STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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LYON COUNTY
MARSHALL, MINNESOTA

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LYON COUNTY
MARSHALL, MINNESOTA

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Introductory Section

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LYON COUNTY
MARSHALL, MINNESOTA

ORGANIZATION
2011

Office	Name	Term Expires
Commissioners		
1st District	Rodney Stensrud	January 2015
2nd District	Robert Fenske[1]	January 2015
3rd District	Rick Anderson	January 2015
4th District	Steve Ritter	January 2013
5th District	Mark Goodenow	January 2013
Officers		
Elected		
Attorney	Rick Maes	January 2015
Auditor/Treasurer	Paula VanOverbeke	January 2015
County Recorder	Mona Hammer	January 2015
Sheriff	Mark Mather	January 2015
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	December 2012
Public Works Director/Highway Engineer	Suhail Kanwar	May 2013
Environmental Administrator	Paul Henriksen	Indefinite
Veterans Service Officer	Terry Wing	September 2014

[1]Chair 2011 and 2012

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County as of December 31, 2011, 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 1.D.12. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly 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 August 16, 2012, 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 16, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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LYON COUNTY
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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, 2011, by $99,685,004 (net assets). Of this amount, $16,139,448 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- Lyon County's total net assets increased by $3,805,314 in 2011. This is attributable primarily to an increase in capital assets of $2,505,704 and the effect of the decrease in long-term liabilities of $1,219,696.

- As of the close of 2011, Lyon County's governmental funds reported combined ending fund balances of $18,660,513, a decrease of $700,734 in comparison with 2010 combined ending fund balances. Of this balance amount, $13,156,637 was unrestricted by Lyon County and, thus, available for spending at the government's discretion.

- At the end of 2011, unrestricted fund balance for the General Fund was $7,532,206, or 61 percent, of the total General Fund expenditures for that year. This represents a decrease from 2010, which had 71 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 64 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 $99,685,004 at the close of 2011. The largest portion of Lyon County's net assets (74 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

	2011			
	Governmental Activities	Business-Type Activities	Total	2010
Assets				
Current and other assets	$ 24,934,082	$ 7,284,323	$ 32,218,405	$ 31,545,233
Capital assets	78,438,065	5,193,036	83,631,101	81,125,397
Total Assets	$ 103,372,147	$ 12,477,359	$ 115,849,506	$ 112,670,630
Liabilities				
Long-term liabilities	$ 12,745,986	$ 1,247,783	$ 13,993,769	$ 15,213,465
Other liabilities	2,038,812	131,921	2,170,733	1,577,475
Total Liabilities	$ 14,784,798	$ 1,379,704	$ 16,164,502	$ 16,790,940
Net Assets				
Invested in capital assets, net of related debt	$ 68,812,065	$ 5,193,036	$ 74,005,101	$ 70,100,030
Restricted	6,075,899	3,464,556	9,540,455	9,616,747
Unrestricted	13,699,385	2,440,063	16,139,448	16,162,913
Total Net Assets	$ 88,587,349	$ 11,097,655	$ 99,685,004	$ 95,879,690

The unrestricted net assets amount of $16,139,448 as of December 31, 2011, 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 2011 by $3,805,314, representing a 3.96 percent increase. Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2011			
	Governmental Activities	Business-Type Activities	Total	2010
Revenues				
Program revenues				
Charges for services	$ 2,719,194	$ 2,337,608	$ 5,056,802	$ 4,542,991
Operating grants and contributions	4,407,088	-	4,407,088	4,291,319
Capital grants and contributions	1,367,451	-	1,367,451	1,126,445
General revenues				
Property taxes	11,448,404	-	11,448,404	11,414,729
Other	2,674,951	29,847	2,704,798	2,462,452
Total Revenues	$ 22,617,088	$ 2,367,455	$ 24,984,543	$ 23,837,936

	2011			
	Governmental Activities	Business-Type Activities	Total	2010
Expenses				
General government	$ 3,994,609	$ -	$ 3,994,609	$ 4,582,142
Public safety	5,309,843	-	5,309,843	4,551,013
Highways and streets	5,321,242	-	5,321,242	4,686,609
Sanitation	583,342	1,747,679	2,331,021	2,630,380
Human services	2,522,884	-	2,522,884	2,420,753
Health	223,258	-	223,258	225,988
Culture and recreation	458,000	-	458,000	510,868
Conservation of natural resources	537,084	-	537,084	614,518
Economic development	45,518	-	45,518	22,905
Interest	435,770	-	435,770	476,981
Total Expenses	$ 19,431,550	$ 1,747,679	$ 21,179,229	$ 20,722,157
Increase in Net Assets	$ 3,185,538	$ 619,776	$ 3,805,314	$ 3,115,779
Net Assets - January 1	85,401,811	10,477,879	95,879,690	92,763,911
Net Assets - December 31	$ 88,587,349	$ 11,097,655	$ 99,685,004	$ 95,879,690

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, unrestricted 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 2011, Lyon County's governmental funds reported combined ending fund balances of $18,660,513, a decrease of $700,734 in comparison with the prior year. Of the ending fund balance, $4,950,192 represents unassigned 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, restricted, assigned, or is in nonspendable form.

The General Fund is the chief operating fund for Lyon County. At the end of the current fiscal year, it had an unrestricted fund balance of $7,532,206. Fund balance in the General Fund decreased $1,062,139 from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 61.2 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of $5,624,431 at year-end. In total, fund balance for the Road and Bridge Special Revenue Fund increased $281,503 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 Southwest Health and 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 Joint Health and Human Services Board. Detailed financial information of the activities of Southwest Health and Human Services can be addressed to Southwest Health and Human Services, 607 West Main Street, Marshall, Minnesota 56258.

The Ditch Special Revenue Fund had a restricted ending balance of $1,118,723. This ending balance represents a $9,113 decrease in fund balance from the prior year. The decrease is attributed to an increase in special assessment collections held for future repairs to the various County ditches.

General Fund Budgetary Highlights

A $933,171 difference between the original General Fund expenditure budget and the final amended budget were experienced in 2011 due to an amendment in the expenditure budget for capital projects.

Actual General Fund revenues exceeded budgeted revenues by $1,586,058 primarily due to greater than expected increase intergovernmental revenue received than budgeted for.

Actual expenditures were more than budgeted expenditures by $1,960,396 primarily due to capital projects including the jail expansion project and ARMER Radio project expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County's depreciable capital assets for its governmental activities at December 31, 2011, totaled $74,213,218 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in depreciable capital assets increased $810,503, or 1.10 percent from the previous year.

Depreciable Governmental Capital Assets

	2011	2010
Capital assets depreciated		
Land improvements	$ 504,797	$ 504,797
Buildings	22,065,642	21,667,206
Machinery and equipment	6,230,593	5,926,739
Infrastructure	76,629,244	74,368,212
Total capital assets depreciated	$ 105,430,276	$ 102,466,954
Less: accumulated depreciation for		
Land improvements	$ 342,505	$ 322,710
Buildings	4,270,809	3,854,244
Machinery and equipment	4,236,161	4,052,330
Infrastructure	22,367,583	20,834,953
Total accumulated depreciation	$ 31,217,058	$ 29,064,237
Total Capital Assets Depreciated, Net	$ 74,213,218	$ 73,402,717

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 $12,745,986 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

	2011	2010
Special assessment debt	$ 461,057	$ 570,537
General obligation debt	9,669,941	10,822,799
Leases payable	-	254,165
Loans payable	751,763	790,493
Compensated absences	575,112	573,657
Net OPEB liability	1,288,113	1,095,686
Total	$ 12,745,986	$ 14,107,337

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City of Marshall is the county seat for Lyon County. According to the 2010 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. The Schwan Food Company employs approximately 2,500 at its manufacturing facilities and world-wide headquarters located in Marshall.

