage bonds	2019	$35,000 - $85,000	3.15 - 4.25	715,000	715,000
Total Special Assessment Bonds With Government Commitment				$ 3,110,000	$ 870,000
Less: unamortized discounts					(5,503)
Special Assessment Bonds With Government Commitment, Net					$ 864,497
General obligation bonds					
2004 G.O. capital improvement bonds	2015	$460,000 - $615,000	3.00 - 3.75	$ 5,275,000	$ 3,860,000
2008A G.O. jail bonds	2021	$150,000 - $840,000	4.00 - 5.00	8,545,000	8,545,000
Total General Obligation Bonds				$ 13,820,000	$ 12,405,000
Plus: unamortized premium					281,728
Less: unamortized discounts					(83,213)
General Obligation Bonds, Net					$ 12,603,515

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Debt Issued

On July 1, 2008, Lyon County issued General Obligation Jail Bonds, Series 2008A, in the amount of $8,545,000, with interest rates of four percent to five percent, to finance the costs of constructing a new jail and law enforcement facility.

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, 2008
Cottonwood River Restoration CWP Project	2017	$14,828	2.00	$ 331,871	$ 270,367
Yellow Medicine River Watershed CWP Project	2015	$9,535	2.00	172,070	145,582
Redwood Watershed Phosphorus CWP Project	2017	$10,263	2.00	339,338	322,432
Total Loans Payable				$ 843,279	$ 738,381

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest	Special Assessment Bonds Principal	Special Assessment Bonds Interest
2009	$ 645,000	$ 514,449	$ 145,000	$ 34,408
2010	1,100,000	453,441	150,000	25,950
2011	1,135,000	413,291	110,000	20,443
2012	1,170,000	371,572	85,000	16,630
2013	1,210,000	327,745	80,000	13,623
2014 - 2018	4,720,000	1,011,208	265,000	29,157
2019 - 2021	2,425,000	184,875	35,000	744
Total	$ 12,405,000	$ 3,276,581	$ 870,000	$ 140,955

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2009	$ 59,148	$ 10,105
2010	60,337	8,916
2011	61,549	7,703
2012	62,786	6,466
2013	60,521	5,204
2014 - 2018	215,611	9,409
Total	$ 519,952	$ 47,803

Clean water loans of $64,291 for the Cottonwood River Restoration Project and $154,138 for the Redwood Watershed Project are not included in the debt service requirements because fixed repayment schedules are not available.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 4,345,000	$ 8,545,000	$ 485,000	$ 12,405,000	$ 645,000
Plus: unamortized premium	21,031	272,950	12,253	281,728	-
Less: unamortized discount	-	(85,968)	(2,755)	(83,213)	-
General obligation bonds, net	$ 4,366,031	$ 8,731,982	$ 494,498	$ 12,603,515	$ 645,000
Special assessment bonds with government commitment	$ 1,000,000	$ 715,000	$ 845,000	$ 870,000	$ 145,000
Less: unamortized discount	-	(5,720)	(217)	(5,503)	-
Special assessment bonds with government commitment, net	$ 1,000,000	$ 709,280	$ 844,783	$ 864,497	$ 145,000
Total bonds payable	$ 5,366,031	$ 9,441,262	$ 1,339,281	$ 13,468,012	$ 790,000
Leases payable	1,784,770	-	1,441,870	342,900	43,514
Loans payable	641,040	150,562	53,221	738,381	59,148
Compensated absences	617,179	14,030	-	631,209	43,915
Net OPEB liability	-	945,051	178,337	766,714	-
Governmental Activities Long-Term Liabilities	$ 8,409,020	$ 10,550,905	$ 3,012,709	$ 15,947,216	$ 936,577

Additions to notes payable include interest payable of $21,468 accrued on the loans before a payment schedule was effective.

