

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

LYON COUNTY
MARSHALL, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 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**

Year Ended December 31, 2014



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

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

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**LYON COUNTY
MARSHALL, MINNESOTA**

ORGANIZATION
2014

Office	Name	Term Expires
Commissioners		
1st District	Charles Sanow ²	January 2017
2nd District	Stephen Ritter	January 2015
3rd District	Mark Goodenow	January 2015
4th District	Rodney Stensrud	January 2017
5th District	Rick Anderson ¹	January 2017
Officers		
Elected		
Attorney	Rick Maes	January 2015
Auditor/Treasurer	E.J. Moberg	January 2015
Recorder	Mona Hammer	January 2015
Sheriff	Mark Mather	January 2015
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Dean Champine	December 2016
Environmental Administrator	Paul Henriksen	Indefinite
Highway Engineer	Aaron VanMoer	October 2017
Veterans Service Officer	Terry Wing	September 2018

¹Chair 2014

²Chair 2015

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Lyon County
Marshall, Minnesota

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 Governmental Accounting Standards Board, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County's basic financial statements. The supplementary information as listed in the table of contents 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. Such 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 stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2015, 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* in considering Lyon County's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 21, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**LYON COUNTY
MARSHALL, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Lyon County exceeded its liabilities on December 31, 2014, by \$112,676,372 (net position). Of this amount, \$14,704,326 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$3,398,429 in 2014. A large part of the increase is attributable to the County's net investment in capital assets.
- The net cost of governmental and business-type activities for the current fiscal year was \$11,484,581. The net cost was funded by general revenues totaling \$14,883,010.
- As of the close of 2014, the County's governmental funds reported combined ending fund balances of \$18,029,673, a decrease of \$271,948 in comparison with 2013 combined ending fund balances. Of the 2014 balance, \$13,012,010 was unrestricted and, thus, available for spending at the government's discretion.
- At the end of 2014, the unrestricted fund balance for the General Fund was \$9,663,926, or 84.0 percent, of the total General Fund expenditures for the year. This represents an increase from 2013, in which the unrestricted fund balance for the General Fund represented 80.7 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position 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).

The 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 the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Lyon County has only the landfill reported as a business-type activity.

The government-wide statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

Fund level financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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 how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. 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 County'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.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund. Budgetary comparison schedules have been provided as required supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

The proprietary funds account for the Landfill Enterprise Fund and the Internal Service Fund. The financial statements for these funds provide the same type of information as the government-wide financial statements--only in more detail.

The basic proprietary fund financial statements are Exhibits 7 through 9 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not included in the government-wide statements because the resources of those funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on Exhibits 10 and 11.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 75 of this report.

Other Information

Other information is provided as supplementary information regarding Lyon County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$112,676,372 at the close of 2014. The largest portion of Lyon County's net position (79.2 percent) reflects the County's net 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. Comparative data with 2013 is presented.

	2014			2013
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 21,620,216	\$ 7,991,209	\$ 29,611,425	\$ 31,437,596
Capital assets	87,711,242	7,652,283	95,363,525	89,924,414
Total Assets	\$ 109,331,458	\$ 15,643,492	\$ 124,974,950	\$ 121,362,010
Liabilities				
Long-term liabilities	\$ 8,516,169	\$ 1,440,259	\$ 9,956,428	\$ 10,303,152
Other liabilities	1,563,702	778,448	2,342,150	1,780,915
Total Liabilities	\$ 10,079,871	\$ 2,218,707	\$ 12,298,578	\$ 12,084,067
Net Position				
Net investment in capital assets	\$ 82,336,372	\$ 6,926,363	\$ 89,262,735	\$ 83,875,191
Restricted	4,994,933	3,714,378	8,709,311	9,587,589
Unrestricted	11,920,282	2,784,044	14,704,326	15,815,163
Total Net Position	\$ 99,251,587	\$ 13,424,785	\$ 112,676,372	\$ 109,277,943

Unrestricted net position (in the amount of \$14,704,326)--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 13.1 percent of the net position.

Governmental Activities

Lyon County's activities increased net position during 2014 by \$3,398,429, representing a 3.1 percent increase. Key elements in this increase in net position are as follows for 2014, with comparative data for 2013.

Changes in Net Position

	2014			2013
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Charges for services	\$ 2,845,629	\$ 2,462,999	\$ 5,308,628	\$ 4,952,192
Operating grants and contributions	5,191,903	-	5,191,903	4,840,496
Capital grants and contributions	685,954	-	685,954	3,384,185
General revenues				
Property taxes	12,585,043	-	12,585,043	12,088,027
Other	2,136,107	161,860	2,297,967	1,833,277
Total Revenues	\$ 23,444,636	\$ 2,624,859	\$ 26,069,495	\$ 27,098,177
Expenses				
General government	\$ 4,139,303	\$ -	\$ 4,139,303	\$ 3,864,962
Public safety	5,322,525	-	5,322,525	5,452,061
Highways and streets	5,907,891	-	5,907,891	5,816,301
Sanitation	598,318	1,523,141	2,121,459	1,959,274
Human services	2,672,267	-	2,672,267	2,619,258
Health	224,454	-	224,454	224,454
Culture and recreation	684,737	-	684,737	566,513
Conservation of natural resources	1,290,588	-	1,290,588	913,311
Economic development	58,155	-	58,155	50,155
Interest	249,687	-	249,687	318,616
Total Expenses	\$ 21,147,925	\$ 1,523,141	\$ 22,671,066	\$ 21,784,905
Increase in Net Position	\$ 2,296,711	\$ 1,101,718	\$ 3,398,429	\$ 5,313,272
Net Position - January 1	96,954,876	12,323,067	109,277,943	103,964,671
Net Position - December 31	\$ 99,251,587	\$ 13,424,785	\$ 112,676,372	\$ 109,277,943

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$18,029,673, a decrease of \$271,948 in comparison with the prior year. Of the ending fund balance, \$7,506,382 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 the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$9,663,926. Fund balance in the General Fund increased \$512,087 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 84.0 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,348,084 at year-end. In total, fund balance for the Road and Bridge Special Revenue Fund decreased \$1,023,415 over the previous year.

The Human Services function for Lyon County is performed through a joint powers agreement between multiple 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 \$1,329,359. This ending balance represents a \$188,522 increase in fund balance from the prior year. The restricted fund balance amount at fiscal year-end was 175.7 percent of the annual expenditures for the fund.

Governmental Activities

The County's total revenues for 2014 were \$23,444,636. Table 1 (below) provides a breakdown of the source of revenues for governmental activities for the year ended December 31, 2014.

**Table 1
Total Revenues - Governmental Activities**

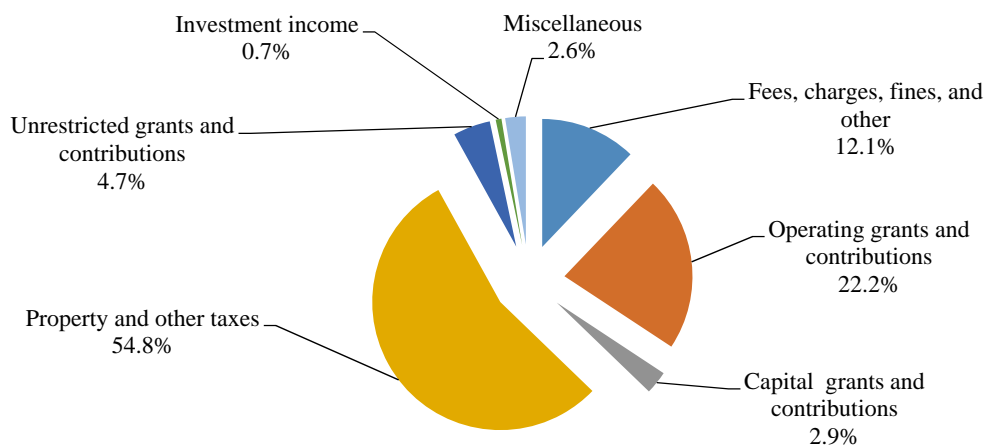


Table 2 (below) presents the revenues and expenses of each of the County’s governmental activities, as well as the County’s revenues from other sources such as property taxes, interest, and unrestricted grants.

Total revenues for the County’s governmental activities were \$23,444,636, while total expenses were \$21,147,925. This corresponds to a \$2,296,711 increase in net position for the year ended December 31, 2014.