County Tax Rate and Levy History

2012	45.449%	$ 12,164,341
2011	45.449	12,164,341
2010	45.449	12,164,341
2009	52.142	12,164,341
2008	50.353	11,066,558

On December 20, 2011, the Lyon County Board of Commissioners approved the 2012 budget and adopted a property tax levy of $12,164,341, which represents a zero increase over the 2011 property tax levy of $12,164,341.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 18,861,112	$ 2,834,303	$ 21,695,415
Investments	742,484	708,000	1,450,484
Receivables - net	4,895,074	281,346	5,176,420
Internal balances	3,887	(3,887)	-
Inventories	345,283	-	345,283
Prepaid items	39,588	-	39,588
Restricted assets			
Cash and pooled investments	-	623,133	623,133
Investments	-	2,838,055	2,838,055
Accrued interest receivable	-	3,373	3,373
Deferred debt issuance costs	46,654	-	46,654
Capital assets			
Non-depreciable capital assets	4,224,847	390,433	4,615,280
Depreciable capital assets - net of accumulated depreciation	74,213,218	4,802,603	79,015,821
Total Assets	**$ 103,372,147**	**$ 12,477,359**	**$ 115,849,506**
Liabilities			
Accounts payable and other current liabilities	$ 1,793,306	$ 131,921	$ 1,925,227
Accrued interest payable	171,261	-	171,261
Unearned revenue	74,245	-	74,245
Long-term liabilities			
Due within one year	3,139,061	-	3,139,061
Due in more than one year	9,606,925	1,247,783	10,854,708
Total Liabilities	**$ 14,784,798**	**$ 1,379,704**	**$ 16,164,502**
Net Assets			
Invested in capital assets - net of related debt	$ 68,812,065	$ 5,193,036	$ 74,005,101
Restricted for			
Public safety	313,965	-	313,965
Highways and streets	3,290,699	-	3,290,699
Landfill closure/postclosure	-	3,464,556	3,464,556
Debt service	1,932,457	-	1,932,457
Other purposes	538,778	-	538,778
Unrestricted	13,699,385	2,440,063	16,139,448
Total Net Assets	**$ 88,587,349**	**$ 11,097,655**	**$ 99,685,004**

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, 2011

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	$ 3,994,609	$ 740,608
Public safety	5,309,843	509,244
Highways and streets	5,321,242	570,336
Sanitation	583,342	435,079
Human services	2,522,884	-
Health	223,258	-
Culture and recreation	458,000	30,422
Conservation of natural resources	537,084	433,505
Economic development	45,518	-
Interest	435,770	-
Total governmental activities	**$ 19,431,550**	**$ 2,719,194**
Business-type activities		
Landfill	1,747,679	2,337,608
Total	**$ 21,179,229**	**$ 5,056,802**

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Business-Type Activities	Total
$ 76,671	$ 52,800	$ (3,124,530)	$ -	$ (3,124,530)
408,528	914,575	(3,477,496)	-	(3,477,496)
3,797,431	400,076	(553,399)	-	(553,399)
113,595	-	(34,668)	-	(34,668)
-	-	(2,522,884)	-	(2,522,884)
-	-	(223,258)	-	(223,258)
-	-	(427,578)	-	(427,578)
-	-	(103,579)	-	(103,579)
10,863	-	(34,655)	-	(34,655)
-	-	(435,770)	-	(435,770)
$ 4,407,088	**$ 1,367,451**	**$ (10,937,817)**	**$ -**	**$ (10,937,817)**
-	-	-	589,929	589,929
$ 4,407,088	**$ 1,367,451**	**$ (10,937,817)**	**$ 589,929**	**$ (10,347,888)**
		$ 11,448,404	$ -	$ 11,448,404
		15,436	-	15,436
		249,591	-	249,591
		1,640,903	-	1,640,903
		46,307	11,462	57,769
		722,714	18,385	741,099
		$ 14,123,355	**$ 29,847**	**$ 14,153,202**
		$ 3,185,538	**$ 619,776**	**$ 3,805,314**
		85,401,811	**10,477,879**	**95,879,690**
		$ 88,587,349	**$ 11,097,655**	**$ 99,685,004**

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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, 2011**

	General	Special Revenue Funds: Road and Bridge	Special Revenue Funds: Human Services	Special Revenue Funds: Ditch	Debt Service	Total
Assets						
Cash and pooled investments	$ 9,595,082	$ 6,029,355	$ 203,873	$ 956,807	$ 2,075,995	$ 18,861,112
Investments	558,175	-	-	184,309	-	742,484
Taxes receivable						
Prior	90,182	25,796	29,728	-	20,175	165,881
Special assessments receivable						
Prior	7,747	-	-	1,503	-	9,250
Noncurrent	464,910	-	-	745,506	-	1,210,416
Accounts receivable	27,419	2,047	-	5,724	-	35,190
Accrued interest receivable	7,106	-	-	141	-	7,247
Due from other funds	8,328	6,887	-	-	-	15,215
Due from other governments	301,316	3,162,354	-	3,420	-	3,467,090
Advance to other funds	17,380	-	-	-	-	17,380
Inventories	-	345,283	-	-	-	345,283
Prepaid items	35,117	4,471	-	-	-	39,588
Total Assets	**$ 11,112,762**	**$ 9,576,193**	**$ 233,601**	**$ 1,897,410**	**$ 2,096,170**	**$ 24,916,136**
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 156,779	$ 108,725	$ -	$ 6,111	$ -	$ 271,615
Salaries payable	244,385	63,961	-	-	-	308,346
Contracts payable	888,772	64,859	-	-	-	953,631
Due to other funds	2,994	147	-	8,187	-	11,328
Due to other governments	48,891	6,950	203,873	-	-	259,714
Deferred revenue - unavailable	562,839	2,999,613	29,728	747,009	20,175	4,359,364
Deferred revenue - unearned	74,245	-	-	-	-	74,245
Advance from other funds	-	-	-	17,380	-	17,380
Total Liabilities	**$ 1,978,905**	**$ 3,244,255**	**$ 233,601**	**$ 778,687**	**$ 20,175**	**$ 6,255,623**
Fund Balances						
Nonspendable	$ 35,117	$ 349,754	$ -	$ -	$ -	$ 384,871
Restricted	1,566,534	357,753	-	1,118,723	2,075,995	5,119,005
Committed	1,165,820	1,479,575	-	-	-	2,645,395
Assigned	1,416,194	4,144,856	-	-	-	5,561,050
Unassigned	4,950,192	-	-	-	-	4,950,192
Total Fund Balances	**$ 9,133,857**	**$ 6,331,938**	**$ -**	**$ 1,118,723**	**$ 2,075,995**	**$ 18,660,513**
Total Liabilities and Fund Balances	**$ 11,112,762**	**$ 9,576,193**	**$ 233,601**	**$ 1,897,410**	**$ 2,096,170**	**$ 24,916,136**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Fund balance - total governmental funds (Exhibit 3)		**$ 18,660,513**
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.		78,438,065
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,359,364
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	$ (9,525,000)	
Special assessment bonds	(465,000)	
Compensated absences	(575,112)	
Net OPEB liability	(1,288,113)	
Loans payable	(751,763)	
Accrued interest payable	(171,261)	
Unamortized premium on general obligation bonds	(208,315)	
Unamortized discount on general obligation bonds	63,374	
Unamortized discount on special assessment bonds	3,943	
Deferred debt issuance costs	46,654	(12,870,593)
Net Assets of Governmental Activities (Exhibit 1)		**$ 88,587,349**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