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	$ 2,569,058	$ -	$ 1,088,214	$ 1,480,844	$ -
Compensated absences	28,023	361	-	28,384	-
Business-Type Activities Long-Term Liabilities	$ 2,597,081	$ 361	$ 1,088,214	$ 1,509,228	$ -

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Refunding of Debt

On July 1, 2008, Lyon County issued General Obligation Drainage Refunding Bonds, Series 2008B, in the amount of $715,000, with interest rates of 3.15 percent to 4.25 percent, to refund the following issues:

The $700,000 General Obligation Drainage Bonds, Series 1997, dated July 1, 1997, maturing after August 1, 2008. The balance of the outstanding maturities to be refunded is $385,000, and interest rates are 5.25 percent to 5.50 percent.

The $675,000 General Obligation Drainage Bonds, Series 1999A, dated June 1, 1999, maturing after August 1, 2008. The balance of the outstanding maturities to be refunded is $315,000, and interest rates are 4.70 percent to 5.00 percent.

Early Payment of Debt

On June 5, 2008, Lyon County made early repayment of $700,000 in principal to US Bank on the original issue amount of $1,555,000 for the capital lease for the public works building. On June 12, 2008, Lyon County made early repayment of $280,000 in principal to US Bank on the original issue amount of $2,115,000 for the capital lease for the 1998 joint jail and law enforcement center. The lessee for both leases was the Economic Development Authority of the City of Marshall. The early repayments were to satisfy the lease amounts in full.

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 $1,480,844 landfill closure and postclosure care liability at December 31, 2008, represents the cumulative amount reported to date based on the use of 24.8 percent of the estimated capacity of the landfill.

3. Detailed Notes on All Funds

   C. Liabilities

      8. Landfill Closure and Postclosure Care Costs (Continued)

         The County will recognize the remaining estimated cost of closure and postclosure care of $4,481,340 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008. Based on the current permitted capacity, the landfill has an estimated operating life of 88 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, 2008, restricted assets of $3,062,900 are held for these purposes. Lyon County expects that future inflation costs will be paid from investment earnings on these annual contributions.

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

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Plans

      1. Plan Description

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

4. Pension Plans and Other Postemployment Benefits

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers, and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

1. Plan Description (Continued)

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

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

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

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. Lyon County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

2. Funding Policy (Continued)

Lyon County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

Lyon County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 250,553	$ 234,225	$ 217,410
Public Employees Police and Fire Fund	94,163	84,741	71,011
Public Employees Correctional Fund	47,558	42,277	39,838

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

B. Defined Contribution Plan

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

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

	Employee	Employer
Contribution amount	$ 1,152	$ 1,152
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Beginning in 2008, Lyon County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This statement required the County to calculate and record a net other postemployment benefit obligation (NOPEBO) at December 31, 2008. The NOPEBO is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2008.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Plan Description and Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees contribute to the healthcare plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2007, there were approximately 133 participants in the plan, including 25 retirees. The implicit rate subsidy amount was determined by an actuarial study to be $63,769 for 2008.

In addition to the implicit rate subsidy, Lyon County pays the health and dental insurance for qualified retired employees and elected officials. Any employee or elected official hired on a full-time basis or elected to office prior to May 1, 1997, and retiring while in active service shall be entitled to four percent per year of service towards the County dental and health insurance premium. To be eligible, employees and elected officials must have worked for Lyon County for a minimum of 15 years and be at least 55 years old; or the employee's age and years of service, added together, total 75 or more. The County-paid portion shall not exceed the amount currently paid by the County on behalf of active employees ($550 per month during 2008), and the benefit continues until death. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County had 6 elected officials and 19 employees eligible for this benefit in 2008. The cost for this program totaled $114,568 ($22,636 for elected officials and $91,932 for employees) in 2008.

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	945,051
Interest on net OPEB obligation		-
Adjustment to ARC		-
Annual OPEB cost (expense)	$	945,051
Contributions made		(178,337)
Increase in net OPEB obligation	$	766,714
Net OPEB Obligation - Beginning of Year		-
Net OPEB Obligation - End of Year	$	766,714

The County's annual OPEB cost for December 31, 2008, was $945,051. The percentage of annual OPEB cost contributed to the plan was 18.9 percent, and the net OPEB obligation for 2008 was $766,714. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Fund Status and Funding Progress