Table 2
Program Revenues, General Revenues, and Expenses
Governmental Activities

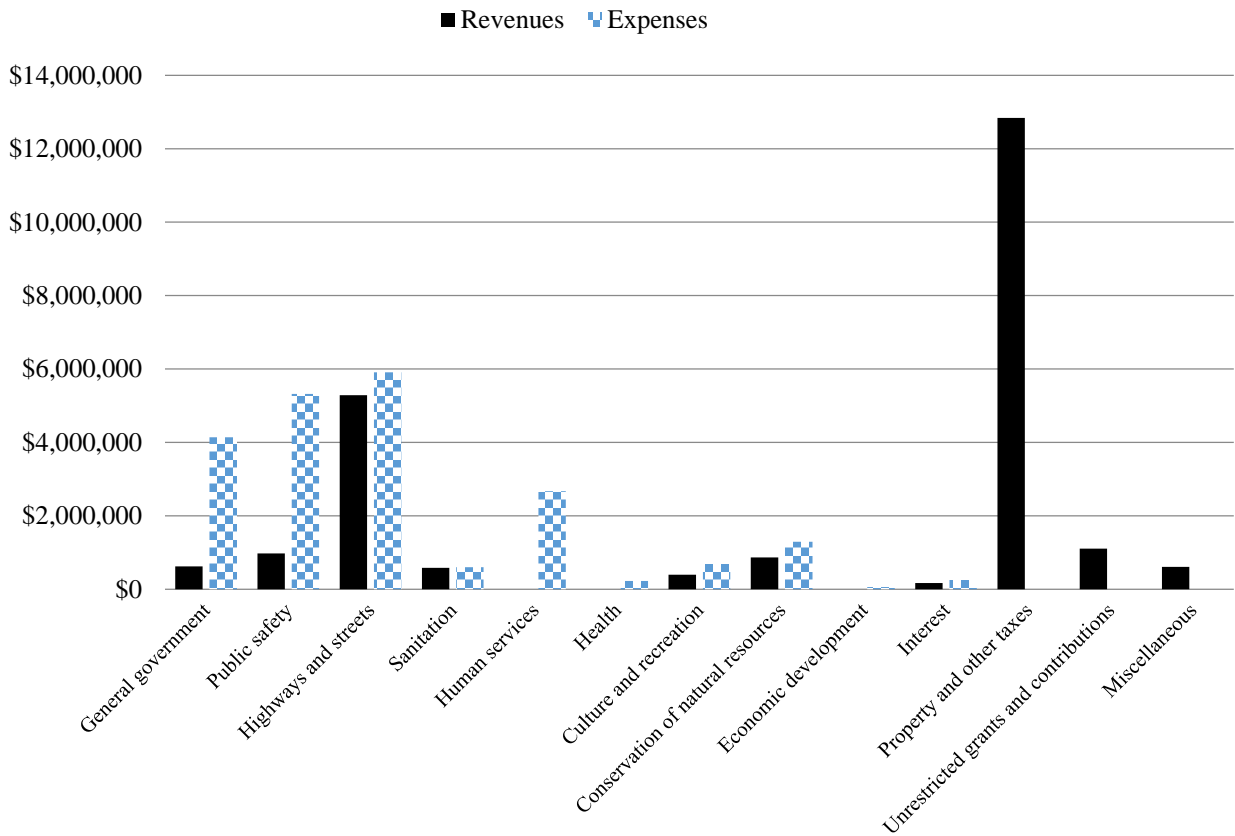


Table 3 displays the cost of each of the County’s four largest program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2014	Net Cost of Services 2014
Highways and streets	\$ 5,907,891	\$ 621,359
Public safety	5,322,525	4,349,891
General government	4,139,303	3,516,452
Human services	2,672,267	2,672,267
All others	3,105,939	1,264,470
	<hr/>	<hr/>
Totals	\$ 21,147,925	\$ 12,424,439
	<hr/> <hr/>	<hr/> <hr/>

General Fund Budgetary Highlights

General Fund revenues exceeded budgeted revenues by \$1,346,505, primarily due to more intergovernmental revenue received than budgeted for.

General Fund expenditures were more than budgeted expenditures by \$964,568, primarily due to not budgeting amounts for construction of Twin Lakes Park or for principal and interest expenditures to the State of Minnesota for septic loan programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Lyon County’s depreciable capital assets for its governmental activities at December 31, 2014, totaled \$84,702,787 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County’s investment in depreciable capital assets increased \$3,168,303, or 3.9 percent, from the previous year.

Depreciable Governmental Capital Assets

	2014	2013
Capital assets depreciated		
Land improvements	\$ 540,231	\$ 522,540
Buildings	22,409,456	22,354,272
Machinery and equipment	6,995,084	6,746,720
Infrastructure	93,232,453	87,690,915
	<hr/>	<hr/>
Total capital assets depreciated	\$ 123,177,224	\$ 117,314,447
	<hr/> <hr/>	<hr/> <hr/>

	<u>2014</u>	<u>2013</u>
Less: accumulated depreciation for		
Land improvements	\$ 403,849	\$ 382,580
Buildings	5,537,178	5,106,863
Machinery and equipment	4,824,003	4,492,619
Infrastructure	<u>27,709,407</u>	<u>25,797,901</u>
Total accumulated depreciation	<u>\$ 38,474,437</u>	<u>\$ 35,779,963</u>
Total Capital Assets Depreciated, Net	<u><u>\$ 84,702,787</u></u>	<u><u>\$ 81,534,484</u></u>

Additional information on the County's capital assets can be found in Note 2.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$6,449,897 for governmental activities, which was backed by the full faith and credit of the government. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	<u>2014</u>	<u>2013</u>
Special assessment debt	\$ 217,616	\$ 297,097
General obligation debt	5,759,870	6,049,223
Loans payable	<u>472,411</u>	<u>572,370</u>
Total	<u><u>\$ 6,449,897</u></u>	<u><u>\$ 6,918,690</u></u>

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 13,680 compared to the total County population of 25,857.

The County's elected and appointed officials considered many factors when setting the 2015 budget, tax rates, and fees that will be charged for the year.

The average unemployment rate for Lyon County for 2013 was 3.51 percent. This compares favorably with the state unemployment rate of 4.09 percent and shows a decrease from the County's 4.22 percent rate of one year ago. This could impact the level of services requested by County residents.

County Tax Rate and Net Tax Levy History

2015	32.132%	\$ 13,247,000
2014	32.792	12,676,566
2013	37.711	12,164,341
2012	42.396	12,164,341
2011	42.819	12,164,341
2010	45.449	12,164,341

On December 16, 2014, the Lyon County Board of Commissioners approved the 2015 budget and adopted a net property tax levy of \$13,247,000, which represents a 4.5 percent increase over the 2014 property tax levy of \$12,676,566.

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 the County Auditor/Treasurer, E.J. Moberg, 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 POSITION
DECEMBER 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 15,853,827	\$ 3,258,060	\$ 19,111,887
Investments	2,921,261	709,719	3,630,980
Receivables	2,563,065	289,658	2,852,723
Internal balances	1,274	(1,274)	-
Inventories	231,646	-	231,646
Prepaid items	49,143	-	49,143
Restricted assets			
Cash and pooled investments	-	150,961	150,961
Investments	-	3,563,418	3,563,418
Accrued interest receivable	-	20,667	20,667
Capital assets			
Non-depreciable capital assets	3,008,455	3,076,272	6,084,727
Depreciable capital assets - net of accumulated depreciation	84,702,787	4,576,011	89,278,798
Total Assets	\$ 109,331,458	\$ 15,643,492	\$ 124,974,950
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,327,126	\$ 778,448	\$ 2,105,574
Accrued interest payable	106,576	-	106,576
Customer deposits - current	130,000	-	130,000
Long-term liabilities			
Due within one year	908,041	-	908,041
Due in more than one year	6,116,813	1,377,811	7,494,624
Other postemployment benefits obligations	1,491,315	62,448	1,553,763
Total Liabilities	\$ 10,079,871	\$ 2,218,707	\$ 12,298,578
<u>Net Position</u>			
Net investment in capital assets	\$ 82,336,372	\$ 6,926,363	\$ 89,262,735
Restricted for			
Public safety	406,416	-	406,416
Highways and streets	1,254,095	-	1,254,095
Conservation of natural resources	1,688,560	-	1,688,560
Landfill closure/postclosure	-	3,714,378	3,714,378
Debt service	993,249	-	993,249
Other purposes	652,613	-	652,613
Unrestricted	11,920,282	2,784,044	14,704,326
Total Net Position	\$ 99,251,587	\$ 13,424,785	\$ 112,676,372

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Governmental activities		
General government	\$ 4,139,303	\$ 560,081
Public safety	5,322,525	627,402
Highways and streets	5,907,891	418,096
Sanitation	598,318	459,893
Human services	2,672,267	-
Health	224,454	-
Culture and recreation	684,737	27,477
Conservation of natural resources	1,290,588	752,680
Economic development	58,155	-
Interest	249,687	-
Total governmental activities	\$ 21,147,925	\$ 2,845,629
Business-type activities		
Landfill	1,523,141	2,462,999
Total	\$ 22,671,066	\$ 5,308,628