		Special Revenue Funds				
	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Revenues						
Taxes	$ 5,912,331	$ 1,815,603	$ 2,178,565	$ -	$ 1,529,692	$ 11,436,191
Special assessments	414,240	-	-	246,913	-	661,153
Licenses and permits	35,980	-	-	-	-	35,980
Intergovernmental	2,793,966	4,547,010	344,319	-	111,653	7,796,948
Charges for services	899,775	173,160	-	-	-	1,072,935
Investment earnings	45,022	-	-	1,993	-	47,015
Miscellaneous	906,294	512,008	-	26,499	-	1,444,801
Total Revenues	**$ 11,007,608**	**$ 7,047,781**	**$ 2,522,884**	**$ 275,405**	**$ 1,641,345**	**$ 22,495,023**
Expenditures						
Current						
General government	$ 3,820,669	$ -	$ -	$ -	$ -	$ 3,820,669
Public safety	6,468,338	-	-	-	-	6,468,338
Highways and streets	-	6,512,284	-	-	-	6,512,284
Sanitation	575,268	-	-	-	-	575,268
Culture and recreation	200,746	-	-	-	-	200,746
Conservation of natural resources	382,258	-	-	151,424	-	533,682
Economic development	45,518	-	-	-	-	45,518
Intergovernmental	458,065	328,178	2,522,884	-	-	3,309,127
Debt service						
Principal	326,132	-	-	110,000	1,135,000	1,571,132
Interest	23,366	-	-	21,702	413,291	458,359
Administrative (fiscal) fees	-	-	-	1,392	4,039	5,431
Total Expenditures	**$ 12,300,360**	**$ 6,840,462**	**$ 2,522,884**	**$ 284,518**	**$ 1,552,330**	**$ 23,500,554**
Excess of Revenues Over (Under) Expenditures	**$ (1,292,752)**	**$ 207,319**	**$ -**	**$ (9,113)**	**$ 89,015**	**$ (1,005,531)**
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	$ 197,376	$ -	$ -	$ -	$ -	$ 197,376
Loans issued	33,237	-	-	-	-	33,237
Net Change in Fund Balance	**$ (1,062,139)**	**$ 207,319**	**$ -**	**$ (9,113)**	**$ 89,015**	**$ (774,918)**
Fund Balance - January 1	**10,195,996**	**6,050,435**	**-**	**1,127,836**	**1,986,980**	**19,361,247**
Increase (decrease) in inventories	**-**	**74,184**	**-**	**-**	**-**	**74,184**
Fund Balance - December 31	**$ 9,133,857**	**$ 6,331,938**	**$ -**	**$ 1,118,723**	**$ 2,075,995**	**$ 18,660,513**

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, 2011

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (774,918)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 4,359,364	
Deferred revenue - January 1	(4,434,675)	(75,311)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 4,943,023	
Net book value of assets disposed of	(1,211)	
Current year depreciation	(2,352,262)	2,589,550
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets.		
Debt issued		
Loans		(33,237)
Debt principal repayments		
General obligation bonds	$ 1,135,000	
Special assessment bonds	110,000	
Capital leases payment	254,165	
Loans payable	71,967	1,571,132
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	$ 18,922	
Change in compensated absences	(1,455)	
Change in net OPEB liability	(192,427)	
Change in inventories	74,184	
Current year amortization of premiums, discounts, and deferred issuance costs	9,098	(91,678)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 3,185,538**

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

PROPRIETARY FUND

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
PROPRIETARY FUND
LANDFILL ENTERPRISE FUND
DECEMBER 31, 2011

Assets		
Current assets		
Cash and pooled investments	$	2,834,303
Investments		708,000
Accounts receivable - net		266,442
Accrued interest receivable		61
Due from other governments		14,843
Due from other funds		6
Restricted assets		
Cash and pooled investments		623,133
Investments		2,838,055
Accrued interest receivable		3,373
Total current assets	**$**	**7,288,216**
Noncurrent assets		
Capital assets		
Nondepreciable	$	390,433
Depreciable - net		4,802,603
Total noncurrent assets	**$**	**5,193,036**
Total Assets	**$**	**12,481,252**
Liabilities		
Current liabilities		
Accounts payable	$	104,853
Salaries payable		16,705
Due to other funds		3,893
Due to other governments		10,363
Total current liabilities	**$**	**135,814**
Noncurrent liabilities		
Compensated absences payable - long-term	$	38,176
Estimated liability for landfill closure/postclosure care		1,209,607
Total noncurrent liabilities	**$**	**1,247,783**
Total Liabilities	**$**	**1,383,597**
Net Assets		
Invested in capital assets - net of related debt	$	5,193,036
Restricted for postclosure care		3,464,556
Unrestricted		2,440,063
Total Net Assets	**$**	**11,097,655**

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, 2011

Operating Revenues		
Charges for services	$	2,323,890
Miscellaneous		13,718
Dividends		18,385
Total Operating Revenues	**$**	**2,355,993**
Operating Expenses		
Personal services	$	255,768
Professional services		218,735
Administration and fiscal services		8,262
Other services and charges		931,291
Utilities		43,845
Depreciation		150,172
Landfill closure and postclosure care costs		139,606
Total Operating Expenses	**$**	**1,747,679**
Operating Income (Loss)	**$**	**608,314**
Nonoperating Revenues (Expenses)		
Investment earnings		11,462
Change in net assets	**$**	**619,776**
Net Assets - January 1		**10,477,879**
Net Assets - December 31	**$**	**11,097,655**

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, 2011

Cash Flows from Operating Activities		
Receipts from customers and users	$	2,685,661
Payments to suppliers		(1,662,131)
Payments to employees		(257,876)
Net cash provided by (used in) operating activities	**$**	**765,654**
Cash Flows from Investing Activities		
Investment earnings		9,307
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**774,961**
Cash and Cash Equivalents - January 1		**2,682,475**
Cash and Cash Equivalents - December 31	**$**	**3,457,436**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7		
Cash and pooled investments	$	2,834,303
Restricted cash and pooled investments		623,133
Total Cash and Cash Equivalents - December 31	**$**	**3,457,436**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**608,314**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	150,172
(Increase) decrease in accounts receivable		37,368
(Increase) decrease in due from other funds		(6)
(Increase) decrease in due from other governments		56,608
Increase (decrease) in accounts payable		(12,663)
Increase (decrease) in salaries payable		22
Increase (decrease) in contracts payable		(222,246)
Increase (decrease) in due to other governments		4,734
Increase (decrease) in due to other funds		1,696
Increase (decrease) in landfill closure/postclosure care costs		139,606
Increase (decrease) in compensated absences payable		2,049
Total adjustments	**$**	**157,340**
Net Cash Provided by (Used in) Operating Activities	**$**	**765,654**

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, 2011

	Investment Trust Fund	Agency
Assets		
Cash and pooled investments	$ 4,454,194	$ 633,446
Accrued interest receivable	1,820	-
Total Assets	**$ 4,456,014**	**$ 633,446**
Liabilities		
Due to other governments	-	**$ 633,446**
Net Assets		
Net assets, held in trust for pool participants	**$ 4,456,014**	

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, 2011

		Investment Trust Fund
Additions		
Contributions from participants	$	16,149,092
Investment earnings		15,747
Total Additions	**$**	**16,164,839**
Deductions		
Distributions to participants		15,897,000
Change in net assets	**$**	**267,839**
Net Assets - January 1		**4,188,175**
Net Assets - December 31	**$**	**4,456,014**

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds and has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

The County participates in several joint ventures described in Note 4.D. The County also participates in jointly-governed organizations described in Note 4.E.