As of January 1, 2007, the plan was zero percent funded. The actuarial liability for benefits was $9,480,606, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $9,480,606. The covered payroll (annual payroll of active employees covered by the plan) was $4,482,273, and the ratio of the UAAL to the covered payroll was 211.5 percent.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Fund Status and Funding Progress (Continued)

Following the 2009 plan changes, an updated actuarial valuation was performed for January 1, 2009. At that time, the plan was still zero percent funded. The actuarial liability for benefits was $4,103,917, and the actuarial value of assets was $0, resulting in UAAL of $4,103,917. The covered payroll (annual payroll of active employees covered by the plan) was $4,942,611, and the ratio of the UAAL to the covered payroll was 83.0 percent.

Actuarial Methods and Assumptions

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

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

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The annual healthcare cost trend is nine percent initially reduced by decrements to an ultimate rate of five percent over eight years. Both rates included a three percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was 29 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $410,000 per claim in 2008 and $430,000 per claim in 2009. 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.

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2008, Lincoln-Pipestone Rural Water System had $19,423,000 of general obligation bonds outstanding through 2033. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

5. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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

In 2009, Nobles County issued two series of general obligation bonds totaling $19,415,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

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

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

LLMHS is governed by a Board made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. At least one lay Board member is to be a woman. Financing is provided by state grants and appropriations from member counties. Lyon County's contribution in 2008 was $2,489,279.

At December 31, 2007 (the most recent information available), LLMHS reported a total fund balance of $3,850,861. In addition, LLMHS reported total net assets of $3,476,003. LLMHS's long-term debt at December 31, 2007, is composed of $455,377 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services.

Complete financial statements of LLMHS can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, and Pipestone Public Health Services

Lyon County has joined with surrounding counties to form a community health service agency under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59. This agency is known as the Lincoln, Lyon, Murray, and Pipestone Public Health Services and was established August 1, 1978. The governing board is composed of nine members: two Commissioners representing Lyon County, one member from each of the other participating counties, and four lay members. Financing is provided by state grants, appropriations from member counties, and charges for services. Lyon County's contribution in 2008 was $220,000.

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

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

Bonds were issued by Lincoln County and Yellow Medicine County to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2008, were $19,516,143.

The Lincoln-Pipestone Rural Water System's 2008 financial report shows total net assets of $38,060,524, including unrestricted net assets of $17,709,824. The decrease in net assets for the year ended December 31, 2008, was $18,549.

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.

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

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, 2007 (the most recent information available), were $12,793,395, and notes payable were $226,728. Total net assets were $24,390,809.

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

Southwest Minnesota Regional Radio Board

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

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

During 2008, Lyon County contributed $500 to the Joint Powers Board.

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

D. Jointly-Governed Organizations

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

Area II River Basin Project

The Area II River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $19,885 of the County levy to the Project.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watershed of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $15,840 of the County levy to the RCRCA.

Yellow Medicine River Watershed District

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

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REQUIRED SUPPLEMENTARY INFORMATION

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	$0	$9,480,606	$9,480,606	0.0%	$4,482,273	211.5%
January 1, 2009	$0	$4,103,917	$4,103,917	0.0%	$4,942,611	83.0%

See Note 4.C., Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008.

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 5,288,439	$ 5,288,439	$ 5,298,037	$ 9,598
Special assessments	278,526	278,526	368,627	90,101
Licenses and permits	19,905	19,905	28,453	8,548
Intergovernmental	1,515,748	1,515,748	1,643,962	128,214
Charges for services	721,250	732,250	851,760	119,510
Gifts and contributions	-	-	4,530	4,530
Investment earnings	652,000	652,000	574,023	(77,977)
Miscellaneous	750,385	739,385	690,766	(48,619)
Total Revenues	**$ 9,226,253**	**$ 9,226,253**	**$ 9,460,158**	**$ 233,905**
Expenditures				
Current				
General government				
Commissioners	$ 188,404	$ 188,404	$ 180,585	$ 7,819
Courts	40,000	40,000	32,584	7,416
Law library	-	-	22,407	(22,407)
Administrator	156,973	161,173	160,561	612
Auditor/Treasurer	529,411	529,411	507,177	22,234
Accounting and auditing	4,200	-	-	-
Information technology	117,900	117,900	73,129	44,771
Elections	52,997	52,997	62,037	(9,040)
Central services	498,443	538,539	434,025	104,514
Attorney	362,370	362,370	363,731	(1,361)
Recorder	292,143	292,143	315,426	(23,283)
Geographic information system	151,322	151,322	137,042	14,280
Assessor	191,081	191,081	183,012	8,069
Planning and zoning	189,469	189,469	190,275	(806)
Buildings and plant	539,696	648,488	4,431,183	(3,782,695)
Veterans service officer	74,545	74,545	72,189	2,356
Total general government	**$ 3,388,954**	**$ 3,537,842**	**$ 7,165,363**	**$ (3,627,521)**