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 position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 52,770	\$ 10,000	\$ (3,516,452)	\$ -	\$ (3,516,452)
319,708	25,524	(4,349,891)	-	(4,349,891)
4,218,006	650,430	(621,359)	-	(621,359)
121,650	-	(16,775)	-	(16,775)
-	-	(2,672,267)	-	(2,672,267)
-	-	(224,454)	-	(224,454)
369,000	-	(288,260)	-	(288,260)
110,769	-	(427,139)	-	(427,139)
-	-	(58,155)	-	(58,155)
-	-	(249,687)	-	(249,687)
\$ 5,191,903	\$ 685,954	\$ (12,424,439)	\$ -	\$ (12,424,439)
-	-	-	939,858	939,858
\$ 5,191,903	\$ 685,954	\$ (12,424,439)	\$ 939,858	\$ (11,484,581)
		\$ 12,585,043	\$ -	\$ 12,585,043
		16,042	-	16,042
		236,920	-	236,920
		1,105,082	-	1,105,082
		168,617	160,758	329,375
		609,446	1,102	610,548
		\$ 14,721,150	\$ 161,860	\$ 14,883,010
		\$ 2,296,711	\$ 1,101,718	\$ 3,398,429
		96,954,876	12,323,067	109,277,943
		\$ 99,251,587	\$ 13,424,785	\$ 112,676,372

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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, 2014**

	<u>Special Revenue Funds</u>					<u>Total</u>
	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	
<u>Assets</u>						
Cash and pooled investments	\$ 8,687,229	\$ 4,764,190	\$ 39,202	\$ 1,277,446	\$ 1,085,629	\$ 15,853,696
Investments	2,770,896	-	-	150,365	-	2,921,261
Taxes receivable						
Delinquent	36,939	10,602	13,776	-	5,724	67,041
Special assessments receivable						
Delinquent	17,307	-	-	2,322	-	19,629
Noncurrent	471,049	-	-	825,173	-	1,296,222
Accounts receivable	15,738	11,098	-	-	-	26,836
Accrued interest receivable	9,254	-	-	130	-	9,384
Due from other funds	-	6,292	-	-	-	6,292
Due from internal service fund	58,000	-	-	-	-	58,000
Due from other governments	104,030	1,001,402	-	38,521	-	1,143,953
Inventories	-	231,646	-	-	-	231,646
Prepaid items	43,805	5,338	-	-	-	49,143
Total Assets	\$ 12,214,247	\$ 6,030,568	\$ 52,978	\$ 2,293,957	\$ 1,091,353	\$ 21,683,103
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 103,085	\$ 45,585	\$ -	\$ 4,368	\$ -	\$ 153,038
Salaries payable	416,740	83,240	-	-	-	499,980
Contracts payable	-	431,705	-	-	-	431,705
Due to other funds	5,000	-	-	18	-	5,018
Due to other governments	38,163	5,376	39,202	2,717	-	85,458
Customer deposits	-	-	-	130,000	-	130,000
Total Liabilities	\$ 562,988	\$ 565,906	\$ 39,202	\$ 137,103	\$ -	\$ 1,305,199
Deferred Inflows of Resources						
Unavailable revenue	\$ 525,295	\$ 975,941	\$ 13,776	\$ 827,495	\$ 5,724	\$ 2,348,231
Fund Balances						
Nonspendable	\$ 43,805	\$ 236,984	\$ -	\$ -	\$ -	\$ 280,789
Restricted	1,418,233	903,653	-	1,329,359	1,085,629	4,736,874
Committed	717,305	-	-	-	-	717,305
Assigned	1,440,239	3,348,084	-	-	-	4,788,323
Unassigned	7,506,382	-	-	-	-	7,506,382
Total Fund Balances	\$ 11,125,964	\$ 4,488,721	\$ -	\$ 1,329,359	\$ 1,085,629	\$ 18,029,673
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 12,214,247	\$ 6,030,568	\$ 52,978	\$ 2,293,957	\$ 1,091,353	\$ 21,683,103

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balance - total governmental funds (Exhibit 3)		\$	18,029,673
Amounts reported for governmental activities in the statement of net position 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.			87,711,242
An internal service fund is used by Lyon County to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.			(214,814)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.			2,348,231
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(5,280,000)	
Special assessment bonds		(220,000)	
Compensated absences		(574,957)	
Net OPEB liability		(1,491,315)	
Loans payable		(472,411)	
Note payable		(385,000)	
Accrued interest payable		(106,576)	
Unamortized premium on general obligation bonds		(138,405)	
Unamortized discount on general obligation bonds		43,535	
Unamortized discount on special assessment bonds		2,384	
		(8,622,745)	
Net Position of Governmental Activities (Exhibit 1)			\$ 99,251,587

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue Funds			Debt Service	Total
		Road and Bridge	Human Services	Ditch		
Revenues						
Taxes	\$ 7,125,994	\$ 1,972,012	\$ 2,616,045	\$ -	\$ 945,364	\$ 12,659,415
Special assessments	400,310	-	-	496,832	-	897,142
Licenses and permits	31,735	-	-	-	-	31,735
Intergovernmental	2,326,987	5,315,475	56,222	38,521	14,594	7,751,799
Charges for services	1,051,100	11,801	-	-	-	1,062,901
Fines and forfeits	100	-	-	-	-	100
Investment earnings	167,342	-	-	1,275	-	168,617
Miscellaneous	908,842	426,786	-	23,592	-	1,359,220
Total Revenues	\$ 12,012,410	\$ 7,726,074	\$ 2,672,267	\$ 560,220	\$ 959,958	\$ 23,930,929
Expenditures						
Current						
General government	\$ 3,739,780	\$ -	\$ -	\$ -	\$ -	\$ 3,739,780
Public safety	5,103,061	-	-	-	-	5,103,061
Highways and streets	-	8,229,612	-	-	-	8,229,612
Sanitation	579,910	-	-	-	-	579,910
Culture and recreation	784,093	-	-	-	-	784,093
Conservation of natural resources	630,971	-	-	280,665	-	911,636
Economic development	58,155	-	-	-	-	58,155
Intergovernmental	492,936	370,197	2,672,267	385,000	-	3,920,400
Debt service						
Principal	100,459	-	-	80,000	660,000	840,459
Interest	10,958	-	-	10,583	248,650	270,191
Administrative (fiscal) fees	-	-	-	450	450	900
Total Expenditures	\$ 11,500,323	\$ 8,599,809	\$ 2,672,267	\$ 756,698	\$ 909,100	\$ 24,438,197
Excess of Revenues Over (Under) Expenditures	\$ 512,087	\$ (873,735)	\$ -	\$ (196,478)	\$ 50,858	\$ (507,268)
Other Financing Sources (Uses)						
Proceeds from note issuance	-	-	-	385,000	-	385,000
Net Change in Fund Balance	\$ 512,087	\$ (873,735)	\$ -	\$ 188,522	\$ 50,858	\$ (122,268)
Fund Balance - January 1	10,613,877	5,512,136	-	1,140,837	1,034,771	18,301,621
Increase (decrease) in inventories	-	(149,680)	-	-	-	(149,680)
Fund Balance - December 31	\$ 11,125,964	\$ 4,488,721	\$ -	\$ 1,329,359	\$ 1,085,629	\$ 18,029,673

**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, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (122,268)

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 unavailable revenue.

Deferred inflows of resources - December 31	\$ 2,348,231	
Deferred inflows of resources - January 1	<u>(2,834,524)</u>	(486,293)

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 5,732,374	
Current year depreciation	<u>(2,893,019)</u>	2,839,355

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 position.

Debt principal repayments		
General obligation bonds	\$ 660,000	
Special assessment bonds	80,000	
Loans payable	<u>99,959</u>	839,959

New debt issued (see Note 2.C.4. for more information)		(385,000)
--	--	-----------

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	\$ 7,571	
Change in compensated absences	21,696	
Change in net OPEB liability	(67,649)	
Change in inventories	(149,680)	
Current year amortization of premiums, discounts, and issuance costs	<u>13,834</u>	(174,228)

An internal service fund is used by Lyon County to charge the cost of the self-funded insurance programs to functions. The increase or decrease in net position of the internal service fund is reported in the government-wide statement of activities		<u>(214,814)</u>
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Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,296,711

PROPRIETARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Business-Type Activities Landfill Enterprise Fund	Governmental Activities Internal Service Fund
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 3,258,060	\$ 131
Investments	709,719	-
Accounts receivable	269,050	-
Accrued interest receivable	85	-
Due from other governments	20,523	-
Due from other funds	49	-
Restricted assets		
Cash and pooled investments	150,961	-
Investments	3,563,418	-
Accrued interest receivable	20,667	-
	\$ 7,992,532	\$ 131
Total current assets		
Noncurrent assets		
Capital assets		
Nondepreciable	\$ 3,076,272	\$ -
Depreciable - net	4,576,011	-
	\$ 7,652,283	\$ -
Total noncurrent assets		
	\$ 15,644,815	\$ 131
Total Assets		
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 14,816	\$ 156,945
Salaries payable	24,777	-
Contracts payable	725,920	-
Due to other funds	1,323	58,000
Due to other governments	12,935	-
	\$ 779,771	\$ 214,945
Total current liabilities		
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 41,310	\$ -
Net OPEB obligation	62,448	-
Estimated liability for landfill closure/postclosure care	1,336,501	-
	\$ 1,440,259	\$ -
Total noncurrent liabilities		
	\$ 2,220,030	\$ 214,945
Total Liabilities		