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental and proprietary funds as major funds.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 accounts for restricted revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Human Services Special Revenue Fund accounts for committed property tax revenues used for economic assistance and community social services programs.

- The Ditch Special Revenue Fund accounts for special assessments revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

- 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.

Additionally, the County reports the following fund types:

- The Investment Trust Fund is used to account for the external pooled investments held for Southwest Health and 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.

1. Summary of Significant Accounting Policies (Continued)

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

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 taxes are recognized as revenue in the year for which they are levied provided they are also available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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.

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.

1. Summary of Significant Accounting Policies

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

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, 2011, 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 2011 were $36,409.

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), as amended. 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). 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 non-spendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

All receivables are shown net of an allowance for uncollectibles.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      3. Receivables and Payables (Continued)

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

      4. Special Assessments Receivable

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

      5. Inventories and Prepaid Items

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

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

      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.

1. Summary of Significant Accounting Policies

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

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 - 100
Improvements to land	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 20

Landfill cells are depreciated from 20 - 30 years based on use, which is calculated by dividing total capacity used by total available cell capacity.

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

12. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Classification of Fund Balances (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or it is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Administrator who has been delegated that authority by Board resolution.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classification. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

1. Summary of Significant Accounting Policies

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

13. Minimum Fund Balance

Lyon County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined they need to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of no less than five months of operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. 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.

15. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	18,861,112
Investments		742,484
Business-type activities		
Cash and pooled investments		2,834,303
Investments		708,000
Cash and pooled investments - restricted assets		623,133
Investments - restricted assets		2,838,055
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		4,454,194
Agency funds		633,446
Total Cash and Investments	$	31,694,727

a. Deposits

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

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

2. 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, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

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

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

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

(4) bankers' acceptances of United States banks;

2. 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 in the possession of an outside party. The County has adopted a policy to eliminate investment

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, none of the County's investments were subject 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, 2011, 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	$ 2,451,980
IDS Mutual Fund	N/R	N/A	N/A	N/A	2,432
Checking					9,643,095
Savings					16,394,445
Petty cash and change funds					2,775
Certificates of deposit					3,200,000
Total Cash and Investments					$ 31,694,727

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

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, 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	$ 165,881	$ -
Special assessments	1,219,666	715,258
Accounts	35,190	-
Interest	7,247	-
Due from other governments	3,467,090	-
Total Governmental Activities	$ 4,895,074	$ 715,258

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	$ 266,442	$ -
Interest	61	-
Due from other governments	14,843	-
Total Business-Type Activities	$ 281,346	$ -

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 980,448	$ 3,402	$ -	$ 983,850
Right-of-way	608,551	-	-	608,551
Construction in progress	856,799	2,004,024	228,377	2,632,446
Total capital assets not depreciated	$ 2,445,798	$ 2,007,426	$ 228,377	$ 4,224,847
Capital assets depreciated				
Land improvements	$ 504,797	$ -	$ -	$ 504,797
Buildings	21,667,206	398,436	-	22,065,642
Machinery and equipment	5,926,739	504,506	200,652	6,230,593
Infrastructure	74,368,212	2,261,032	-	76,629,244
Total capital assets depreciated	$ 102,466,954	$ 3,163,974	$ 200,652	$ 105,430,276
Less: accumulated depreciation for				
Land improvements	$ 322,710	$ 19,795	$ -	$ 342,505
Buildings	3,854,244	416,565	-	4,270,809
Machinery and equipment	4,052,330	383,272	199,441	4,236,161
Infrastructure	20,834,953	1,532,630	-	22,367,583
Total accumulated depreciation	$ 29,064,237	$ 2,352,262	$ 199,441	$ 31,217,058
Total capital assets depreciated, net	$ 73,402,717	$ 811,712	$ 1,211	$ 74,213,218
Governmental Activities Capital Assets, Net	$ 75,848,515	$ 2,819,138	$ 229,588	$ 78,438,065

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 390,433	$ -	$ -	$ 390,433
Capital assets depreciated				
Buildings	$ 132,947	$ 72,876	$ 18,000	$ 187,823
Machinery and equipment	1,472,102	-	-	1,472,102
Landfill cells	7,431,890	-	-	7,431,890
Infrastructure	461,209	-	-	461,209
Total capital assets depreciated	$ 9,498,148	$ 72,876	$ 18,000	$ 9,553,024
Less: accumulated depreciation for				
Buildings	$ 67,651	$ 4,483	$ 11,450	$ 60,684
Machinery and equipment	1,007,539	77,426	-	1,084,965
Landfill cells	3,526,260	37,516	-	3,563,776
Infrastructure	10,249	30,747	-	40,996
Total accumulated depreciation	$ 4,611,699	$ 150,172	$ 11,450	$ 4,750,421
Total capital assets depreciated, net	$ 4,886,449	$ (77,296)	$ 6,550	$ 4,802,603
Business-Type Activities Capital Assets, Net	$ 5,276,882	$ (77,296)	$ 6,550	$ 5,193,036

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

Governmental Activities	
General government	$ 432,230
Public safety	104,337
Highways and streets, including depreciation of infrastructure assets	1,792,058
Sanitation	3,534
Culture and recreation	20,103
Total Depreciation Expense - Governmental Activities	$ 2,352,262
Business-Type Activities	
Landfill	$ 150,172

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	$ 8,187
General Fund	Road and Bridge Special Revenue Fund	141
Road and Bridge Special Revenue Fund	General Fund	2,994
Road and Bridge Special Revenue Fund	Landfill Enterprise Fund	3,893
Landfill Enterprise Fund	Road and Bridge Special Revenue Fund	6
Total Due To/From Other Funds		$ 15,221

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	$ 17,380

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.

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 271,615	$ 104,853
Salaries	308,346	16,705
Contracts	953,631	-
Due to other governments	259,714	10,363
Total Payables	$ 1,793,306	$ 131,921

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund building remodeling	$ 404,940	$ 1,200,022
Road and bridge projects	847,126	1,748,578
Total Governmental Activities	$ 1,252,066	$ 2,948,600

3. Capital Leases

In 2005, the County entered into a governmental lease purchase with Johnson Controls, Inc., financed by Citi Bank Mortgage, Inc., to retrofit the courthouse heating and cooling system. This lease agreement qualifies as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. On November 3, 2011, Lyon County made early repayment of $207,169 in principal on the original issue amount of $463,827 to satisfy the principal in full.

2. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

Capital leases at December 31, 2011, were as follows:

Capital Leases	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Heating and cooling retrofit project	2015	$56,423	3.89	$ 463,827	$ -

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Special assessment bonds with government commitment					
1994 G.O. drainage bonds	2011	$15,000 - $25,000	5.80 - 6.70	$ 310,000	$ -
2008B G.O. drainage bonds	2019	$35,000 - $85,000	3.15 - 4.25	715,000	465,000
Total special assessment bonds with government commitment				$ 1,025,000	$ 465,000
Less: unamortized discounts					(3,943)
Special Assessment Bonds with Government Commitment, Net					$ 461,057
General obligation bonds					
2004 G.O. capital improvement bonds	2015	$460,000 - $615,000	3.00 - 3.75	$ 5,275,000	$ 2,325,000
2008A G.O. jail bonds	2021	$150,000 - $840,000	4.00 - 5.00	8,545,000	7,200,000
Total general obligation bonds				$ 13,820,000	$ 9,525,000
Plus: unamortized premium					208,315
Less: unamortized discounts					(63,374)
General Obligation Bonds, Net					$ 9,669,941

2. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Cottonwood River Restoration CWP Project	2017	$14,828	2.00	$ 415,475	$ 287,745
Yellow Medicine River Watershed CWP Project	2015	$9,535	2.00	172,070	95,877
Redwood Watershed Phosphorus CWP Project	2017	$10,263	2.00	427,331	368,141
Total Loans Payable				$ 1,014,876	$ 751,763

5. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending	General Obligation Bonds		Special Assessment Bonds	
December 31	Principal	Interest	Principal	Interest
2012	$ 2,945,000	$ 371,573	$ 85,000	$ 16,630
2013	640,000	274,650	80,000	13,623
2014	660,000	248,650	80,000	10,582
2015	680,000	221,850	80,000	7,463
2016	700,000	194,250	35,000	5,163
2017 - 2021	3,900,000	486,875	105,000	6,693
Total	$ 9,525,000	$ 1,797,848	$ 465,000	$ 60,154

2. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2012	$ 62,787	$ 6,466
2013	60,521	5,204
2014	58,174	4,023
2015	55,676	2,853
2016	53,092	1,771
2017 - 2018	48,669	762
Total	$ 338,919	$ 21,079

Clean water loans of $160,213 for the Cottonwood River Restoration Project and $252,631 for the Redwood Watershed Phosphorus Project are not included in the debt service requirements because fixed repayment schedules are not available.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 10,660,000	$ -	$ 1,135,000	$ 9,525,000	$ 2,945,000
Plus: unamortized premium	232,786	-	24,471	208,315	-
Less: unamortized discount	(69,987)	-	(6,613)	(63,374)	-
General obligation bonds, net	$ 10,822,799	$ -	$ 1,152,858	$ 9,669,941	$ 2,945,000

2. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities

Governmental Activities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special assessment bonds with government commitment	$ 575,000	$ -	$ 110,000	$ 465,000	$ 85,000
Less: unamortized discount	(4,463)	-	(520)	(3,943)	-
Special assessment bonds with government commitment, net	$ 570,537	$ -	$ 109,480	$ 461,057	$ 85,000
Total bonds payable	$ 11,393,336	$ -	$ 1,262,338	$ 10,130,998	$ 3,030,000
Leases payable	254,165	-	254,165	-	-
Loans payable	790,493	33,237	71,967	751,763	62,996
Compensated absences	573,657	1,974	519	575,112	46,065
Net OPEB liability	1,095,686	322,837	130,410	1,288,113	-
Governmental Activities Long-Term Liabilities	$ 14,107,337	$ 358,048	$ 1,719,399	$ 12,745,986	$ 3,139,061

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	$ 1,070,001	$ 139,606	$ -	$ 1,209,607	$ -
Compensated absences	36,127	2,049	-	38,176	-
Business-Type Activities Long-Term Liabilities	$ 1,106,128	$ 141,655	$ -	$ 1,247,783	$ -

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Board reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $1,209,607 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 27.60 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of $3,172,912 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Based on the current permitted capacity, the landfill has an estimated operating life of 81.16 years. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The Board is in compliance with these requirements and, at December 31, 2011, restricted assets of $3,464,556 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.

2. Detailed Notes on All Funds (Continued)

D. Fund Balance

Fund Balances	General	Road and Bridge	Human Services	Ditch	Debt Service	Total
Nonspendable						
Prepaid items	$ 35,117	$ 4,471	$ -	$ -	$ -	$ 39,588
Inventories	-	345,283	-	-	-	345,283
Restricted for						
DARE program	8,937	-	-	-	-	8,937
Missing heirs	2,483	-	-	-	-	2,483
Law library	106,894	-	-	-	-	106,894
Recorder's technology	196,714	-	-	-	-	196,714
Recorder's compliance	301,722	-	-	-	-	301,722
Debt service	-	-	-	-	2,075,995	2,075,995
Ditch	-	-	-	1,118,723	-	1,118,723
Enhanced 911	249,808	-	-	-	-	249,808
Sheriff's contingency	5,000	-	-	-	-	5,000
Sheriff's forfeited property	26,383	-	-	-	-	26,383
Attorney's forfeited property	35,416	-	-	-	-	35,416
Sheriff's canteen	41,478	-	-	-	-	41,478
Sheriff's gun permits	32,774	-	-	-	-	32,774
Probation supervision fees	95,593	-	-	-	-	95,593
Septic/sewer loans	323,642	-	-	-	-	323,642
Septic/sewer interest	8,487	-	-	-	-	8,487
HAVA election equipment grant	2,444	-	-	-	-	2,444
Rock Lake pier project	2,106	-	-	-	-	2,106
Local water implementation	44,834	-	-	-	-	44,834
Fish and wildlife trust	76,819	-	-	-	-	76,819
Garvin Park horse staging area	5,000	-	-	-	-	5,000
Highway allotments	-	357,753	-	-	-	357,753
Committed to						
ARMER Radio	311,248	63,204	-	-	-	374,452
Twin Lakes Park	227,671	-	-	-	-	227,671
Garvin Park trust	218,933	-	-	-	-	218,933
Aggregate - gravel pit	209,904	-	-	-	-	209,904
Recycling and HHW assessments	172,497	-	-	-	-	172,497
Capital improvement - road bonds	-	1,257,284	-	-	-	1,257,284
Purchase dump truck	-	159,087	-	-	-	159,087
Advance to other funds	25,567	-	-	-	-	25,567
Assigned to						
Criminal justice contingency	174,719	-	-	-	-	174,719
Insurance trust	170,879	-	-	-	-	170,879
Capital projects/building and improvement	305,069	-	-	-	-	305,069
Capital projects LEC	55,728	-	-	-	-	55,728
Water/natural resource/flood control	149,650	-	-	-	-	149,650
Resource development	6,043	-	-	-	-	6,043
Elections	127,543	-	-	-	-	127,543
Truth in taxation	5,658	-	-	-	-	5,658
County cars	34,425	-	-	-	-	34,425
BCBS tobacco money	12,300	-	-	-	-	12,300
Designated sick leave/vacation pay	332,405	-	-	-	-	332,405
Technology	32,444	-	-	-	-	32,444
Group home account balance	9,331	-	-	-	-	9,331
Road and bridge	-	4,144,856	-	-	-	4,144,856
Unassigned	4,950,192	-	-	-	-	4,950,192
Total Fund Balances	$ 9,133,857	$ 6,331,938	$ -	$ 1,118,723	$ 2,075,995	$ 18,660,513

3. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Plans

      1. Plan Description

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

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a County correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the County correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

1. Plan Description (Continued)

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

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

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

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans (Continued)

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

Lyon County is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

Lyon County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 278,864	$ 270,583	$ 260,208
Public Employees Police and Fire Fund	117,931	109,789	99,743
Public Employees Correctional Fund	75,270	65,789	60,741

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

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	Employee	Employer
Contribution amount	$ 2,014	$ 2,014
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. As of January 1, 2009, there were approximately 26 retirees receiving health benefits from the plan. The implicit rate subsidy amount was determined by an actuarial study to be $58,811 for 2011.

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 ($575 per month during 2011), and the benefit continues until death. Any employee hired after May 1, 1997, is not eligible for the benefit. The County finances the plan on a pay-as-you-go basis. The County had 5 elected officials and 20 employees eligible for this benefit in 2011. The cost for this program totaled $150,915 ($24,987 for elected officials and $125,928 for employees) in 2011.

During February 2009, the Lyon County Board of Commissioners reduced the maximum payment of retirement benefits to $330 per month, prorated at four percent per year of service, and limited the payment period to ten years (120 monthly payments) after retirement or upon death of the retiree, whichever occurs first.