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

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,844,500	$ 1,844,500	$ 1,754,266	$ 90,234
Law enforcement center	1,153,457	1,153,457	1,333,715	(180,258)
Sheriff's contingency	-	-	8,000	(8,000)
Boat and water safety	-	-	2,274	(2,274)
Coroner	18,000	18,000	21,768	(3,768)
Sentence to serve	44,000	44,000	29,593	14,407
Criminal justice	-	27,815	27,921	(106)
Probation and parole	309,541	309,541	234,635	74,906
Emergency services	58,328	58,328	57,395	933
E-911 system	102,000	102,000	11,354	90,646
Total public safety	**$ 3,529,826**	**$ 3,557,641**	**$ 3,480,921**	**$ 76,720**
Sanitation				
Environmental	$ 90,779	$ 90,779	$ 37,264	$ 53,515
Hazardous waste	385,490	385,490	379,237	6,253
Recycling	117,036	117,036	158,650	(41,614)
Total sanitation	**$ 593,305**	**$ 593,305**	**$ 575,151**	**$ 18,154**
Culture and recreation				
Fairgrounds	$ 69,697	$ 69,697	$ 67,293	$ 2,404
Parks	184,863	184,863	156,227	28,636
Other	28,000	28,000	28,075	(75)
Total culture and recreation	**$ 282,560**	**$ 282,560**	**$ 251,595**	**$ 30,965**
Conservation of natural resources				
Extension	$ 114,974	$ 114,974	$ 112,075	$ 2,899
Agricultural inspection	14,976	14,976	14,370	606
Water quality loan program	-	-	150,562	(150,562)
Ditch inspection	22,318	22,318	660	21,658
Water planning	34,023	34,023	42,716	(8,693)
Other	139,275	139,275	142,560	(3,285)
Total conservation of natural resources	**$ 325,566**	**$ 325,566**	**$ 462,943**	**$ (137,377)**

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 2
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Economic development				
Community development	$ 60,000	$ 60,000	$ 58,155	$ 1,845
Intergovernmental				
Health	$ 221,000	$ 221,000	$ 225,963	$ (4,963)
Culture and recreation	$ 253,869	$ 253,869	$ 255,654	$ (1,785)
Debt service				
Principal	$ 525,808	$ 525,808	$ 1,495,091	$ (969,283)
Interest	$ 42,665	$ 42,665	$ 69,941	$ (27,276)
Bond issuance costs	$ -	$ -	$ 43,077	$ (43,077)
Administrative (fiscal) fees	$ 2,700	$ 2,700	$ 1,344	$ 1,356
Total Expenditures	$ 9,226,253	$ 9,402,956	$ 14,085,198	$ (4,682,242)
Excess of Revenues Over (Under) Expenditures	$ -	$ (176,703)	$ (4,625,040)	$ (4,448,337)
Other Financing Sources (Uses)				
Proceeds from the sale of bonds	$ -	$ -	$ 8,545,000	$ 8,545,000
Premium on bonds	-	-	272,950	272,950
Discount on bonds	-	-	(85,968)	(85,968)
Loans issued	-	-	150,562	150,562
Total Other Financing Sources (Uses)	$ -	$ -	$ 8,882,544	$ 8,882,544
Net Change in Fund Balance	$ -	$ (176,703)	$ 4,257,504	$ 4,434,207
Fund Balance - January 1	9,725,249	9,725,249	9,725,249	-
Fund Balance - December 31	$ 9,725,249	$ 9,548,546	$ 13,982,753	$ 4,434,207