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

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**LYON COUNTY
MARSHALL, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Business-Type Activities	Governmental Activities
	Landfill Enterprise Fund	Internal Service Fund
<u>Net Position</u>		
Net investment in capital assets	\$ 6,926,363	\$ -
Restricted for postclosure care	3,714,378	-
Unrestricted	2,784,044	(214,814)
Total Net Position	\$ 13,424,785	\$ (214,814)

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities	Governmental Activities
	Landfill	Internal
	Enterprise Fund	Service Fund
Operating Revenues		
Charges for services	\$ 2,451,112	\$ 1,315,324
Miscellaneous	11,887	-
Dividends	1,102	-
	\$ 2,464,101	\$ 1,315,324
Operating Expenses		
Personal services	\$ 405,877	\$ -
Professional services	111,233	-
Administration and fiscal services	10,212	-
Other services and charges	534,160	-
Utilities	47,992	-
Depreciation	338,564	-
Landfill closure and postclosure care costs	75,103	-
Cost of service	-	1,530,138
	\$ 1,523,141	\$ 1,530,138
Operating Income (Loss)	\$ 940,960	\$ (214,814)
Nonoperating Revenues (Expenses)		
Investment earnings	160,758	-
	\$ 1,101,718	\$ (214,814)
Change in Net Position		
Net Position - January 1	12,323,067	-
Net Position - December 31	\$ 13,424,785	\$ (214,814)

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities Landfill Enterprise Fund	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 2,693,764	\$ 1,315,325
Payments to suppliers	(984,544)	(1,373,194)
Payments to employees	(401,040)	-
	\$ 1,308,180	\$ (57,869)
Cash Flows from Noncapital Financing Activities		
Advance received from other funds	-	58,000
Cash Flows from Capital and Related Financing Activities		
Payments for construction and purchases of capital assets	(2,212,401)	-
	\$ (904,221)	\$ 131
Cash and Cash Equivalents - January 1	4,313,242	-
Cash and Cash Equivalents - December 31	\$ 3,409,021	\$ 131
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position - Exhibit 7		
Cash and pooled investments	\$ 3,258,060	\$ 131
Restricted cash and pooled investments	150,961	-
	\$ 3,409,021	\$ 131

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Business-Type Activities Landfill Enterprise Fund	Governmental Activities Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$ 940,960	\$ (214,814)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 338,564	\$ -
(Increase) decrease in accounts receivable	(31,732)	-
(Increase) decrease in due from other funds	(49)	-
(Increase) decrease in due from other governments	(3,542)	-
Increase (decrease) in accounts payable	(20,938)	156,945
Increase (decrease) in salaries payable	3,823	-
Increase (decrease) in due to other governments	3,655	-
Increase (decrease) in due to other funds	1,323	-
Increase (decrease) in landfill closure/postclosure care costs	75,103	-
Increase (decrease) in net OPEB liability	2,808	-
Increase (decrease) in compensated absences payable	(1,795)	-
Total adjustments	\$ 367,220	\$ 156,945
Net Cash Provided by (Used in) Operating Activities	\$ 1,308,180	\$ (57,869)
Supplemental Disclosure of Cash Flow Information		
Construction in progress expenses included in contracts payable	\$ 725,920	\$ -

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FIDUCIARY FUNDS

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2014**

	<u>Investment Trust Fund</u>	<u>Agency</u>
<u>Assets</u>		
Cash and pooled investments	\$ 8,050,538	\$ 766,896
Accrued interest receivable	5,203	-
Total Assets	\$ 8,055,741	\$ 766,896
<u>Liabilities</u>		
Due to other governments	-	\$ 766,896
<u>Net Position</u>		
Net position, held in trust for pool participants	\$ 8,055,741	

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Investment Trust Fund</u>
<u>Additions</u>	
Contributions from participants	\$ 29,351,202
Investment earnings	<u>86,447</u>
Total Additions	\$ 29,437,649
<u>Deductions</u>	
Distributions to participants	<u>29,058,113</u>
Change in Net Position	\$ 379,536
Net Position - January 1	<u>7,676,205</u>
Net Position - December 31	<u>\$ 8,055,741</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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. § 373.01. 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 Administrator serves as clerk of the Board of Commissioners but has no vote.

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Lyon County. 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 supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. 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 enterprise funds as major funds.

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 accounted for in another fund.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned 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 assigned property tax revenues used for economic assistance and community social services programs.
- The Ditch Special Revenue Fund accounts for special assessment 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 accumulation of restricted resources used for, and the payment of, 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 Internal Service Fund accounts for health insurance premiums and payments.
- The Investment Trust Fund is used to account for the external pooled investments held for Southwest Health and Human Services.
- Fiduciary funds - 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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.

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. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are 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.

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.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary funds. Lyon County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, 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 2014 were \$20,542.

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. The investment in the pool is measured at the amortized cost per share provided by the pool which would approximate fair value.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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.”

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.

Special assessments receivable consist of delinquent special assessments payable in the years 2009 through 2014 and deferred special assessments in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

The County had no accounts receivables scheduled to be collected beyond one year.

4. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Inventories and Prepaid Items (Continued)

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.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position 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.

6. 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 County 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' life 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Capital Assets (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 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.

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation 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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation and sick leave.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

8. Long-Term Obligations

In the government-wide financial statements and the 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 position. Bond premiums and discounts 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.

In the fund financial statements, governmental funds 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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

9. Deferred Outflows/Inflows of Resources (Continued)

for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

10. Unearned/Unavailable Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned. Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position 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 position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Lyon County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are 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.
- Restricted - amounts in which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (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 (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board, the County Administrator, or the County Auditor/Treasurer, who has been delegated that authority by Board resolution.
- Unassigned - the residual classification for the General Fund, and includes all spendable amounts not contained in the other fund balance classifications. 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classification of Fund Balances (Continued)

Lyon 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.

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 it needs 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, 2014, 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 certain 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

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 position		
Governmental activities		
Cash and pooled investments	\$	15,853,827
Investments		2,921,261
Business-type activities		
Cash and pooled investments		3,258,060
Investments		709,719
Cash and pooled investments - restricted assets		150,961
Investments - restricted assets		3,563,418
Statement of fiduciary net position		
Cash and pooled investments		
Investment trust fund		8,050,538
Agency funds		766,896
		<hr/>
Total Cash and Investments	\$	<u>35,274,680</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2014, the County's deposits were not exposed to custodial credit risk.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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;
- (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.

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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's policy is to minimize interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; (2) investing operating funds primarily in shorter-term securities, money markets, or similar investment pools; and (3) limiting the average maturity in accordance with the County's cash requirements.

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.

The County's exposure to credit risk as of December 31, 2014, is as follows:

<u>Rating Agency</u>	<u>Rating</u>	<u>Fair Value</u>
Moody	Aa1	\$ 103,219
Moody	Aa2	261,753
Moody	Aaa	56,023
S&P	AA	90,191
S&P	AA-	105,295
S&P	AA+	4,894,779
N/A	N/R	2,349,830
Total		<u>\$ 7,861,090</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to eliminate investment 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, 2014, 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 minimize this risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Investments in any one issuer that represent five percent or more of the County's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
Bremer Trust	
Federal Farm Credit Bank	\$ 395,276
Federal Home Loan Bank	784,691
Federal Home Loan Mortgage Corp	539,960
Federal National Mortgage Assn	503,515
Municipal Bonds	666,069
Wells Fargo Advisors	
Federal Farm Credit Bank	752,672
Federal Home Loan Bank	1,655,000
Federal Home Loan Mortgage Corp	1,000,000
MAGIC Fund	1,050,779

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2014, along with information relating to maturities:

Investment Type	Less Than 2 Years	2-5 Years	5-10 Years	More Than 10 Years	Fair Value
Investments					
Federal Farm Credit Bank	\$ -	\$ 79,942	\$ 1,068,006	\$ -	\$ 1,147,948
Federal Home Loan Bank	-	1,370,074	1,069,617	-	2,439,691
Federal Home Loan Mortgage Corp	-	1,126,260	184,377	229,323	1,539,960
Federal National Mortgage Assn	-	47,734	196,888	258,893	503,515
Government National Mrtg Assn	-	-	-	87,048	87,048
U.S. Treasury Notes	-	-	434,112	-	434,112
Federated Government Obligations	53,918	-	-	-	53,918
Municipal Bonds	75,605	354,731	235,733	-	666,069
Negotiable CDs	-	988,829	-	-	988,829
Total investments					\$ 7,861,090
Investment pools/mutual funds					
MAGIC Fund					1,050,779
Checking					
Savings					12,032,081
Petty cash and change funds					14,321,955
Total Cash and Investments					\$ 35,274,680