Annual OPEB Cost and Net OPEB Obligation

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$ 340,014
Interest on net OPEB obligation	48,383
Adjustment to ARC	(65,560)
Annual OPEB cost (expense)	$ 322,837
Contributions made	(130,410)
Increase in net OPEB obligation	$ 192,427
Net OPEB Obligation - Beginning of Year	1,095,686
Net OPEB Obligation - End of Year	$ 1,288,113

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008, 2009, 2010, and 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	$ 945,015	$ 178,337	18.87%	$ 766,714
December 31, 2009	328,471	175,420	53.40	919,765
December 31, 2010	328,471	152,550	46.44	1,095,686
December 31, 2011	322,837	130,410	40.39	1,288,113

Funded Status and Funding Progress

As of January 1, 2009, the plan was zero percent funded. The actuarial accrued liability for benefits was $4,103,917, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4,103,917. The covered payroll (annual payroll of active employees covered by the plan) was $4,942,611, and the ratio of the UAAL to the covered payroll was 83.0 percent.

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

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

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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

B. Subsequent Events

Early Payment of Debt

On August 17, 2004, Lyon County issued General Obligation Capital Improvement Bonds, Series 2004 in the amount of $5,275,000 with interest rates 3.0 percent to 3.7 percent. On January 12, 2012, Lyon County made early repayment of $2,325,000 in principal to US Bank. The early repayment satisfied the principal amount in full.

Loss of Assets

On February 4, 2012, Lyon County suffered a fire at a highway shop, destroying a shop building with a purchase price of $18,000 and carrying value of $0; two dump trucks with purchase prices of $21,303 and $115,250 and carrying values of $113,636 and $145,580, respectively; a pickup truck with a purchase price of $17,124 and carrying value of $0; and a tractor with a purchase price of $47,086 and carrying value of $0. The County's insurance policy will cover the market value of the building, or replacement cost should the County choose to replace the building. The equipment and contents of the building are insured at market value.

C. Contingent Liabilities

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

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.

4. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2011, the Lincoln-Pipestone Rural Water System had $36,595,000 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for $1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

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

D. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59 by terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both the LLMHS and LLMPPHS continued to exist after dissolution as long as necessary to conclude the affairs of the agencies. SWHHS began official operation on January 1, 2011, to perform health and human service functions. In 2011, funding was based on the percentages used in prior years for LLMHS and LLMPPHS. For 2012 and beyond, financing will be provided by the member counties based on consideration of: (1) population based on the most recent national census, (2) tax capacity; and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human service functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County petitioned to join SWHHS. Redwood County's health and human service functions will join SWHHS as of January 1, 2013.

SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is 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. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates. Financing is provided by state grants and appropriations from member counties. In 2011, Lyon County's contribution to Human Services was $2,359,558, and its contribution to Health Services was $220,000.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwest Health and Human Services (Continued)

At December 31, 2011, SWHHS reported a total fund balance of $4,947,853. In addition, SWHHS reported total net assets of $4,247,697. SWHHS' long-term debt at December 31, 2011, was $954,659 and includes a net OPEB obligation and compensated absences. The debt will be funded by intergovernmental revenue and revenue from computer services.

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

Lincoln-Pipestone Rural Water System

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

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2011, were $36,595,000.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of $48,544,818, including unrestricted net assets of $19,843,138. The increase in net assets for the year ended December 31, 2011, was $6,120,627.

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

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court.

Each county is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue 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, 2010 (the latest information available), were $11,595,000. The Water System's net assets increased by $2,442,689 in 2010.

Complete financial information can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Lyon County, the City of Marshall, the City of Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

Marshall-Lyon County Library

The Marshall-Lyon County Library is governed by a nine-member board, with six members appointed by the City of Marshall and three members appointed by Lyon County.

The County and the City of Marshall are responsible for the operating budget of the Library in a one-third to two-third split, respectively. Lyon County's contribution for 2011 was $234,807.

E. Jointly-Governed Organizations

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

Area II River Basin Project

The Area II River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $20,341 of the County levy to the Project.

4. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

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

Yellow Medicine River Watershed District

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

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REQUIRED SUPPLEMENTARY INFORMATION

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 5,882,037	$ 5,882,037	$ 5,912,331	$ 30,294
Special assessments	302,721	302,721	414,240	111,519
Licenses and permits	19,500	19,500	35,980	16,480
Intergovernmental	1,503,821	1,568,892	2,793,966	1,225,074
Charges for services	966,900	836,900	899,775	62,875
Investment earnings	100,000	100,000	45,022	(54,978)
Miscellaneous	762,500	711,500	906,294	194,794
Total Revenues	**$ 9,537,479**	**$ 9,421,550**	**$ 11,007,608**	**$ 1,586,058**
Expenditures				
Current				
General government				
Commissioners	$ 189,450	$ 189,450	$ 172,969	$ 16,481
Courts	65,000	109,134	114,085	(4,951)
Law library	-	-	28,154	(28,154)
Administrator	189,320	219,331	222,395	(3,064)
Auditor/Treasurer	539,065	539,065	480,558	58,507
Information technology	63,500	63,500	44,114	19,386
Elections	-	-	16,632	(16,632)
Central services	453,239	453,239	436,419	16,820
Attorney	397,200	397,200	389,953	7,247
Recorder	356,550	356,550	286,378	70,172
Geographic information system	150,350	150,350	142,299	8,051
Assessor	198,340	198,340	188,845	9,495
Planning and zoning	215,650	215,650	160,092	55,558
Buildings and plant	631,900	1,098,087	1,018,990	79,097
Veterans service officer	63,700	63,700	118,786	(55,086)
Total general government	**$ 3,513,264**	**$ 4,053,596**	**$ 3,820,669**	**$ 232,927**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,885,550	$ 1,885,550	$ 1,959,684	$ (74,134)
Law enforcement center	1,678,460	1,674,825	1,719,964	(45,139)
Sheriff's contingent	-	-	8,000	(8,000)
Boat and water safety	-	-	1,541	(1,541)
Joint law enforcement center	-	-	101,587	(101,587)
Coroner	18,000	23,865	23,812	53
Sentence to serve	57,000	57,000	54,554	2,446
Probation and parole	343,194	343,194	297,615	45,579
Emergency services	63,000	63,000	94,834	(31,834)
E-911 system	107,000	107,000	364,143	(257,143)
Regional Radio Board	-	-	731,231	(731,231)
ARMER radio system	-	222,374	1,111,373	(888,999)
Total public safety	**$ 4,152,204**	**$ 4,376,808**	**$ 6,468,338**	**$ (2,091,530)**
Sanitation				
Environmental	$ 42,625	$ 42,625	$ 40,447	$ 2,178
Hazardous waste	347,500	347,500	364,561	(17,061)
Recycling	158,721	158,721	170,260	(11,539)
Total sanitation	**$ 548,846**	**$ 548,846**	**$ 575,268**	**$ (26,422)**
Culture and recreation				
Fairgrounds	$ 39,418	$ 54,476	$ 51,413	$ 3,063
Parks	178,077	178,077	117,258	60,819
Other	32,000	32,000	32,075	(75)
Total culture and recreation	**$ 249,495**	**$ 264,553**	**$ 200,746**	**$ 63,807**
Conservation of natural resources				
Extension	$ 119,880	$ 119,880	$ 112,764	$ 7,116
Agricultural inspection	58,076	58,076	53,147	4,929
Water quality loan program	-	-	36,437	(36,437)
Water planning	72,060	72,060	34,728	37,332
Other	139,481	139,481	145,182	(5,701)
Total conservation of natural resources	**$ 389,497**	**$ 389,497**	**$ 382,258**	**$ 7,239**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Economic development				
Community development	**$ 38,155**	**$ 38,155**	**$ 45,518**	**$ (7,363)**
Intergovernmental				
Health	$ 221,000	$ 221,000	$ 223,258	$ (2,258)
Culture and recreation	234,807	234,807	234,807	-
Total intergovernmental	**$ 455,807**	**$ 455,807**	**$ 458,065**	**$ (2,258)**
Debt service				
Principal	$ 47,911	$ 204,188	$ 326,132	$ (121,944)
Interest	8,514	8,514	23,366	(14,852)
Administrative (fiscal) fees	3,100	-	-	-
Total Expenditures	**$ 9,406,793**	**$ 10,339,964**	**$ 12,300,360**	**$ (1,960,396)**
Excess of Revenues Over (Under) Expenditures	**$ 130,686**	**$ (918,414)**	**$ (1,292,752)**	**$ (374,338)**
Other Financing Sources (Uses)				
Proceeds from the sale of capital assets	$ -	$ -	$ 197,376	$ 197,376
Transfers out	(130,686)	-	-	-
Loans issued	-	-	33,237	33,237
Total Other Financing Sources (Uses)	**$ (130,686)**	**$ -**	**$ 230,613**	**$ 230,613**
Net Change in Fund Balance	**$ -**	**$ (918,414)**	**$ (1,062,139)**	**$ (143,725)**
Fund Balance - January 1	**10,195,996**	**10,195,996**	**10,195,996**	**-**
Fund Balance - December 31	**$ 10,195,996**	**$ 9,277,582**	**$ 9,133,857**	**$ (143,725)**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,817,647	$ 1,817,647	$ 1,815,603	$ (2,044)
Intergovernmental	5,531,545	5,531,545	4,547,010	(984,535)
Charges for services	23,500	23,500	173,160	149,660
Miscellaneous	533,640	533,640	512,008	(21,632)
Total Revenues	**$ 7,906,332**	**$ 7,906,332**	**$ 7,047,781**	**$ (858,551)**
Expenditures				
Current				
Highways and streets				
Public works	$ 66,715	$ 66,715	$ 56,037	$ 10,678
Administration	346,889	346,889	379,589	(32,700)
Construction	4,637,087	4,637,087	3,281,364	1,355,723
Maintenance	1,958,835	1,958,835	1,628,832	330,003
Equipment and maintenance shops	850,806	850,806	1,166,462	(315,656)
County road improvements and maintenance	46,000	46,000	-	46,000
Total highways and streets	**$ 7,906,332**	**$ 7,906,332**	**$ 6,512,284**	**$ 1,394,048**
Intergovernmental				
Highways and streets	-	-	328,178	(328,178)
Total Expenditures	**$ 7,906,332**	**$ 7,906,332**	**$ 6,840,462**	**$ 1,065,870**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 207,319**	**$ 207,319**
Fund Balance - January 1	**6,050,435**	**6,050,435**	**6,050,435**	**-**
Increase (decrease) in inventories	**-**	**-**	**74,184**	**74,184**
Fund Balance - December 31	**$ 6,050,435**	**$ 6,050,435**	**$ 6,331,938**	**$ 281,503**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 2,182,195	$ 2,182,195	$ 2,178,565	$ (3,630)
Intergovernmental	340,661	340,661	344,319	3,658
Total Revenues	**$ 2,522,856**	**$ 2,522,856**	**$ 2,522,884**	**$ 28**
Expenditures				
Intergovernmental				
Human services	2,522,856	2,522,856	2,522,884	(28)
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