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

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,106,732	$ 2,106,732	$ 2,102,773	$ (3,959)
Intergovernmental	9,038,927	9,038,927	6,616,959	(2,421,968)
Charges for services	11,000	11,000	47,336	36,336
Miscellaneous	347,000	347,000	436,425	89,425
Total Revenues	**$ 11,503,659**	**$ 11,503,659**	**$ 9,203,493**	**$ (2,300,166)**
Expenditures				
Current				
Highways and streets				
Public works	$ 61,272	$ 61,272	$ 56,038	$ 5,234
Administration	394,460	394,460	340,304	54,156
Construction	7,870,395	7,870,395	2,631,932	5,238,463
Maintenance	2,035,115	2,035,115	1,680,449	354,666
Equipment and maintenance shops	905,639	905,639	953,675	(48,036)
Other	1,300	1,300	-	1,300
Total highways and streets	**$ 11,268,181**	**$ 11,268,181**	**$ 5,662,398**	**$ 5,605,783**
Intergovernmental				
Highways and streets	241,411	241,411	252,916	(11,505)
Total Expenditures	**$ 11,509,592**	**$ 11,509,592**	**$ 5,915,314**	**$ 5,594,278**
Net Change in Fund Balance	**$ (5,933)**	**$ (5,933)**	**$ 3,288,179**	**$ 3,294,112**
Fund Balance - January 1	**3,497,200**	**3,497,200**	**3,497,200**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**(35,372)**	**(35,372)**
Fund Balance - December 31	**$ 3,491,267**	**$ 3,491,267**	**$ 6,750,007**	**$ 3,258,740**

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

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,093,562	$ 2,093,562	$ 2,089,827	$ (3,735)
Intergovernmental	429,294	429,294	402,129	(27,165)
Total Revenues	**$ 2,522,856**	**$ 2,522,856**	**$ 2,491,956**	**$ (30,900)**
Expenditures				
Intergovernmental				
Human services	2,522,856	2,522,856	2,491,956	30,900
Net Change in Fund Balance	**$ -**	**$ -**	**$ -**	**$ -**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ -**	**$ -**	**$ -**

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

LYON COUNTY
MARSHALL, MINNESOTA

Schedule 5

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Special assessments	$ 359,522	$ 359,522	$ 409,074	$ 49,552
Investment earnings	-	-	7,216	7,216
Miscellaneous	-	-	69,678	69,678
Total Revenues	**$ 359,522**	**$ 359,522**	**$ 485,968**	**$ 126,446**
Expenditures				
Current				
Conservation of natural resources				
Other	$ 150,000	$ 150,000	$ 89,670	$ 60,330
Debt service				
Principal	135,000	145,000	845,000	(700,000)
Interest	49,147	49,147	51,654	(2,507)
Bond issuance costs	-	-	9,945	(9,945)
Administrative (fiscal) fees	3,750	3,750	3,556	194
Total Expenditures	**$ 337,897**	**$ 347,897**	**$ 999,825**	**$ (651,928)**
Excess of Revenues Over (Under) Expenditures	**$ 21,625**	**$ 11,625**	**$ (513,857)**	**$ (525,482)**
Other Financing Sources (Uses)				
Proceeds from sale of bonds	$ -	$ -	$ 715,000	$ 715,000
Discount on bonds	-	-	(5,720)	(5,720)
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 709,280**	**$ 709,280**
Net Change in Fund Balance	**$ 21,625**	**$ 11,625**	**$ 195,423**	**$ 183,798**
Fund Balance - January 1	**673,165**	**673,165**	**673,165**	**-**
Fund Balance - December 31	**$ 694,790**	**$ 684,790**	**$ 868,588**	**$ 183,798**

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 9,226,253	$ 176,703	$ 9,402,956
Ditch Special Revenue Fund	337,897	10,000	347,897