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities and business-type activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 67,041	\$ -
Special assessments	1,315,851	894,778
Accounts	26,836	-
Interest	9,384	-
Due from other governments	1,143,953	-
Total Governmental Activities	\$ 2,563,065	\$ 894,778

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	\$ 269,050	\$ -
Interest	85	-
Due from other governments	20,523	-
Total Business-Type Activities	\$ 289,658	\$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,300,960	\$ -	\$ -	\$ 1,300,960
Right-of-way	771,953	-	-	771,953
Construction in progress	1,264,490	816,877	1,145,825	935,542
Total capital assets not depreciated	\$ 3,337,403	\$ 816,877	\$ 1,145,825	\$ 3,008,455
Capital assets depreciated				
Land improvements	\$ 522,540	\$ 17,691	\$ -	\$ 540,231
Buildings	22,354,272	55,184	-	22,409,456
Machinery and equipment	6,746,720	446,909	198,545	6,995,084
Infrastructure	87,690,915	5,541,538	-	93,232,453
Total capital assets depreciated	\$ 117,314,447	\$ 6,061,322	\$ 198,545	\$ 123,177,224
Less: accumulated depreciation for				
Land improvements	\$ 382,580	\$ 21,269	\$ -	\$ 403,849
Buildings	5,106,863	430,315	-	5,537,178
Machinery and equipment	4,492,619	529,929	198,545	4,824,003
Infrastructure	25,797,901	1,911,506	-	27,709,407
Total accumulated depreciation	\$ 35,779,963	\$ 2,893,019	\$ 198,545	\$ 38,474,437

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Total capital assets depreciated, net	\$ 81,534,484	\$ 3,168,303	\$ -	\$ 84,702,787
Governmental Activities Capital Assets, Net	<u>\$ 84,871,887</u>	<u>\$ 3,985,180</u>	<u>\$ 1,145,825</u>	<u>\$ 87,711,242</u>

Construction in progress of governmental activities consists of amounts completed on open road projects, a bike trail project, development and improvements for Twin Lakes Park, and the addition to the Government Center.

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 390,433	\$ -	\$ 1	\$ 390,432
Construction in progress	-	2,685,840	-	2,685,840
Total capital assets not depreciated	<u>\$ 390,433</u>	<u>\$ 2,685,840</u>	<u>\$ 1</u>	<u>\$ 3,076,272</u>
Capital assets depreciated				
Buildings	\$ 187,823	\$ -	\$ -	\$ 187,823
Machinery and equipment	1,589,790	252,481	360,182	1,482,089
Landfill cells	7,431,890	-	-	7,431,890
Infrastructure	461,209	-	-	461,209
Total capital assets depreciated	<u>\$ 9,670,712</u>	<u>\$ 252,481</u>	<u>\$ 360,182</u>	<u>\$ 9,563,011</u>
Less: accumulated depreciation for				
Buildings	\$ 73,204	\$ 6,247	\$ -	\$ 79,451
Machinery and equipment	1,217,357	226,467	360,182	1,083,642
Landfill cells	3,615,567	75,103	-	3,690,670
Infrastructure	102,490	30,747	-	133,237
Total accumulated depreciation	<u>\$ 5,008,618</u>	<u>\$ 338,564</u>	<u>\$ 360,182</u>	<u>\$ 4,987,000</u>
Total capital assets depreciated, net	<u>\$ 4,662,094</u>	<u>\$ (86,083)</u>	<u>\$ -</u>	<u>\$ 4,576,011</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,052,527</u>	<u>\$ 2,599,757</u>	<u>\$ 1</u>	<u>\$ 7,652,283</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

Construction in progress of business-type activities consists of amounts completed on Phase 10A cell construction at the landfill.

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

Governmental Activities		
General government	\$	473,639
Public safety		203,382
Highways and streets, including depreciation of infrastructure assets		2,181,827
Sanitation		1,975
Culture and recreation		20,768
Conservation of natural resources		11,428
		11,428
Total Depreciation Expense - Governmental Activities	\$	2,893,019
Business-Type Activities		
Landfill	\$	338,564

B. Interfund Receivables, Payables and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Internal Service Fund	\$ 58,000
Landfill Enterprise Fund	General Fund	49
Road and Bridge Fund	Landfill Enterprise Fund	1,323
Road and Bridge Fund	General Fund	4,951
Road and Bridge Fund	Ditch Fund	18

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables and Transfers

1. Due To/From Other Funds (Continued)

The amount owed to the General Fund from the Internal Service Fund was for a temporary loan to cover claims in excess of contributions. The other amounts resulted from the time lag between the dates of 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. Interfund Transfers

No interfund transfers occurred for the year ended December 31, 2014.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2014, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 309,983	\$ 14,816
Salaries payable	499,980	24,777
Contracts payable	431,705	725,920
Due to other governments	<u>85,458</u>	<u>12,935</u>
Total Payables	<u>\$ 1,327,126</u>	<u>\$ 778,448</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Construction Commitments

The County has active construction projects and other commitments as of December 31, 2014. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
Pictometry - General Fund	\$ -	\$ 168,949
Grading - Road and Bridge Fund	229,333	74,577
Phase 10A Cell Construction - Landfill Fund	2,395,686	201,214

The \$168,949 remaining commitment to Pictometry is the total payment, with the County share being 2/3 of the total and the remaining 1/3 being split between the City of Marshall and Marshall Municipal Utilities. Additional remaining commitments for highway projects are state-funded and, therefore, not obligations of the County at December 31, 2014.

3. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of special assessments, taxes, and state grants not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Special Assessments	Taxes	Grants	Total
Governmental funds				
General Fund	\$ 488,356	\$ 36,939	\$ -	\$ 525,295
Special Revenue Funds				
Road and Bridge	-	10,602	965,339	975,941
Human Services	-	13,776	-	13,776
Ditch	827,495	-	-	827,495
Debt Service Fund	-	5,724	-	5,724
Total	\$ 1,315,851	\$ 67,041	\$ 965,339	\$ 2,348,231
Deferred Inflows of Resources				
Unavailable revenue	\$ 1,315,851	\$ 67,041	\$ 965,339	\$ 2,348,231

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Special assessment bonds with government commitment					
2008B G.O. drainage bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	\$ 715,000	\$ 220,000
Less: unamortized discounts					(2,384)
Special Assessment Bonds with Government Commitment, Net					<u>\$ 217,616</u>
General obligation bonds					
2008A G.O. jail bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	\$ 8,545,000	\$ 5,280,000
Plus: unamortized premium					138,405
Less: unamortized discounts					(43,535)
General Obligation Bonds, Net					<u>\$ 5,374,870</u>

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
Cottonwood River Restoration CWP Project	2022	\$24,662	2.00	\$ 445,043	\$ 177,683
Yellow Medicine River Watershed CWP Project	2018	\$9,535	2.00	172,070	43,114
Redwood Watershed Phosphorus CWP Project	2021	\$25,038	2.00	451,831	251,614
Total Loans Payable				<u>\$ 1,068,944</u>	<u>\$ 472,411</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

4. Long-Term Debt (Continued)

Note Payable

During 2014, Yellow Medicine County issued General Obligation Drainage Bonds, Series 2014A, on Joint Ditch No. 3 with Lyon County. Lyon County landowners are responsible for \$385,000 that will be collected by Lyon County through special assessments and paid to Yellow Medicine County for repayment on the bond. A note payable was signed during 2014 with amounts owed through 2030.

5. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 680,000	\$ 221,850	\$ 80,000	\$ 7,462
2016	700,000	194,250	35,000	5,163
2017	725,000	165,750	35,000	3,719
2018	750,000	136,250	35,000	2,231
2019	780,000	101,750	35,000	744
2020 - 2024	1,645,000	83,125	-	-
Total	\$ 5,280,000	\$ 902,975	\$ 220,000	\$ 19,319

Year Ending December 31	Note Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ 10,657	\$ 98,811	\$ 8,938
2016	30,000	9,744	97,093	6,989
2017	25,000	9,194	87,745	5,037
2018	25,000	8,694	51,598	3,489
2019	25,000	8,194	46,708	2,511
2020 - 2024	130,000	31,994	90,456	2,354
2025 - 2029	125,000	13,531	-	-
2030	25,000	390	-	-
Total	\$ 385,000	\$ 92,398	\$ 472,411	\$ 29,318

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 5,940,000	\$ -	\$ 660,000	\$ 5,280,000	\$ 680,000
Plus: unamortized premium	159,371	-	20,966	138,405	-
Less: unamortized discount	(50,148)	-	(6,613)	(43,535)	-
General obligation bonds, net	<u>\$ 6,049,223</u>	<u>\$ -</u>	<u>\$ 674,353</u>	<u>\$ 5,374,870</u>	<u>\$ 680,000</u>
Special assessment bonds with government commitment	\$ 300,000	\$ -	\$ 80,000	\$ 220,000	\$ 80,000
Less: unamortized discount	(2,903)	-	(519)	(2,384)	-
Special assessment bonds with government commitment, net	<u>\$ 297,097</u>	<u>\$ -</u>	<u>\$ 79,481</u>	<u>\$ 217,616</u>	<u>\$ 80,000</u>
Total bonds payable	<u>\$ 6,346,320</u>	<u>\$ -</u>	<u>\$ 753,834</u>	<u>\$ 5,592,486</u>	<u>\$ 760,000</u>
Note payable	-	385,000	-	385,000	-
Loans payable	572,370	-	99,959	472,411	98,811
Compensated absences	596,653	559,597	581,293	574,957	49,230
Net OPEB liability	<u>1,423,666</u>	<u>283,862</u>	<u>216,213</u>	<u>1,491,315</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u><u>\$ 8,939,009</u></u>	<u><u>\$ 1,228,459</u></u>	<u><u>\$ 1,651,299</u></u>	<u><u>\$ 8,516,169</u></u>	<u><u>\$ 908,041</u></u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Estimated liability for landfill closure and postclosure care	\$ 1,261,398	\$ 75,103	\$ -	\$ 1,336,501	\$ -
Compensated absences	43,105	21,470	23,265	41,310	-
Net OPEB liability	<u>59,640</u>	<u>11,782</u>	<u>8,974</u>	<u>62,448</u>	<u>-</u>
Business-Type Activities Long-Term Liabilities	<u><u>\$ 1,364,143</u></u>	<u><u>\$ 108,355</u></u>	<u><u>\$ 32,239</u></u>	<u><u>\$ 1,440,259</u></u>	<u><u>\$ -</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (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 County 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 \$1,336,501 landfill closure and postclosure care liability at December 31, 2014, represents the cumulative amount reported to date based on the use of 30.09 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of \$3,105,617 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014. Based on the current permitted capacity, the landfill has an estimated operating life of 81.9 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, 2014, restricted assets of \$3,714,379 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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	\$ 43,805	\$ 5,338	\$ -	\$ -	\$ -	\$ 49,143
Inventories	-	231,646	-	-	-	231,646
Restricted for						
DARE program	12,258	-	-	-	-	12,258
Law library	55,103	-	-	-	-	55,103
Recorder's technology	232,415	-	-	-	-	232,415
Recorder's compliance	310,151	-	-	-	-	310,151
Debt service	-	-	-	-	1,085,629	1,085,629
Ditch	-	-	-	1,329,359	-	1,329,359
Enhanced 911	246,840	-	-	-	-	246,840
Sheriff's contingency	3	-	-	-	-	3
Sheriff's forfeited property	9,594	-	-	-	-	9,594
Attorney's forfeited property	52,838	-	-	-	-	52,838
Sheriff's gun permits	77,090	-	-	-	-	77,090
Probation supervision fees	60,631	-	-	-	-	60,631
Septic/sewer loans	268,064	-	-	-	-	268,064
Rock Lake pier project	2,106	-	-	-	-	2,106
Fish and wildlife trust	90,140	-	-	-	-	90,140
Twin Lakes Park trees donation	1,000	-	-	-	-	1,000
Highway allotments	-	903,653	-	-	-	903,653
Committed to						
County septic systems program	55,057	-	-	-	-	55,057
Garvin Park trust	226,164	-	-	-	-	226,164
Aggregate - gravel pit	209,901	-	-	-	-	209,901
Recycling and household hazardous waste assessments	226,183	-	-	-	-	226,183
Assigned to						
Criminal justice contingency	67,639	-	-	-	-	67,639
Self-insurance	533,204	-	-	-	-	533,204
Capital projects	818,291	-	-	-	-	818,291
Elections	625	-	-	-	-	625
Technology	20,480	-	-	-	-	20,480
Road and bridge	-	3,348,084	-	-	-	3,348,084
Unassigned	7,506,382	-	-	-	-	7,506,382
Total Fund Balances	\$ 11,125,964	\$ 4,488,721	\$ -	\$ 1,329,359	\$ 1,085,629	\$ 18,029,673

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

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 five years of credited service.

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.

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

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 remaining year. 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 remaining 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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

For 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan (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 were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 298,019	\$ 285,143	\$ 274,451
Public Employees Police and Fire Fund	148,077	129,975	115,794
Public Employees Correctional Fund	81,728	81,917	77,744

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,193	\$ 2,193
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.

**LYON COUNTY
MARSHALL, MINNESOTA**

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, 2012, (date of the most recent actuarial study) there were approximately 29 retirees receiving health benefits from the plan. The implicit rate subsidy amount was determined by an actuarial study to be \$74,108 for 2014.

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, 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 7 elected officials and 38 employees eligible for this benefit in 2014. The cost for this program totaled \$172,574 (\$24,428 for elected officials and \$148,146 for employees) in 2014.

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

**LYON COUNTY
MARSHALL, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	326,071
Interest on net OPEB obligation		66,748
Adjustment to ARC		(97,175)

Annual OPEB cost (expense)	\$	295,644
Contributions made		(225,187)

Increase in net OPEB obligation	\$	70,457
Net OPEB Obligation - Beginning of Year		1,483,306

Net OPEB Obligation - End of Year	\$	1,553,763

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, 2012, 2013, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	\$ 286,860	\$ 175,382	61.1 %	\$ 1,399,591
December 31, 2013	291,879	208,164	71.3	1,483,306
December 31, 2014	295,644	225,187	76.2	1,553,763

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial accrued liability for benefits was \$3,330,764, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,330,764. The covered payroll (annual payroll of active employees covered by the plan) was \$4,858,831, and the ratio of the UAAL to the covered payroll was 68.6 percent.

**LYON COUNTY
MARSHALL, MINNESOTA**

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 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, 2012, 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, 2014, was 23 years.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

Lyon County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters, for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. Through December 31, 2013, the County participated in the Cooperative. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. 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.

On October 15, 2013, Lyon County entered into a joint powers agreement with three counties (Murray, Redwood, and Swift) and Southwest Health and Human Services to form the Minnesota Public Sector Collaborative to self-insure health insurance as of January 1, 2014, in effect, leaving the Southwest/West Central Service Cooperative. Premiums are withheld from employees and transferred into an internal service fund. Claims are managed and paid by a third party, and the County is billed weekly, in aggregate, for claims incurred.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County established a limited risk management program for health coverage in 2014. Premiums are paid into the Self-Insurance Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County retained risk up to a \$50,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the Self-Insurance Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Liabilities generally include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The December 31, 2014, liability does not include IBNRs as sufficient claim history was not available. The INBR is expected to be included in future years as claim history becomes available. Changes in the balances of claims liabilities during the year are as follows:

Unpaid claims, January 1, 2014	\$ -
Incurred claims	1,530,139
Claims payments	<u>(1,373,194)</u>
Unpaid claims, December 31, 2014	<u>\$ 156,954</u>

B. Contingent Liabilities

Amounts received or receivable from grantor 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.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2014, the Lincoln-Pipestone Rural Water System had \$33,742,008 of general obligation bonds and other loans 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.

C. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is 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 Services Expenditure and Grant Reconciliation Report (SEAGR); each factor to be weighted equally.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

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

SWHHS is governed by the:

- Joint Health and Human Services Board ("Joint Board") - responsible for financial, personnel, budget and general administration of the agency, and is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board and one County Commissioner (or alternate) serving on the Human Services Board.
- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties set forth in Minn. Stat. ch. 145A and 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 and federal grants and appropriations from member counties. Lyon County's contribution in 2014 for the human services function was \$2,672,267, and its contribution to the health services function was \$220,000.

Complete financial statements of Southwest Health and Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

Lyon County, along with Jackson, 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 Rural 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 a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2014, were \$33,742,008.

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, Jackson, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares 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 cost of providing these services is recovered through user charges.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

The governing body is composed of nine members appointed to three-year terms 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.

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Lyon County, the Cities of Marshall and 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.

Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Lyon County did not contribute to the Joint Powers Board.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Marshall-Lyon County Library

The Marshall-Lyon County Library is governed by a nine-member board. All members are to be appointed by the Mayor for the City of Marshall with City Council approval. The City of Marshall appoints six members, and the County recommends appointment for three members. Of the County recommendations, one is to be a County Commissioner, and two are to be residents of Lyon County residing outside the City of Marshall.

Lyon County and the City of Marshall are responsible for the operating budget of the Library. Lyon County agreed to be responsible for no less than \$200,000 per year. Lyon County's contribution for 2014 was \$268,482.

Brown-Lyon-Redwood Drug Task Force

The Brown-Lyon-Redwood Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of Marshall, New Ulm, and Redwood Falls, pursuant to Minn. Stat. § 471.59. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations.