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 212,865	$ 212,865	$ 246,913	$ 34,048
Investment earnings	-	-	1,993	1,993
Miscellaneous	21,166	21,166	26,499	5,333
Total Revenues	**$ 234,031**	**$ 234,031**	**$ 275,405**	**$ 41,374**
Expenditures				
Current				
Conservation of natural resources				
Other	$ 150,000	$ 150,000	$ 151,424	$ (1,424)
Debt service				
Principal	80,000	80,000	110,000	(30,000)
Interest	26,349	26,349	21,702	4,647
Administrative (fiscal) fees	-	-	1,392	(1,392)
Total Expenditures	**$ 256,349**	**$ 256,349**	**$ 284,518**	**$ (28,169)**
Net Change in Fund Balance	**$ (22,318)**	**$ (22,318)**	**$ (9,113)**	**$ 13,205**
Fund Balance - January 1	**1,127,836**	**1,127,836**	**1,127,836**	**-**
Fund Balance - December 31	**$ 1,105,518**	**$ 1,105,518**	**$ 1,118,723**	**$ 13,205**

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

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

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

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

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LYON COUNTY
MARSHALL, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, and the Debt Service Fund. 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 budgeted special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 9,406,793	$ 933,171	$ 10,339,964

4. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	$ 12,300,360	$ 10,339,964	$ 1,960,396
Special Revenue Funds			
Human Services	2,522,884	2,522,856	28
Ditch	284,518	256,349	28,169

5. <u>Other Postemployment Benefits</u>

Lyon County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three-year valuation funding status requirement as the information becomes available.

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

SUPPLEMENTARY INFORMATION

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,532,343	$ 1,532,343	$ 1,529,692	$ (2,651)
Intergovernmental	-	-	111,653	111,653
Total Revenues	**$ 1,532,343**	**$ 1,532,343**	**$ 1,641,345**	**$ 109,002**
Expenditures				
Debt service				
Principal	$ 1,228,500	$ 1,228,500	$ 1,135,000	$ 93,500
Interest	408,523	408,523	413,291	(4,768)
Administrative (fiscal) fees	4,033	4,033	4,039	(6)
Total Expenditures	**$ 1,641,056**	**$ 1,641,056**	**$ 1,552,330**	**$ 88,726**
Net Change in Fund Balance	**$ (108,713)**	**$ (108,713)**	**$ 89,015**	**$ 197,728**
Fund Balance - January 1	**1,986,980**	**1,986,980**	**1,986,980**	**-**
Fund Balance - December 31	**$ 1,878,267**	**$ 1,878,267**	**$ 2,075,995**	**$ 197,728**

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AGENCY FUNDS

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

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

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

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

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
ENTERPRISE DEVELOPMENT				
Assets				
Cash and pooled investments	$ 1,365	$ -	$ 142	$ 1,223
Liabilities				
Due to other governments	$ 1,365	$ -	$ 142	$ 1,223
STATE REVENUE				
Assets				
Cash and pooled investments	$ 74,616	$ 636,046	$ 619,657	$ 91,005
Liabilities				
Due to other governments	$ 74,616	$ 636,046	$ 619,657	$ 91,005
SOUTHWEST MINNESOTA REGIONAL RADIO BOARD				
Assets				
Cash and pooled investments	$ 5,454	$ 629,861	$ 441,315	$ 194,000
Liabilities				
Due to other governments	$ 5,454	$ 629,861	$ 441,315	$ 194,000

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 357,829	$ 34,918,319	$ 34,928,930	$ 347,218
Liabilities				
Due to other governments	$ 357,829	$ 34,918,319	$ 34,928,930	$ 347,218
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 439,264	$ 36,184,226	$ 35,990,044	$ 633,446
Liabilities				
Due to other governments	$ 439,264	$ 36,184,226	$ 35,990,044	$ 633,446

OTHER SCHEDULES

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LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Shared Revenue		
State		
Highway users tax	$	3,828,633
County program aid		976,002
PERA rate reimbursement		40,013
Disparity reduction aid		26,855
Police aid		89,804
Enhanced 911		103,629
Local performance aid		3,620
Market value credit		567,895
Total shared revenue	**$**	**5,636,451**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**26,518**
Payments		
Local		
Payments in lieu of taxes	$	249,591
Local grants		91,254
Total payments	**$**	**340,845**
Grants		
State		
Minnesota Department/Board of		
Natural Resources	$	48,032
Public Safety		14,417
Corrections		55,612
Water and Soil Resources		66,575
Veterans Affairs		62,800
Peace Officer Standards and Training Board		5,302
Pollution Control Agency		113,595
Total state	**$**	**366,333**
Federal		
Department of		
Commerce	$	341,044
Housing and Urban Development		10,863
Justice		876
Transportation		413,190
Homeland Security		660,828
Total federal	**$**	**1,426,801**
Total state and federal grants	**$**	**1,793,134**
Total Intergovernmental Revenue	**$**	**7,796,948**

LYON COUNTY
MARSHALL, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Commerce			
Passed Through Minnesota Department of Public Safety			
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.468	$	32,346
Public Safety Interoperable Communications Grant Program	11.555		308,698
Total U.S. Department of Commerce		**$**	**341,044**
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	**$**	**10,863**
U.S. Department of Justice			
Direct			
Bulletproof Vest Partnership Program	16.607	**$**	**876**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	400,076
Passed Through Minnesota Department of Public Safety, City of Worthington			
Highway Safety Cluster			
State and Community Highway Safety	20.600		4,524
Alcohol-Impaired Driving Countermeasures Incentive Grants I	20.601		1,000
Safety Belt Performance Grants	20.609		7,590
Total U.S. Department of Transportation		**$**	**413,190**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	$	34,002
Emergency Management Performance Grants	97.042		25,970
Interoperable Emergency Communications	97.055		76,016
Homeland Security Grant Program	97.067		524,840
Total U.S. Department of Homeland Security		**$**	**660,828**
Total Federal Awards		**$**	**1,426,801**

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lyon County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Lyon County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Lyon County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	$	13,114

5. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
11.468	National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	$ 32,346
11.555	Public Safety Interoperable Communications Grant Program	308,698
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	10,863
97.055	Interoperable Emergency Communications	73,998
97.067	Homeland Security Grant Program	389,840
	Total	$ 815,745

**Management and
Compliance Section**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Public Safety Interoperable Communications Grant Program	CFDA #11.555
Homeland Security Grant Program	CFDA #97.067

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

County qualified as low-risk auditee? **No**

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

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

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

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

Client's Response:

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

09-3 Jail Canteen Account

Criteria: The County's share of profits from canteen operations should be turned over to the County and recorded on the County's general ledger system. The County Sheriff operates a canteen fund to purchase and sell items used by the inmates in the jail. Revenues received from the sale of items and all purchases of goods for resale are handled through a separate checking account.

Condition: As of June 2012, profits from the canteen operation have not been remitted to the County since a new system was implemented in September 2009.

Context: The canteen fund has been in operation for many years, and it is unknown how the original start-up inventory was funded. However, it is our belief that canteen funds meet the criteria of County funds and should be accounted for in the County's general ledger system. The funds are both collected and administered by on-duty public employees acting on behalf of the County, using County facilities, and fulfilling their responsibilities to care for County prisoners. The recording of these funds on the County's general ledger system would not preclude the County Board from using the profits of the canteen fund for the benefit of the inmates.

Effect: The activity in the checking account is not accounted for on the County's general ledger.

Cause: When the County implemented a new system in September 2009 for canteen funds, procedures did not include the remittance of funds to the County or recording of account activity into the general ledger.

Recommendation: We recommend the full operations of the jail canteen fund be recorded on the County's general ledger system. This would include depositing all money received from sales and making all purchases with County warrants. If the County Board consents, these funds may be dedicated and used for the benefit of inmates.

Client's Response:

The Jail Administrator is currently working with the Auditor/Treasurer's Office to improve the reporting of the account activity for the canteen account.

09-4 Jail Inmate Account Bank Reconciliation

Criteria: Reconciliations are critical control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist (such as timing differences or errors) and resolve the differences in a timely manner. Documentation resolving the differences should be retained.

Condition: Jail personnel have been unable to reconcile the amount in the Jail checking account to the bank statement.

Context: During testing, we noted the bank reconciliation is left blank with no supporting documentation provided.

Cause: The Lyon County Jail has been unable to successfully identify the total cash balance as recorded on its inmate account tracking system, TEAM software through TurnKey Corrections.

Effect: Without bank reconciliations, the County has no assurance that the book balance is accurately stated. Bank reconciliations would provide evidence that all funds received and disbursed through the checking account have been recorded in TEAM.

Recommendation: We recommend County Jail personnel contact the software vendor to obtain the support and training necessary to accurately identify the TEAM cash balance. The Jail checking account should then be reconciled to the bank statement on a monthly basis.

Client's Response:

The Jail Administrator will work with TurnKey and the Auditor/Treasurer's Office to acquire the reports necessary to balance the jail checking account.

ITEMS ARISING THIS YEAR

11-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Audit adjustments were necessary to record transactions for the Southwest Minnesota Regional Radio Board and to record $600,000 held by the County as fiscal agent for Southwest Health and Human Services that was not included in the general ledger.

Cause: The adjustments resulted from controls over calculating the proper amounts of balances and transactions not detecting a number of errors and the County not considering the need for controls over the recording of certain accounting transactions.

Recommendation: We recommend that the County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the County.

Client's Response:

The Auditor/Treasurer's Office will review audit adjustments, trial balances, and journal entries from this audit to increase understanding and knowledge so that for future audits this information can be prepared by the Auditor/Treasurer's Office.

11-2 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Lyon County recently updated to a new version of the Integrated Financial System (IFS) application software. This application was written as a web-based application and may be run on a server or a mainframe system. Lyon County contracts with another government for use of space on a mainframe IBM I Series system. For an employee of Lyon County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Lyon County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Lyon County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: The adjustments resulted from controls over calculating the proper amounts of balances and transactions not detecting a number of errors and the County not considering the need for controls over the recording of certain accounting transactions.

Recommendation: We recommend Lyon County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

Lyon County will work with IT to review password controls for the IFS applications.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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

Criteria: All proceeds received by a County Sheriff's Department should be remitted to the County Auditor/Treasurer's Office.

Condition: Funds are not remitted to the County Auditor/Treasurer for the Pay to Stay program until an inmate has paid in full.

Context: At the end of 2011, the Sheriff's Office had $24,508 in a bank account for the Pay to Stay program. This is down from the $25,351 held in the account at the end of 2010.

Effect: The County has not recorded or recognized revenues for total collections by the Sheriff's Office for the Pay to Stay program.

Cause: Past due accounts are turned over to a collection agency; however, if overdue accounts are not collected in full, amounts received are not remitted to the County Auditor/Treasurer or recorded in the County's general ledger. In addition, a timeframe for which accounts to be determined uncollectible has not been established.

Recommendation: We recommend the County review the Pay to Stay account and approve a policy to specify a timeframe for when accounts should be determined uncollectible. We also recommend that all Pay to Stay monies received be promptly remitted to the Auditor/Treasurer's Office. Reconciliations and reviews should be performed on a regular basis between the department's subsidiary ledgers and the County's general ledger to ensure revenues are properly recorded. These procedures are to ensure all collections are receipted and properly posted to the general ledger.

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

April 4, 2012: pay for stay monies were turned over to the Auditor/Treasurer's Office, and then the checking account was closed. June 5, 2012: the County Board specified a timeframe for when accounts should be determined uncollectible and pay for stay monies are to be turned over to the Auditor/Treasurer's Office on a bi-weekly basis.

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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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 16, 2012. 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

Management of Lyon County is responsible for establishing and maintaining effective 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 98-1, 09-3, 09-4, and 11-2 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts.

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 the County, and it is reported for that purpose.

Lyon County's written responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

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

August 16, 2012

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

Board of County Commissioners
Lyon County

Compliance

We have audited Lyon County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Lyon County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Lyon County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Lyon County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 16, 2012