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Final Budget	Excess
General Fund	$ 14,085,198	$ 9,402,956	$ 4,682,242
Ditch Special Revenue Fund	999,825	347,897	651,928

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SUPPLEMENTARY INFORMATION

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 6

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 834,226	$ 834,226	$ 831,157	$ (3,069)
Special assessments	-	-	667	667
Intergovernmental	170,585	170,585	153,463	(17,122)
Total Revenues	**$ 1,004,811**	**$ 1,004,811**	**$ 985,287**	**$ (19,524)**
Expenditures				
Debt service				
Principal	$ -	$ -	$ 485,000	$ (485,000)
Interest	-	-	135,904	(135,904)
Administrative (fiscal) fees	-	-	1,206	(1,206)
Total Expenditures	**$ -**	**$ -**	**$ 622,110**	**$ (622,110)**
Net Change in Fund Balance	**$ 1,004,811**	**$ 1,004,811**	**$ 363,177**	**$ (641,634)**
Fund Balance - January 1	**948,688**	**948,688**	**948,688**	**-**
Fund Balance - December 31	**$ 1,953,499**	**$ 1,953,499**	**$ 1,311,865**	**$ (641,634)**

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LYON COUNTY
MARSHALL, MINNESOTA

AGENCY FUNDS

Enterprise Development - to account for the receipts and disbursements of the Enterprise Development Board.

State Revenue - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes.

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

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

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LYON COUNTY
MARSHALL, MINNESOTA

Statement 1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
ENTERPRISE DEVELOPMENT				
Assets				
Cash and pooled investments	$ 38,437	$ 96,145	$ 117,979	$ 16,603
Liabilities				
Due to other governments	$ 38,437	$ 96,145	$ 117,979	$ 16,603
STATE REVENUE				
Assets				
Cash and pooled investments	$ 53,962	$ 674,585	$ 670,025	$ 58,522
Liabilities				
Due to other governments	$ 53,962	$ 674,585	$ 670,025	$ 58,522
SOUTHWEST MINNESOTA REGIONAL RADIO BOARD				
Assets				
Cash and pooled investments	$ -	$ 6,000	$ -	$ 6,000
Liabilities				
Due to other governments	$ -	$ 6,000	$ -	$ 6,000

LYON COUNTY
MARSHALL, MINNESOTA

Statement 1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 228,910	$ 32,583,310	$ 32,588,378	$ 223,842
Liabilities				
Due to other governments	$ 228,910	$ 32,583,310	$ 32,588,378	$ 223,842
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 321,309	$ 33,360,040	$ 33,376,382	$ 304,967
Liabilities				
Due to other governments	$ 321,309	$ 33,360,040	$ 33,376,382	$ 304,967

OTHER SCHEDULE

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 7

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
State		
Highway users tax	$	4,162,615
County program aid		1,025,350
PERA rate reimbursement		41,797
Disparity reduction aid		26,867
Police aid		75,081
Enhanced 911		103,629
Market value credit		841,597
Total Shared Revenue	**$**	**6,276,936**
Payments		
Local		
Payments in lieu of taxes	$	132,599
Local grants		17,153
Total Payments	**$**	**149,752**
Grants		
State		
Minnesota Department/Board of		
Veterans Affairs	$	2,800
Natural Resources		36,377
Public Safety		709
Corrections		72,211
Transportation		978,885
Water and Soil Resources		51,142
Peace Officer Standards and Training Board		4,806
Pollution Control Agency		107,058
Total State	**$**	**1,253,988**
Federal		
Department of		
Agriculture	$	7,064
Transportation		1,088,462
Health and Human Services		23,205
Homeland Security		17,106
Total Federal	**$**	**1,135,837**
Total State and Federal Grants	**$**	**2,389,825**
Total Intergovernmental Revenue	**$**	**8,816,513**

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Management and
Compliance Section

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 8

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

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

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Lyon County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.