The Task Force is governed by an Advisory Board consisting of one appointed member from each party to the agreement. Fiscal agent responsibilities for the Task Force are with the City of New Ulm. During 2014, Lyon County paid \$64,643 to the Task Force.

Southwest Regional Solid Waste Commission

Lyon County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation, pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

The governing board is composed of one Board member from each of the participating counties. Financing the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares. The current assessment is \$1,500.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 North Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this agreement. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2014, Lyon County did not make a contribution to the Partnership, as a contribution was made by Southwest Health and Human Services.

McLeod County acts as fiscal agent for the Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at Supporting Hands Nurse Family Partnership, McLeod County, 830 - 11th Street East, Glencoe, Minnesota 55336.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Advocate, Connect, Educate (A.C.E.) of Southwest Minnesota

Lyon County, in conjunction with Cottonwood, Lincoln, Murray, Nobles, Redwood, and Rock Counties, and the Southwest Regional Development Commission, pursuant to Minn. Stat. § 471.59, have formed an agreement to coordinate the delivery of volunteer services to non-profit community service entities and local units of government meeting the guidelines for receiving volunteer services under the authority of the counties. The entity known as Retired and Senior Volunteer Program of Southwest Minnesota (RSVP of Southwest Minnesota) changed its name to A.C.E. of Southwest Minnesota as of January 1, 2014. Lyon County joined as of July 1, 2014. The Board comprises one voting member from each participating County and one voting member of the A.C.E. of Southwest Minnesota Advisory Council. In 2014, Lyon County made contributions of \$28,546 to the A.C.E. of Southwest Minnesota.

Southern Prairie Health Purchasing Alliance

Lyon County entered into a joint powers agreement on June 26, 2012, with Chippewa, Cottonwood, Jackson, Kandiyohi, Lincoln, Murray, Nobles, Redwood, Rock, Swift, and Yellow Medicine Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this agreement. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Plum Creek Library System

Lyon County, along with 19 cities and 8 other counties participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of participating libraries.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Plum Creek Library System (Continued)

Complete financial statements of the Plum Creek Library System can be obtained at 290 South Lake Street, P. O. Box 697, Worthington, Minnesota 56187.

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private non-profit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official Board, which is composed of one representative from each member County. Lyon County provided \$4,155 in support to this organization in 2014.

Separate financial information can be obtained from their offices within the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During 2014, Lyon County paid \$20,844 to the Project.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2014, Lyon County paid \$1,000 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During 2014, Lyon County paid \$19,800 to the RCRCA.

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, and the Cities of Marshall and Worthington under authority of Minn. Stat. § 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or the Chief of Police from 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 2014, Lyon County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

**LYON COUNTY
MARSHALL, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Yellow Medicine River Watershed District

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

5. Subsequent Events

On July 21, 2015, the Board of Commissioners approved the sale of bonds to fund the addition to the Government Center and other projects within the approved capital improvement plan. On August 20, 2015, the Board finalized the sale of General Obligation Capital Improvement Plan Bonds, Series 2015A, to Raymond James & Associates for a total principal amount of \$10,000,000. The term of the bonds is 15 years, with interest payments starting August 1, 2016, and principal payments starting February 1, 2022.

On September 15, 2015, the Board of Commissioners authorized the sale of general obligation drainage bonds for a total principal amount of \$3,510,000.

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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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,159,341	\$ 7,159,341	\$ 7,125,994	\$ (33,347)
Special assessments	267,146	267,146	400,310	133,164
Licenses and permits	12,620	12,620	31,735	19,115
Intergovernmental	1,519,498	1,519,498	2,326,987	807,489
Charges for services	959,150	959,150	1,051,100	91,950
Fines and forfeits	-	-	100	100
Investment earnings	20,000	20,000	167,342	147,342
Miscellaneous	728,150	728,150	908,842	180,692
Total Revenues	\$ 10,665,905	\$ 10,665,905	\$ 12,012,410	\$ 1,346,505
Expenditures				
Current				
General government				
Commissioners	\$ 200,160	\$ 200,160	\$ 176,846	\$ 23,314
Courts	130,000	130,000	133,404	(3,404)
Law library	16,000	16,000	38,782	(22,782)
Administrator	288,900	288,900	275,363	13,537
Auditor/Treasurer	579,200	579,200	531,713	47,487
Information technology	95,000	95,000	106,570	(11,570)
Elections	85,350	85,350	114,224	(28,874)
Central services	314,000	314,000	342,479	(28,479)
Attorney	517,550	517,550	504,863	12,687
Recorder	357,800	357,800	294,511	63,289
Geographic information system	169,500	169,500	114,923	54,577
Assessor	252,570	252,570	250,637	1,933
Buildings and plant	546,825	546,825	775,600	(228,775)
Veterans service officer	112,300	112,300	79,865	32,435
Total general government	\$ 3,665,155	\$ 3,665,155	\$ 3,739,780	\$ (74,625)

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,383,611	\$ 2,383,611	\$ 2,336,307	\$ 47,304
Law enforcement center	1,853,421	1,853,421	1,849,199	4,222
Sheriff's contingent - criminal investigation	-	-	9,640	(9,640)
Boat and water safety	-	-	1,021	(1,021)
Joint law enforcement center	180,150	180,150	174,224	5,926
Coroner	30,000	30,000	19,644	10,356
Sentence to serve	59,000	59,000	51,880	7,120
Criminal justice	-	-	85,927	(85,927)
Probation and parole	301,725	301,725	366,712	(64,987)
Emergency services	70,900	70,900	67,856	3,044
E-911 system	100,000	100,000	111,308	(11,308)
ARMER radio system	-	-	29,343	(29,343)
Total public safety	\$ 4,978,807	\$ 4,978,807	\$ 5,103,061	\$ (124,254)
Sanitation				
Environmental	\$ 44,650	\$ 44,650	\$ 43,237	\$ 1,413
Hazardous waste	325,950	325,950	333,474	(7,524)
Recycling	185,696	185,696	203,199	(17,503)
Total sanitation	\$ 556,296	\$ 556,296	\$ 579,910	\$ (23,614)
Culture and recreation				
Parks	\$ 279,470	\$ 279,470	\$ 718,636	\$ (439,166)
Other	60,100	60,100	65,457	(5,357)
Total culture and recreation	\$ 339,570	\$ 339,570	\$ 784,093	\$ (444,523)
Conservation of natural resources				
Extension	\$ 109,740	\$ 109,740	\$ 105,281	\$ 4,459
Soil and water conservation	246,990	246,990	341,087	(94,097)
Water quality loan program	-	-	78,922	(78,922)
Water planning	-	-	18,348	(18,348)
Other	82,645	82,645	87,333	(4,688)
Total conservation of natural resources	\$ 439,375	\$ 439,375	\$ 630,971	\$ (191,596)

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 58,200	\$ 58,200	\$ 58,155	\$ 45
Intergovernmental				
Health	\$ 220,000	\$ 220,000	\$ 224,454	\$ (4,454)
Culture and recreation	278,352	278,352	268,482	9,870
Total intergovernmental	\$ 498,352	\$ 498,352	\$ 492,936	\$ 5,416
Debt service				
Principal	\$ -	\$ -	\$ 100,459	\$ (100,459)
Interest	-	-	10,958	(10,958)
Total debt service	\$ -	\$ -	\$ 111,417	\$ (111,417)
Total Expenditures	\$ 10,535,755	\$ 10,535,755	\$ 11,500,323	\$ (964,568)
Net Change in Fund Balance	\$ 130,150	\$ 130,150	\$ 512,087	\$ 381,937
Fund Balance - January 1	10,613,877	10,613,877	10,613,877	-
Fund Balance - December 31	\$ 10,744,027	\$ 10,744,027	\$ 11,125,964	\$ 381,937

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,993,129	\$ 1,993,129	\$ 1,972,012	\$ (21,117)
Intergovernmental	11,584,992	11,584,992	5,315,475	(6,269,517)
Charges for services	15,500	15,500	11,801	(3,699)
Miscellaneous	601,500	601,500	426,786	(174,714)
Total Revenues	\$ 14,195,121	\$ 14,195,121	\$ 7,726,074	\$ (6,469,047)
Expenditures				
Current				
Highways and streets				
Public works	\$ 43,027	\$ 43,027	\$ 17,790	\$ 25,237
Administration	279,188	279,188	341,954	(62,766)
Construction	10,560,364	10,560,364	5,074,473	5,485,891
Maintenance	1,921,011	1,921,011	1,612,548	308,463
Equipment and maintenance shops	1,031,531	1,031,531	1,182,847	(151,316)
Total highways and streets	\$ 13,835,121	\$ 13,835,121	\$ 8,229,612	\$ 5,605,509
Intergovernmental				
Highways and streets	360,000	360,000	370,197	(10,197)
Total Expenditures	\$ 14,195,121	\$ 14,195,121	\$ 8,599,809	\$ 5,595,312
Net Change in Fund Balance	\$ -	\$ -	\$ (873,735)	\$ (873,735)
Fund Balance - January 1	5,512,136	5,512,136	5,512,136	-
Increase (decrease) in inventories	-	-	(149,680)	(149,680)
Fund Balance - December 31	\$ 5,512,136	\$ 5,512,136	\$ 4,488,721	\$ (1,023,415)

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,637,596	\$ 2,637,596	\$ 2,616,045	\$ (21,551)
Intergovernmental	-	-	56,222	56,222
Total Revenues	\$ 2,637,596	\$ 2,637,596	\$ 2,672,267	\$ 34,671
Expenditures				
Intergovernmental				
Human services	2,637,596	2,637,596	2,672,267	(34,671)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

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
January 1, 2012	-	3,330,764	3,330,764	0.0	4,858,831	68.6

**LYON COUNTY
MARSHALL, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue 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

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Budget

	Expenditures	Final Budget	Excess
General Fund	\$ 11,500,323	\$ 10,535,755	\$ 964,568
Human Services Special Revenue Fund	2,672,267	2,637,596	34,671

The expenditures in excess of budget were funded by unbudgeted revenues and fund balance.