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

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

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

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

G. The major program is:

Highway Planning and Construction	CFDA #20.205

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

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

Schedule 8
(Continued)

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

98-1 Segregation of Duties

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

Due to the limited number of personnel within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not always possible. This is not unusual in operations the size of Lyon County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Some of the County's departments that collect fees have segregation of duties weaknesses. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

We recommend the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Lyon County management should be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

County management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities. Management remains confident of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

06-7 <u>County Sheriff's Canteen Operations</u>

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

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

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

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

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

<u>Client's Response</u>:

The current canteen operations were replaced in September 2009 with an automated vending and accounting system.

06-9 <u>Accounting Policies and Procedures Manual</u>

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of infrastructure), related depreciation, and the redetermination of useful lives];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data back-ups; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

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

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County Board should be approving the Accounting Policies and Procedures Handbook in December 2009.

06-13 Audit Adjustments

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

During our audit, we made adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's modified accrual basis records overstating assets and fund balance and understating liabilities, revenues, and expenditures, the client's full accrual basis records for governmental activities understating assets, liabilities, net assets, and revenues and overstating expenses, and the client's records for business-type activities understating assets, net assets, revenues, and expenses; and the County did not consider the need for control over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements could be not fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements. In addition, we recommend the County include a final review process to trace items on the financial statements back to the supporting detail to detect errors, including mapping issues and other necessary adjustments that can be made by the County prior to the audit.

Client's Response:

The County will continue to review, design, and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. Various levels of staff will be involved in the review process to identify potential misstatements.

ITEM ARISING THIS YEAR

08-1 Claim Documentation - Original Itemized Receipts/Invoices

During the review of County disbursements, it was discovered that the County does not require original receipts/invoices be submitted for reimbursement of travel claims. Original itemized receipts and invoices should be retained by public entities to support claims paid. Itemized receipts are needed to determine the date, time, and items purchased. Original receipts/invoices are needed because photocopies may not reveal changes made to the original receipt/invoice.

We recommend the County update its policy to require original receipts/invoices be required for reimbursement.

Client's Response:

The County will need to consider updating their policy manual requiring original receipts/invoices for reimbursements. This is covered in the Accounts Payable section of the Accounting Policies and Procedures Handbook.

PREVIOUSLY REPORTED ITEMS RESOLVED

Controls Over the Accounting System Journal Entry Function (06-2)
Journal entries made to the accounting system were not reviewed or approved by anyone.

Resolution
Journal entries are reviewed and approved before they are made. The Integrated Financial System and the Treasurer's Financial System are balanced each month to ensure all journal entries were accurately input.

Claim Documentation - Public Purpose (07-1)
Review of County disbursements disclosed two travel claims that did not document the public purpose of the expenditure. In one instance, mileage was also summarized for the quarter and not by individual trip.

Resolution
The County has addressed this issue by requiring employees responsible for processing claims to ensure that the public purpose has been documented.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-2 Disaster Recovery Plan

Lyon County does not have a disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County would need to continue to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

Client's Response:

The County has a draft disaster recovery document which will be finalized in 2010.

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

Board of County Commissioners
Lyon County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 06-7, 06-9, 06-13, and 08-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described 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.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 30, 2009

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

Board of County Commissioners
Lyon County

Compliance

We have audited the compliance of Lyon County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. 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, 2008.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

November 30, 2009

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LYON COUNTY
MARSHALL, MINNESOTA

Schedule 9

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for Food Stamp Program	10.561	**$ 7,064**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	$ 1,086,966
State and Community Highway Safety	20.600	1,496
Total U.S. Department of Transportation		**$ 1,088,462**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Temporary Assistance for Needy Families (TANF)	93.558	$ 1,998
Child Support Enforcement Title IV-D	93.563	10,589
Refugee and Entrant Assistance	93.566	20
Foster Care - Title IV-E	93.658	247
Children's Health Insurance Program	93.767	27
Medical Assistance Program	93.778	10,324
Total U.S. Department of Health and Human Services		**$ 23,205**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grant	97.042	**$ 17,106**
Total Federal Awards		**$ 1,135,837**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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LYON COUNTY
MARSHALL, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. Reporting Entity

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

2. Basis of Presentation

   The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Lyon County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

   The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

3. Passed Through to Subrecipients

   During 2008, the County did not pass any federal money to subrecipients.

4. Pass-Through Grant Numbers

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