5. Other Postemployment Benefits - Funding Status

Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the actuarial accrued liability for postemployment benefits is zero. See Note 3.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

**LYON COUNTY
MARSHALL, MINNESOTA**

6. Significant Actuarial Assumption Changes

2012

The County obtained an actuarial valuation as of January 1, 2012. Since the last actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

- The assumed medical trend rates were reset to reflect updated health cost increase expectations.
- Mortality, withdrawal, and retirement rates were updated to the 2010 Public Employees Retirement Association rates (General, Police and Fire, and Correctional Employees Retirement Plan).

SUPPLEMENTARY INFORMATION

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**LYON COUNTY
MARSHALL, MINNESOTA**

AGENCY FUNDS

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

Lyon County Ag Society - to account for the receipts and disbursements of the Lyon County Agricultural Society.

Lyon County Soil & Water Conservation District Projects - to account for the receipts and disbursements of the Soil & Water Conservation District project monies.

Minnesota Public Sector Collaborative - to account for the receipts and disbursements of the Minnesota Public Sector Collaborative Joint Powers 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 Emergency Communications Board - to account for the receipts and disbursements of the Southwest Minnesota Regional Emergency Communications Joint Powers Board.

Southwest Minnesota Regional Public Safety Board - to account for the receipts and disbursements of the Southwest Minnesota Regional Public Safety 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 B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ENTERPRISE DEVELOPMENT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,223	\$ -	\$ -	\$ 1,223
<u>Liabilities</u>				
Due to other governments	\$ 1,223	\$ -	\$ -	\$ 1,223
 <u>LYON COUNTY AG SOCIETY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,757	\$ 328,756	\$ 339,947	\$ 6,566
<u>Liabilities</u>				
Due to other governments	\$ 17,757	\$ 328,756	\$ 339,947	\$ 6,566
 <u>LYON COUNTY SOIL & WATER CONSERVATION DISTRICT PROJECTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 208,324	\$ 113,024	\$ 78,742	\$ 242,606
<u>Liabilities</u>				
Due to other governments	\$ 208,324	\$ 113,024	\$ 78,742	\$ 242,606

**LYON COUNTY
MARSHALL, MINNESOTA**

**EXHIBIT B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MINNESOTA PUBLIC SECTOR COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 8,875	\$ 5,590	\$ 3,285
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 8,875	\$ 5,590	\$ 3,285
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 51,498	\$ 596,322	\$ 606,645	\$ 41,175
<u>Liabilities</u>				
Due to other governments	\$ 51,498	\$ 596,322	\$ 606,645	\$ 41,175
 <u>SOUTHWEST MINNESOTA REGIONAL EMERGENCY COMMUNICATIONS BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 75,365	\$ 58,657	\$ 45,853	\$ 88,169
<u>Liabilities</u>				
Due to other governments	\$ 75,365	\$ 58,657	\$ 45,853	\$ 88,169

**LYON COUNTY
MARSHALL, MINNESOTA**

***EXHIBIT B-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOUTHWEST MINNESOTA REGIONAL PUBLIC SAFETY BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 17,083</u>	<u>\$ 24,000</u>	<u>\$ 22,570</u>	<u>\$ 18,513</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 17,083</u>	<u>\$ 24,000</u>	<u>\$ 22,570</u>	<u>\$ 18,513</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 340,427</u>	<u>\$ 25,165,303</u>	<u>\$ 25,140,371</u>	<u>\$ 365,359</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 340,427</u>	<u>\$ 25,165,303</u>	<u>\$ 25,140,371</u>	<u>\$ 365,359</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 711,677</u>	<u>\$ 26,294,937</u>	<u>\$ 26,239,718</u>	<u>\$ 766,896</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 711,677</u>	<u>\$ 26,294,937</u>	<u>\$ 26,239,718</u>	<u>\$ 766,896</u>

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OTHER SCHEDULES

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**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT C-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Appropriations and Shared Revenue

State

Highway users tax	\$ 4,620,123
Market value credit	157,961
PERA rate reimbursement	40,500
Disparity reduction aid	26,855
Police aid	104,720
County program aid	796,560
Enhanced 911	101,626
Select Committee on Recycling and the Environment (SCORE)	70,696
Aquatic invasive species aid	26,279
	26,279

Total appropriations and shared revenue **\$ 5,945,320**

Reimbursement for Services

Minnesota Department of Human Services	\$ 56,927
	56,927

Payments

Local

Payments in lieu of taxes	\$ 236,920
Local grants	61,953
	61,953

Total payments **\$ 298,873**

Grants

State

Minnesota Department of Natural Resources	\$ 598,116
Public Safety	5,006
Corrections	56,327
Revenue	3,529
Transportation	29,649
Veterans Affairs	10,000
Peace Officer Standards and Training Board	5,149
Pollution Control Agency	50,954
	50,954

Total state **\$ 758,730**

Federal

Department of Justice	\$ 852
Transportation	631,389
Homeland Security	59,708
	59,708

Total federal **\$ 691,949**

Total state and federal grants **\$ 1,450,679**

Total Intergovernmental Revenue **\$ 7,751,799**

**LYON COUNTY
MARSHALL, MINNESOTA**

EXHIBIT C-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	<u>\$ 852</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 620,781
Passed Through City of Worthington		
State and Community Highway Safety	20.600	<u>10,608</u>
Total U.S. Department of Transportation		<u>\$ 631,389</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 11,149
Emergency Management Performance Grants	97.042	23,035
Homeland Security Grant Program	97.067	<u>25,524</u>
Total U.S. Department of Homeland Security		<u>\$ 59,708</u>
Total Federal Awards		<u><u>\$ 691,949</u></u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 basic 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, 2014. 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 position, 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. 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
97.067	Homeland Security Grant Program	\$ 25,524

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**LYON COUNTY
MARSHALL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

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: **Unmodified**

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

Lyon County qualified as a low-risk auditee? **Yes**

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2014-001

Publishing Itemized Claims

Criteria: Minnesota Statutes § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12.

Condition: Lyon County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12.

Context: The County includes vendors paid over \$2,000 in the version of the County Board minutes available online at the County website, but the minutes published in the newspaper do not include itemized claims over \$2,000.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County believes including claims over \$2,000 in County Board minutes available on the County's website is sufficient to comply.

Recommendation: We recommend the County comply with the above-noted statute and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000.

Client's Response:

Lyon County will continue to consider the statutory requirement, along with the additional costs of publication. The County does not wish to incur the additional cost of publication and continues to make the information available within the minutes on the County website and physically available at the Auditor/Treasurer's Office.

PREVIOUSLY REPORTED ITEM RESOLVED

Publication of County Board Minutes (2013-001)

We reviewed the affidavits of publication related to publication of a summary of the County Board minutes for 2013 and found that some of the summaries were not published in the County's official newspaper within 30 days as required by Minn. Stat. § 375.12.

Resolution

After being notified of the issue in September 2014, the County published summaries of the County Board minutes within 30 days of the meeting, with the exception of the December 16, 2014, meeting.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Lyon County’s financial statements is an accounting estimate of the proportionate share of PERA’s unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



REBECCA OTTO
STATE AUDITOR

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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*

Independent Auditor's Report

Board of County Commissioners
Lyon County
Marshall, Minnesota

We have audited, 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, the 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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lyon County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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. 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 the attention of those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyon County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Lyon County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Lyon County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Lyon County's Response to Finding

Lyon County's response to the legal compliance finding identified in our audit is included in the Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 21, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Lyon County
Marshall, Minnesota

Report on Compliance for Each Major Federal Program

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 the County's major federal program for the year ended December 31, 2014. Lyon County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Lyon County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Lyon County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Lyon County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 21, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR