

LYON COUNTY, MINNESOTA

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2018

**LYON COUNTY
MARSHALL, MINNESOTA
TABLE OF CONTENTS**

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organizational Schedule – Lyon County		1
Financial Section		
Independent Auditors’ Report		2
Management’s Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	16
Statement of Activities	2	17
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position – Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities – Governmental Activities	6	23
Proprietary Funds		
Statement of Net Position	7	24
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	25
Statement of Cash Flows	9	26
Fiduciary Funds		
Statement of Fiduciary Net Position	10	27
Statement of Changes in Fiduciary Net Position	11	28
Notes to the Financial Statements		29
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	87
Special Revenue Funds		
Road and Bridge Fund	A-2	89
Human Services Fund	A-3	90
Schedule of Changes in the Total OPEB Liability, Related Ratios and Notes	A-4	91
PERA General Employees Retirement Plan		
Lyon County		
Schedule of Proportionate Share of Net Pension Liability	A-5	92
Schedule of Pension Contributions	A-6	93

**LYON COUNTY
MARSHALL, MINNESOTA
TABLE OF CONTENTS (CONTINUED)**

	<u>Exhibit</u>	<u>Page</u>
PERA Public Employees Police and Fire Plan		
Lyon County		
Schedule of Proportionate Share of Net Pension Liability	A-7	94
Schedule of Pension Contributions	A-8	95
PERA Public Employees Correctional Plan		
Schedule of Proportionate Share of Net Pension Liability	A-9	96
Schedule of Pension Contributions	A-10	97
Notes to the Required Supplementary Information		98
 Supplementary Information		
Agency Funds		104
Combining Statement of Changes in Assets and Liabilities – Agency Funds	B-1	105
 Other Schedules		
Schedule of Intergovernmental Revenue	C-1	108
 Management and Compliance Section		
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> Standards		109
Schedule of Findings and Recommendations		111
Independent Auditors’ Report on Minnesota Legal Compliance		113

INTRODUCTORY SECTION

**LYON COUNTY
MARSHALL, MINNESOTA
ORGANIZATIONAL SCHEDULE
2018**

Office	Name	Term Expires
Commissioners		
1st District	Charles Sanow	January 2021
2nd District	Stephen Ritter	January 2019
3rd District	Paul Graupmann ¹	January 2019
4th District	Gary Crowley	January 2021
5th District	Rick Anderson	January 2021
Officers		
Elected		
Attorney	Rick Maes	January 2019
Sheriff	Mark Mather	January 2019
Appointed		
Administrator	Loren Stomberg	Indefinite
Assessor	Sherri Kitchenmaster	December 2020
Auditor/Treasurer	E.J. Moberg	Indefinite
Environmental Administrator	Roger Schroeder	Indefinite
Highway Engineer	Aaron VanMoer	May 2022
Recorder	Michelle DeSmet	Indefinite
Veterans Service Officer	A. Heidi Fier	October 2019

¹Chair 2018

This Page Has Been Intentionally Left Blank.

FINANCIAL SECTION



INDEPENDENT AUDITORS' 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 (the County), as of and for the year ended December 31, 2018, 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.

Auditors' 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 from 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 auditors' 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, 2018, 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.

Emphasis of a Matter

For the year ended December 31, 2018, the County adopted the provisions Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of these standards, the County reported a restatement for a change in accounting principle (see Note 5). Our auditors' opinion was not modified with respect to restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in the total OPEB liability, related ratios and notes, schedules of proportionate share of net pension liability and schedules of pension contributions as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a 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.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lyon County's basic financial statements. The combining statement of changes in assets and liabilities – agency funds and schedule of intergovernmental revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statement of changes in assets and liabilities – agency funds and schedule of intergovernmental revenue are the responsibility of management and were derived from and relate 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 combining statement of changes in assets and liabilities – agency funds and schedule of intergovernmental revenue are 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 August 27, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Lyon County's 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Alexandria, Minnesota
August 27, 2019

This Page Has Been Intentionally Left Blank.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(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, 2018. 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 County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Lyon County exceeded its liabilities and deferred inflows on December 31, 2018, by \$121,770,721 (net position). Of this amount, \$9,744,924 (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 \$5,424,107 in 2018 for current operations. 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 \$13,750,362. The net cost was funded by general revenues totaling \$19,174,469.
- As of the close of 2018, the County's governmental funds reported combined ending fund balances of \$23,915,229, a increase of \$2,076,039 in comparison with 2017 combined ending fund balances. Of the 2018 balance, \$14,175,585 was unrestricted (committed, assigned, and unassigned) and, thus, available for spending at the government's discretion.
- At the end of 2018, the unrestricted fund balance for the General Fund was \$11,069,930, or 82.9 percent, of the total General Fund expenditures for the year. This represents an decrease from 2017, in which the unrestricted fund balance for the General Fund represented 89.3 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.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

Government-Wide Financial Statements

The 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, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the full accrual basis of accounting, with the difference (assets plus deferred outflows of resources less liabilities and deferred inflows of resources) 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 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.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

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 86 of this report.

Other Information

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

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$121,770,721 at the close of 2018. The largest portion of Lyon County's net position (80.2 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. Comparative data with 2017 is presented:

	2018			2017
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current and other assets	\$ 32,506,057	\$ 10,104,294	\$ 42,610,351	\$ 39,042,063
Capital assets	107,148,625	3,777,199	110,925,824	111,055,228
Total Assets	<u>\$ 139,654,682</u>	<u>\$ 12,881,493</u>	<u>\$ 153,536,175</u>	<u>\$ 150,097,291</u>
Deferred Outflows of Resources				
Deferred pension outflows	\$ 2,927,841	\$ 54,583	\$ 2,982,424	\$ 4,391,493
Deferred OPEB outflows	268,521	10,897	279,418	-
Total Deferred Outflows of Resources	<u>3,196,362</u>	<u>65,480</u>	<u>3,261,842</u>	<u>4,391,493</u>
Liabilities				
Long-term liabilities	\$ 25,326,420	\$ 3,067,140	\$ 28,393,560	\$ 30,095,248
Other liabilities	1,760,309	186,520	1,946,829	2,031,431
Total Liabilities	<u>\$ 27,086,729</u>	<u>\$ 3,253,660</u>	<u>\$ 30,340,389</u>	<u>\$ 32,126,679</u>
Deferred Inflows of Resources				
Deferred pension inflows	\$ 4,452,803	\$ 78,008	\$ 4,530,811	\$ 3,733,297
Gain on Refunding	156,096	-	156,096	234,145
Taxes Levied for Subsequent Period	-	-	-	275,714
Total Deferred Inflows of Resources	<u>\$ 4,608,899</u>	<u>\$ 78,008</u>	<u>\$ 4,686,097</u>	<u>\$ 4,243,156</u>
Net Position				
Net investment in capital assets	\$ 93,918,347	\$ 3,777,189	\$ 97,695,546	\$ 93,719,351
Restricted	1,311,949	4,370,461	5,682,410	14,397,435
Unrestricted	15,925,120	2,467,645	18,392,765	10,002,163
Total Net Position	<u>\$ 111,155,416</u>	<u>\$ 10,615,305</u>	<u>\$ 121,770,721</u>	<u>\$ 118,118,949</u>

Unrestricted net position (in the amount of \$18,392,765)--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--was 15.1 percent of the net position.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

Lyon County's activities increased net position during 2018 by \$5,414,107, representing a 4.7 percent increase. Key elements in this increase in net position are as follows for 2018, with comparative data for 2017:

Changes in Net Position

	2018			2017
	Governmental Activities	Business-Type Activities	Total	
Revenues				
Program revenues				
Fees, charges, fines and other	\$ 3,964,609	\$ 2,635,241	\$ 6,599,850	\$ 5,695,357
Operating grants and contributions	3,362,837	-	3,251,837	3,009,254
Capital grants and contributions	2,705,314	-	2,705,314	5,617,012
General revenues				
Property taxes	14,280,130	-	14,280,130	14,091,827
Other	4,799,604	94,735	4,894,339	4,513,272
Total Revenues	\$ 29,112,494	\$ 2,729,976	\$ 31,842,470	\$ 32,926,722
Expenses				
General government	\$ 5,585,220	\$ -	\$ 5,585,220	\$ 5,317,914
Public safety	5,492,222	-	5,492,222	6,264,010
Highways and streets	6,852,502	-	6,852,502	7,080,766
Sanitation	526,392	2,321,661	2,848,053	3,349,191
Human services	3,028,998	-	3,028,998	2,926,247
Health	316,748	-	316,748	342,821
Culture and recreation	847,851	-	847,851	794,435
Conservation of natural resources	950,410	-	950,410	1,043,732
Economic development	57,325	-	57,325	46,240
Interest	439,034	-	439,034	772,882
Total Expenses	\$ 24,106,702	\$ 2,321,661	\$ 26,428,363	\$ 27,943,238
Change in Net Position	\$ 5,005,792	\$ 408,315	\$ 5,414,107	\$ 4,983,484
Net Position - January 1	107,842,837	10,276,112	118,118,949	113,359,140
Prior Period Adjustment	(1,703,213)	(69,122)	(1,772,335)	(223,675)
Net Position - January 1, (as Restated)	106,139,624	10,206,990	116,346,614	113,135,465
Net Position - December 31	\$ 111,155,416	\$ 10,615,305	\$ 121,770,721	\$ 118,118,949

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

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 \$23,915,229, an increase of \$2,076,039 in comparison with the prior year. Of the combined ending fund balances, \$14,175,585 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is classified as either nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons, either by state law, grant agreements, or bond covenants, or is nonspendable

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 \$11,069,930. Fund balance in the General Fund increased \$218,154 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 82.9 percent of total General Fund expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,105,655 at year-end. In total, fund balance for the Road and Bridge Special Revenue Fund increased \$2,143,122 from 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 \$1,144,699. This ending balance represents a \$338,507 decrease in fund balance from the prior year. The restricted fund balance amount at fiscal year-end was 138.5 percent of the annual expenditures for the fund.

The Debt Service Fund had a restricted ending balance of \$1,552,451. This ending balance represents a \$53,720 increase in fund balance from the prior year. The restricted fund balance amount at fiscal year-end was 121.8 percent of the annual expenditures for the fund.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

The Capital Projects Fund had a restricted ending balance of \$0. This ending balance is the same as in prior year due to minimal activity in the fund for 2018. The restricted fund balance amount at fiscal year-end was 0.0 percent of the annual expenditures for the fund.

Governmental Activities

The County's total revenues for 2018 were \$29,112,494. Table 1 provides a breakdown of the source of revenues for governmental activities for the year ended December 31, 2018.

**Table 1
Total Revenues - Governmental Activities**

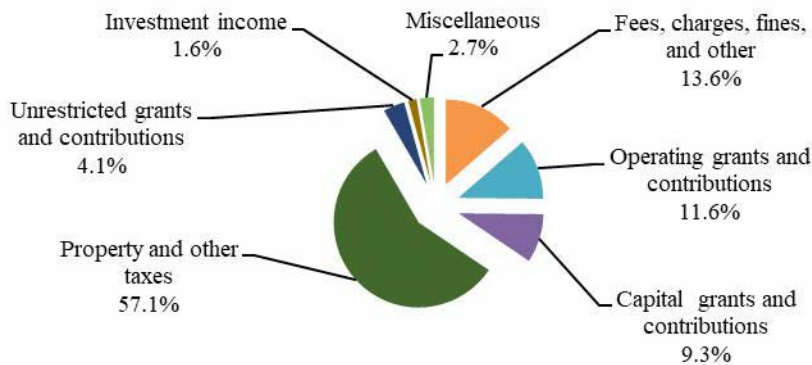


Table 2 (below) presents the revenues and expenses of each of the County's governmental activities, as well as the County's revenues from other sources such as property taxes, interest, and unrestricted grants.

Total revenues for the County's governmental activities were \$29,112,494, while total expenses were \$24,096,702. This corresponds to a \$5,015,792 increase in net position for the year ended December 31, 2018.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

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

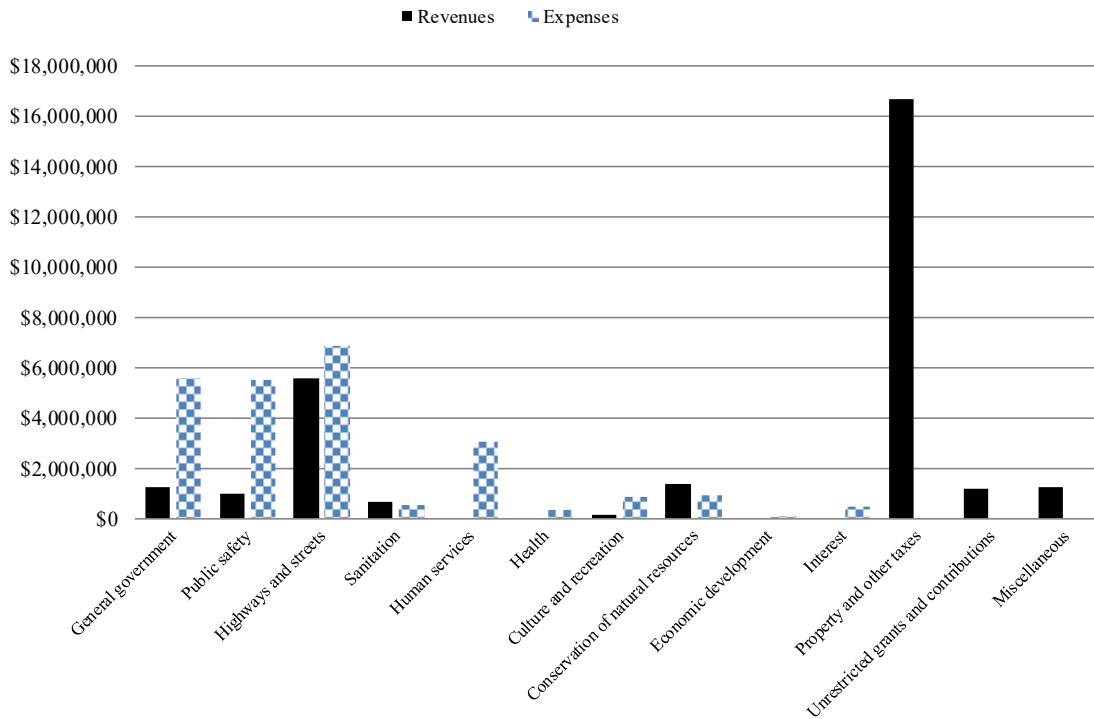


Table 3 displays the cost of each of the County’s four largest program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2018	Net Cost (Revenue) of Services 2018
Public safety	\$ 5,492,222	\$ (4,491,729)
Highways and streets	6,852,502	(1,295,427)
General government	5,585,220	(4,309,713)
Human services	3,028,998	(3,028,998)
All others	3,137,760	(938,075)
Totals	\$ 24,096,702	\$ (14,063,942)

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

General Fund Budgetary Highlights

General Fund revenues exceeded budgeted revenues by \$1,166,152, primarily due to more intergovernmental revenue received than budgeted for, investment earnings exceeding the budgeted amount and not budgeting for special assessment collections on septic loans.

General Fund expenditures were more than budgeted expenditures by \$974,067, primarily due to unbudgeted costs for building repairs, election expenditures exceeding the budget and due to not budgeting 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, 2018, totaled \$103,558,709 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, equipment, and infrastructure. The County's investment in depreciable capital assets decreased \$205,089 from the previous year.

Depreciable Governmental Capital Assets

	2018	2017
Capital assets depreciated		
Land improvements	\$ 3,233,942	\$ 3,185,022
Buildings	33,435,188	33,126,560
Machinery and equipment	8,344,611	8,153,960
Infrastructure	109,093,842	106,492,275
Total capital assets depreciated	\$ 154,107,583	\$ 150,957,817
Less: accumulated depreciation for		
Land improvements	\$ 816,938	\$ 708,750
Buildings	7,631,188	6,975,026
Machinery and equipment	6,016,432	5,654,663
Infrastructure	36,084,316	33,855,580
Total accumulated depreciation	\$ 50,548,874	\$ 47,194,019
Total Capital Assets Depreciated, Net	\$ 103,558,709	\$ 103,763,798

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

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$16,165,733 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

	2018	2017
Special assessment debt	\$ 2,798,291	\$ 2,984,500
General obligation debt	13,143,561	13,966,241
Loans payable	137,164	188,762
Capital leases	86,717	109,333
Total	\$ 16,165,733	\$ 17,248,836

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2019 budget, tax rates, and fees that will be charged for the year.

The average unemployment rate for Lyon County for 2018 was 2.8 percent. This compares favorably with the state unemployment rate of 2.9 percent and shows a decrease from the County's 3.1 percent rate of one year ago. This could impact the level of services requested by County residents.

The gross property tax levy for the County increased 2.3 percent (\$349,233) from 2018, while the net tax levy (the amount spread to taxpayers) increased 2.0 percent (\$289,240) from 2018.

County Tax Rate and Net Tax Levy History

2019	37.768%	\$ 14,751,251
2018	37.500	14,462,011
2017	35.984	14,318,823
2016	35.221	14,102,515
2015	32.132	13,247,000
2014	32.792	12,676,566
2013	37.711	12,164,341
2012	42.396	12,164,341

On December 18, 2018, the Lyon County Board of Commissioners approved the 2019 budget and adopted a net property tax levy of \$14,751,251, which represents a 2.0 percent increase over the 2018 property tax levy of \$14,462,011.

**LYON COUNTY
MARSHALL, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(UNAUDITED)**

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.

This Page Has Been Intentionally Left Blank.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Pooled Investments	\$ 22,799,117	\$ 4,662,929	\$ 27,462,046
Investments	2,844,529	729,944	3,574,473
Receivables	6,429,386	468,460	6,897,846
Internal Balances	127,500	(127,500)	-
Inventories	231,902	-	231,902
Prepaid Items	73,623	-	73,623
Restricted Assets	-	4,370,461	4,370,461
Capital assets:			
Nondepreciable	3,589,916	437,328	4,027,244
Depreciable Assets - Net of Accumulated Depreciation	103,558,709	3,339,871	106,898,580
Total Assets	\$ 139,654,682	\$ 13,881,493	\$ 153,536,175
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	\$ 2,927,841	\$ 54,583	\$ 2,982,424
Other Postemployment Benefits Obligations	268,521	10,897	279,418
Total Deferred Outflows of Resources	\$ 3,196,362	\$ 65,480	\$ 3,261,842
LIABILITIES			
Accounts Payable and Other Current Liabilities	\$ 1,532,048	\$ 186,520	\$ 1,718,568
Interest Payable	228,261	-	228,261
Long-Term Liabilities:			
Due Within One Year	1,146,385	-	1,146,385
Due in More than One Year	15,636,789	2,649,376	18,286,165
Net Pension Liability	4,867,520	267,957	5,135,477
Net Other Postemployment Benefits Obligations	3,675,726	149,807	3,825,533
Total Liabilities	\$ 27,086,729	\$ 3,253,660	\$ 30,340,389
DEFERRED INFLOWS OF RESOURCES			
Pension Related	\$ 4,452,803	\$ 78,008	\$ 4,530,811
Gain on Refunding	156,096	-	156,096
Total Deferred Inflows of Resources	\$ 4,608,899	\$ 78,008	\$ 4,686,907
NET POSITION			
Net Investment in Capital Assets	93,918,347	\$ 3,777,199	\$ 97,695,546
Restricted for:			
Public Safety	597,873	-	597,873
Highways and Streets	5,813,378	-	5,813,378
Conservation of Natural Resources	1,281,022	-	1,281,022
Landfill Closure/Postclosure	-	4,370,461	4,370,461
Debt Service	1,376,730	-	1,376,730
Other Purposes	890,787	-	890,787
Unrestricted	7,277,279	2,467,645	9,744,924
Total Net Position	\$ 111,155,416	\$ 10,615,305	\$ 121,770,721

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

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 5,585,220	\$ 1,103,533	\$ 171,974	\$ -	\$ (4,309,713)	\$ -	\$ (4,309,713)
Public Safety	5,492,222	617,141	383,352	-	(4,491,729)	-	(4,491,729)
Highways and Streets	6,852,502	372,902	2,478,859	2,705,314	(1,295,427)	-	(1,295,427)
Sanitation	526,392	448,522	236,903	-	159,033	-	159,033
Human Services	3,028,998	-	-	-	(3,028,998)	-	(3,028,998)
Health	316,748	-	-	-	(316,748)	-	(316,748)
Culture and Recreation	847,851	70,214	56,839	-	(720,798)	-	(720,798)
Conservation of Natural Resources	950,410	1,352,297	34,910	-	436,797	-	436,797
Economic Development	57,325	-	-	-	(57,325)	-	(57,325)
Interest	439,034	-	-	-	(439,034)	-	(439,034)
Total Governmental Activities	\$ 24,096,702	\$ 3,964,609	\$ 3,362,837	\$ 2,705,314	\$ (14,063,942)	\$ -	\$ (14,063,942)
BUSINESS-TYPE ACTIVITIES							
Landfill	2,321,661	2,635,241	-	-	-	313,580	313,580
Total	\$ 26,418,363	\$ 6,599,850	\$ 3,362,837	\$ 2,705,314	\$ (14,063,942)	\$ 313,580	\$ (13,750,362)
GENERAL REVENUES							
Property Taxes					\$ 14,280,130	\$ -	\$ 14,280,130
Mortgage Registry and Deed Tax					17,644	-	17,644
County Local Option Sales Tax					1,724,118	-	1,724,118
Wheelage Tax					252,960	-	252,960
Payment in Lieu of Tax					362,664	-	362,664
Grants and Contributions not Restricted for a Particular Purpose					1,192,793	-	1,192,793
Interest Income					467,543	74,089	541,632
Miscellaneous					780,470	20,646	801,116
Gain on Sale of Capital Assets					1,412	-	1,412
Total General Revenues					\$ 19,079,734	\$ 94,735	\$ 19,174,469
CHANGE IN NET POSITION					\$ 5,015,792	\$ 408,315	\$ 5,424,107
Net Position - Beginning of Year					107,842,837	10,276,112	118,118,949
Change in Accounting Principle					(1,703,213)	(69,122)	(1,772,335)
Net Position - Beginning of Year, as Restated					106,139,624	10,206,990	116,346,614
NET POSITION - END OF YEAR					\$ 111,155,416	\$ 10,615,305	\$ 121,770,721

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

FUND FINANCIAL STATEMENTS

**LYON COUNTY
MARSHALL, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Road and Bridge	Human Services	Ditch
ASSETS				
Cash and Pooled Investments	\$ 10,616,860	\$ 8,164,222	\$ 84,739	\$ 1,151,170
Investments	2,580,566	-	-	263,963
Taxes Receivable - Delinquent	100,757	26,023	37,888	-
Special Assessments Receivable:				
Delinquent	13,855	-	-	285
Noncurrent	382,761	-	-	2,997,448
Accounts Receivable	14,492	1,446	-	-
Accrued Interest Receivable	48,395	4,476	-	769
Due from Other Governments	158,494	2,343,937	-	-
Due from Other Funds	127,567	5,324	-	-
Notes Receivable	-	-	-	165,000
Inventory	-	231,902	-	-
Prepaid Items	70,527	3,096	-	-
Advance to Other Funds	102,042	-	-	-
Total Assets	<u>\$ 14,216,316</u>	<u>\$ 10,780,426</u>	<u>\$ 122,627</u>	<u>\$ 4,578,635</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 366,258	\$ 39,084	\$ -	\$ 169,161
Salaries Payable	294,548	61,736	-	-
Contracts Payable	19,544	177,543	-	-
Due to Other Governments	164,994	8,496	84,739	-
Due to Other Funds	5,276	115	-	-
Advance from Other Governments	-	-	-	102,042
Total Liabilities	<u>850,620</u>	<u>286,974</u>	<u>84,739</u>	<u>271,203</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	\$ 497,373	\$ 2,143,696	\$ 37,888	\$ 3,162,733
FUND BALANCES				
Nonspendable	\$ 172,569	\$ 234,998	\$ -	\$ -
Restricted	1,625,824	5,009,103	-	1,144,699
Committed	686,167	-	-	-
Assigned	1,226,857	3,105,655	-	-
Unassigned	9,156,906	-	-	-
Total Fund Balances	<u>12,868,323</u>	<u>8,349,756</u>	<u>-</u>	<u>1,144,699</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,216,316</u>	<u>\$ 10,780,426</u>	<u>\$ 122,627</u>	<u>\$ 4,578,635</u>

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

Debt Service	Capital Projects	Total Governmental Funds
\$ 1,552,451	\$ -	\$ 21,569,442
-	-	2,844,529
17,584	-	182,252
-	-	14,140
-	-	3,380,209
-	-	15,938
-	-	53,640
-	-	2,502,431
-	-	132,891
-	-	165,000
-	-	231,902
-	-	73,623
-	-	102,042
<u>\$ 1,570,035</u>	<u>\$ -</u>	<u>\$ 31,268,039</u>
\$ -	\$ -	\$ 574,503
-	-	356,284
-	-	197,087
-	-	258,229
-	-	5,391
-	-	102,042
-	-	1,493,536
\$ 17,584	\$ -	\$ 5,859,274
\$ -	\$ -	\$ 407,567
1,552,451	-	9,332,077
-	-	686,167
-	-	4,332,512
-	-	9,156,906
<u>1,552,451</u>	<u>-</u>	<u>23,915,229</u>
<u>\$ 1,570,035</u>	<u>\$ -</u>	<u>\$ 31,268,039</u>

This Page Has Been Intentionally Left Blank.

**LYON COUNTY
MARSHALL, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS		\$ 23,915,229
Total net position reported for governmental activities in the statement of net position is 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.		107,148,625
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.		1,199,507
Other long-term assets (deferred inflows of resources) are not available to pay for current-period expenditures and, therefore, are unavailable in the governmental funds.		5,859,273
Deferred outflows of resources related to other postemployment obligations are applicable to future periods and, therefore, are not reported in the funds.		268,521
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions		2,927,841
Deferred Inflows of Resources Related to Pensions		(4,452,803)
The gain on refunding is reported as a deferred inflow on the statement of net position and amortized over the life of the bonds.		(156,096)
Long-term liabilities, including bonds payable and net pension liabilities, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General Obligation Bonds	\$ (12,425,000)	
Special Assessment Bonds	(2,425,000)	
Unamortized Bond Premium	(718,561)	
Unamortized Special Assessment Premium	(68,291)	
Capital Lease	(86,717)	
Loans Payable	(137,164)	
Notes Payable	(305,000)	
Accrued Interest	(228,261)	
Compensated Absences	(617,441)	
Net Pension Liability	(4,867,520)	
Net Other Postemployment Benefits	(3,675,726)	(25,554,681)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 111,155,416

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

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Road and Bridge	Human Services	Ditch
REVENUES				
Taxes	\$ 8,075,259	\$ 3,965,146	\$ 2,940,293	\$ -
Special Assessments	405,025	-	-	444,969
Licenses and Permits	51,570	-	-	-
Intergovernmental	2,365,840	5,223,329	88,705	5,225
Charges for Services	1,184,294	13,312	-	-
Gifts and Contributions	1,769	-	-	-
Investment Earnings	413,782	38,029	-	15,677
Miscellaneous	1,039,994	359,590	-	22,187
Total Revenues	<u>\$ 13,537,533</u>	<u>\$ 9,599,406</u>	<u>\$ 3,028,998</u>	<u>\$ 488,058</u>
EXPENDITURES				
CURRENT				
General Government	\$ 4,898,625	\$ -	\$ -	\$ -
Public Safety	5,739,474	-	-	-
Highways and Streets	-	7,014,525	-	-
Sanitation	709,729	-	-	-
Culture and Recreation	573,232	-	-	-
Conservation of Natural Resources	576,652	-	-	548,798
Economic Development	57,325	-	-	-
INTERGOVERNMENTAL	666,030	463,018	3,028,998	2,833
CAPITAL OUTLAY	-	-	-	-
DEBT SERVICE				
Principal	120,892	-	-	180,000
Interest	3,489	-	-	90,084
Administrative (Fiscal) Fees	-	-	-	4,850
Total Expenditures	<u>\$ 13,345,448</u>	<u>\$ 7,477,543</u>	<u>\$ 3,028,998</u>	<u>\$ 826,565</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 192,085</u>	<u>\$ 2,121,863</u>	<u>\$ -</u>	<u>\$ (338,507)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	(20,609)	-	-	-
Proceeds from Sale of Capital Asset	-	1,412	-	-
Proceeds from Capital Lease	46,678	-	-	-
Total Other Financing Sources (Uses)	<u>26,069</u>	<u>1,412</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 218,154</u>	<u>\$ 2,123,275</u>	<u>\$ -</u>	<u>\$ (338,507)</u>
Fund Balances - Beginning of Year	12,650,169	6,206,634	-	1,483,206
INCREASE IN INVENTORY	-	19,847	-	-
FUND BALANCES - END OF YEAR	<u><u>\$ 12,868,323</u></u>	<u><u>\$ 8,349,756</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,144,699</u></u>

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

EXHIBIT 5

Debt Service	Capital Projects	Total Governmental Funds
\$ 1,294,154	\$ -	\$ 16,274,852
-	-	849,994
-	-	51,570
29,910	-	7,713,009
-	-	1,197,606
-	-	1,769
3,420	31	470,939
-	-	1,421,771
<u>\$ 1,327,484</u>	<u>\$ 31</u>	<u>\$ 27,981,510</u>
\$ -	\$ -	\$ 4,898,625
-	-	5,739,474
-	-	7,014,525
-	-	709,729
-	-	573,232
-	-	1,125,450
-	-	57,325
-	-	4,160,879
-	20,640	20,640
750,000	-	1,050,892
518,714	-	612,287
5,500	-	10,350
<u>\$ 1,274,214</u>	<u>\$ 20,640</u>	<u>\$ 25,973,408</u>
\$ 53,270	\$ (20,609)	\$ 2,008,102
-	20,609	20,609
-	-	(20,609)
-	-	1,412
-	-	46,678
<u>-</u>	<u>20,609</u>	<u>48,090</u>
\$ 53,270	\$ -	\$ 2,056,192
1,499,181	-	21,839,190
-	-	19,847
<u>\$ 1,552,451</u>	<u>\$ -</u>	<u>\$ 23,915,229</u>

**LYON COUNTY
MARSHALL, MINNESOTA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,056,192

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Asset Adjustments	\$ 3,963,322	
Proceeds from Sale of Capital Assets	1,412	
Net Book Value of Capital Asset Disposals	7,788	
Current Year Depreciation	<u>(3,691,202)</u>	281,320

In the funds, under the modified accrual basis, receivables not available for expenditures are recorded as deferred inflows of resources. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Unavailable Revenue - December 31	5,859,274	
Unavailable Revenue - January 1	<u>(5,081,009)</u>	778,265

The issuance of long-term debt (e.g., bonds payable, loans payable) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuances

Capital Lease	<u>(46,678)</u>	(48,090)
---------------	-----------------	----------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal Repayments:		
General Obligation Bonds	750,000	
Special Assessment Bonds	155,000	
Notes	25,000	
Capital Leases	69,294	
Loans	<u>51,599</u>	1,050,893

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	44,457	
Change in Unamortized Refunding Gain on Bonds	78,049	
Change in Net Pension Liability	2,440,361	
Change in Deferred Pension Outflows	(1,379,892)	
Change in Deferred Pension Inflows	(776,517)	
Amortization of Premiums	78,889	
Change in Compensated Absences	(5,735)	
Change in Other Postemployment Benefits	(259,972)	
Change in Deferred Other Postemployment Benefits Outflows	268,521	
Change in Inventory	<u>19,847</u>	508,008

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.

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>389,204</u>	
	<u>\$ 5,015,792</u>	

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

PROPRIETARY FUNDS

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

	ASSETS	
	Business-Type Activities Landfill Enterprise Fund	Governmental Activities Internal Service Fund
CURRENT ASSETS		
Cash and Pooled Investments	\$ 4,662,928	\$ 1,229,676
Investments	729,944	-
Accounts Receivable	318,025	115,776
Due From Other Governments	150,435	-
Total Current Assets	<u>\$ 5,861,332</u>	<u>\$ 1,345,452</u>
RESTRICTED ASSETS		
Investments	\$ 4,341,989	\$ -
Accrued Interest Receivable	28,472	-
Total Restricted Assets	<u>\$ 4,370,461</u>	<u>\$ -</u>
NONCURRENT ASSETS		
Capital Assets:		
Nondepreciable	\$ 437,328	\$ -
Depreciable - Net of Accumulated Depreciation	3,339,871	-
Total Noncurrent Assets	<u>\$ 3,777,199</u>	<u>\$ -</u>
Total Assets	<u>\$ 14,008,992</u>	<u>\$ 1,345,452</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	\$ 54,583	\$ -
Other Postemployment Benefits Obligations	10,897	-
Total Deferred Outflows of Resources	<u>65,480</u>	<u>-</u>
	LIABILITIES	
CURRENT LIABILITIES		
Accounts Payable	\$ 43,530	\$ -
Salaries Payable	18,082	-
Claims Payable	-	145,945
Due to Other Funds	127,500	-
Due to Other Governments	124,908	-
Total Current Liabilities	<u>\$ 314,020</u>	<u>\$ 145,945</u>
NONCURRENT LIABILITIES		
Compensated Absences	\$ 45,590	\$ -
Net Pension Liability	267,957	-
Net Other Postemployment Benefits Obligation	149,807	-
Estimated Liability for Landfill Closure/Postclosure Care	2,603,786	-
Total Noncurrent Liabilities	<u>\$ 3,067,140</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 3,381,160</u>	<u>\$ 145,945</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related	\$ 78,008	\$ -
	NET POSITION	
Net Investment in Capital Assets	\$ 3,777,199	\$ -
Restricted for:		
Postclosure Care	4,370,461	-
Unrestricted	2,467,645	1,199,507
Total Net Position	<u>\$ 10,615,305</u>	<u>\$ 1,199,507</u>

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

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Business-Type Activities <u>Landfill</u> Enterprise Fund	Governmental Activities <u>Internal</u> Service Fund
OPERATING REVENUE		
Changes for Services	\$ 2,635,241	\$ 2,238,050
Miscellaneous	20,646	-
Total Operating Revenue	<u>\$ 2,655,887</u>	<u>\$ 2,238,050</u>
OPERATING EXPENSES		
Personal Services	\$ 5,145	\$ -
Professional Services	513,865	-
Administration and Fiscal Services	1,159,666	-
Other Services and Charges	217,043	-
Utilities	41,321	-
Depreciation	576,744	-
Landfill Closure and Postclosure Care Costs	(192,123)	-
Cost of Service	-	1,848,846
Total Operating Expenses	<u>\$ 2,321,661</u>	<u>\$ 1,848,846</u>
OPERATING INCOME	334,226	\$ 389,204
NONOPERATING REVENUES (EXPENSES)		
Investment Earnings	<u>74,089</u>	<u>-</u>
CHANGE IN NET POSITION	\$ 408,315	\$ 389,204
Net Position - Beginning of Year	10,276,112	810,303
Change in Accounting Principle	(69,122)	-
Net Position - Beginning of Year, as Restated	<u>10,206,990</u>	<u>810,303</u>
NET POSITION - ENDING	<u>\$ 10,615,305</u>	<u>\$ 1,199,507</u>

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

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Business-Type Activities Landfill Enterprise Fund	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities		
Receipts from Customers and Users	\$ 2,741,109	\$ 2,121,694
Payments to Suppliers	(1,493,568)	(1,783,605)
Payments to Employees	(419,824)	-
Net Cash Provided by Operating Activities	<u>827,717</u>	<u>338,089</u>
Cash Flows from Investing Activities		
Investment income	68,086	-
Purchase of investments	(136,505)	-
Net Cash Used by Investing Activities	<u>(68,419)</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities		
Intergovernmental borrowing	(14,113)	-
Net Cash Used by Noncapital Financing Activities	<u>(14,113)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Payments for construction and purchases of capital assets	(178,682)	-
Net Cash Used by Capital and Related Financing Activities	<u>(178,682)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	566,503	338,089
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,096,425</u>	<u>891,587</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,662,928</u>	<u>\$ 1,229,676</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 334,226	\$ 389,204
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	576,744	-
(Increase) Decrease in Accounts Receivable	85,222	(89,565)
(Increase) Decrease in Deferred Pension Outflows	29,177	-
(Increase) Decrease in Deferred OPEB Outflows	(10,897)	-
Increase (Decrease) in Other Postemployment Benefits	79,213	-
Increase (Decrease) in Accounts Payable	(75,538)	-
Increase (Decrease) in Salaries Payable	3,678	-
Increase (Decrease) in Compensated Absences	2,318	-
Increase (Decrease) in Landfill Closure/Postclosure Care	(192,123)	-
Increase (Decrease) in Claims Payable	-	38,450
Increase (Decrease) in Net Pension Liability	(25,300)	-
Increase (Decrease) in Deferred Pension Inflows	20,997	-
Net Cash Provided by Operating Activities	<u>\$ 827,717</u>	<u>\$ 338,089</u>

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

This Page Has Been Intentionally Left Blank.

FIDUCIARY FUNDS

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2018**

	<u>Investment Trust Fund</u>	<u>Agency</u>
ASSETS		
Cash and Pooled Investments	\$ 6,083,681	\$ 1,478,638
Accrued Interest Receivable	4,638	-
Total Assets	<u>\$ 6,088,319</u>	<u>\$ 1,478,638</u>
LIABILITIES		
Due to Other Governments	-	<u>\$ 1,478,638</u>
NET POSITION		
Held in Trust for Pool Participants	<u>\$ 6,088,319</u>	

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

**LYON COUNTY
MARSHALL, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	ADDITIONS	Investment Trust Fund
Contributions from Participants		\$ 35,254,180
Investment Earnings		39,960
Total Additions		<u>\$ 35,294,140</u>
DEDUCTIONS		
Distributions to Participants		<u>\$ 34,893,137</u>
CHANGE IN NET POSITION		\$ 401,003
NET POSITION - BEGINNING		<u>5,687,316</u>
NET POSITION - ENDING		<u><u>\$ 6,088,319</u></u>

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U. S. GAAP) as of and for the year ended December 31, 2018. The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in U.S. 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements (Continued)

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 revenues, 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements (Continued)

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 accounts for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.
- The Capital Projects Fund accounts for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 full 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 be deposited or effectively withdrawn from 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, 2018. A market approach is used to value all investments other than external investment pools, which are measured at net asset value. 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 2018 were \$470,939.

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 investment in the pool is measured at the net asset value per share provided by the pool.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

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 2013 through 2018 and noncurrent special assessments payable in 2019 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

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

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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

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 acquisition value (entry price) on the date of donation.

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

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

6. Capital Assets (Continued)

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

Assets	Years
Buildings	25 - 100
Improvements to land	20 - 35
Public domain infrastructure	15 - 75
Machinery and equipment	3 - 20

During 2015, the management of Lyon County reviewed estimates related to depreciation of the landfill cell capital assets in the Landfill Enterprise Fund. Previous estimates based depreciation on the percentage of ultimate landfill capacity used. Management determined changing the estimate to the straight-line method would better align depreciation expense with the assets' useful lives. The depreciation charges of the Landfill Enterprise Fund for the current year-end are \$363,774. Depreciation recorded relates to the final depletion of Cell 7 and six months of Cell 10.

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation, sick leave, and comp time 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 and proprietary 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, vested sick leave, and comp time. For the

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

7. Compensated Absences (Continued)

governmental activities, compensated absences are liquidated by the General Fund and the Road and Bridge Special Revenue Fund. For the business-type activities, compensated absences are liquidated by the Landfill Enterprise Fund.

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 straight-line 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. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. For the governmental activities, the pension liability is liquidated through the General Fund and the Road and Bridge Special Revenue Fund. For the business-type activities, the pension liability is liquidated by the Landfill Enterprise Fund.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. The County has two items reported in this category, deferred pension outflows and deferred outflows related to OPEB, that qualify for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, pension plan changes in proportionate share, and also the differences between projected and actual earnings on pension plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports 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 three types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable, grant monies receivable, and other receivables for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position. The last type of deferred inflows is related to the systematic amortization of the gain on refunding balance.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

11. Unearned 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.

12. 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.

13. 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.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

13. Classification of Fund Balances (Continued)

- 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 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.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. Summary of Significant Accounting Policies (Continued)

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

14. 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, 2018, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

15. 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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	\$ 22,799,117
Investments	2,844,529
Business-Type Activities:	
Cash and Pooled Investments	4,662,929
Investments	729,944
Investments - Restricted Assets	4,370,461
Statement of Fiduciary Net Position:	
Cash And Pooled Investments	
Investment Trust Fund	6,083,681
Agency Funds	<u>1,478,638</u>
Total Cash and Investments	<u>\$ 42,969,299</u>

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.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2018, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County'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.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

Credit Risk (Continued)

The County's exposure to credit risk as of December 31, 2018, is as follows:

Investment Type	Rating Agency	Rating	Fair Value
Federal Farm Credit Bank	S & P	AA+	\$ 80,714
Federal Home Loan Bank	S & P	AA+	553,538
Federal Home Loan Mortgage Corporation	S & P	AA+	694,334
Federal Home National Mortgage Corporation	S & P	AA+	568,986
Federal National Mortgage Association	S & P	AA+	1,616,728
U.S. Treasury Notes	Moody	Aaa	421,516
Municipal Bonds	Moody	AA	1,915,939
Negotiable Certificates of Deposit	N/R	N/R	867,334
Total			<u>\$ 6,719,089</u>

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, 2018, none of the County's investments were subject to custodial credit risk.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

b. Investments (Continued)

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:

Issuer	Reported Amount
Moreton Capital Market	
Federal Home Loan Bank	\$ 553,538
Federal National Mortgage Association	130,756
Federal Home Loan Mortgage Corporation	694,334
Municipal bonds	1,915,939
Wells Fargo Advisors	
Federal National Mortgage Association	1,485,972
Federal Home National Mortgage Corporation	568,986
MAGIC Fund	11,770,778

The following table presents the County's deposit and investment balances at December 31, 2018, 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	\$ -	\$ -	\$ 80,714	\$ -	\$ 80,714
Federal Home Loan Bank	-	124,249	429,289	-	553,538
Federal Home Loan Mortgage Corporation	2,224	491,070	160,197	40,843	694,334
Federal Home National Mortgage Corporation	-	-	568,986	-	568,986
Federal National Mortgage Association	-	15,839	1,536,675	64,214	1,616,728
U.S. Treasury Notes	-	225,414	196,102	-	421,516
Municipal bonds	150,588	774,191	991,161	-	1,915,939
Negotiable certificates of deposit	-	623,238	244,096	-	867,334
Total investments					<u>\$ 6,719,089</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At December 31, 2018, the County had the following recurring fair value measurements:

	December 31, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt securities				
U.S. Treasury securities	\$ 421,516	\$ -	\$ 421,516	\$ -
U.S. agencies	3,514,300	-	3,514,300	-
Municipal bonds	1,915,939	-	1,915,939	-
Negotiable certificates of deposit	867,334	-	867,334	-
Total Investments Included in the Fair Value Hierarchy	<u>\$ 6,719,089</u>	<u>\$ -</u>	<u>\$ 6,719,089</u>	<u>\$ -</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

1. Deposits and Investments (Continued)

		Fair Value Measurements Using		
December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments Measured at the Net Asset Value (NAV):				
MAGIC Portfolio	\$ 11,770,778			
Total	\$ 11,770,778			

All Level 2 debt securities are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2018, for the County's governmental activities and business-type activities are as follows:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 182,252	\$ -
Special assessments	3,394,349	2,673,933
Accounts	131,714	-
Interest	53,640	-
Due from other governments	2,502,431	-
Notes	165,000	150,000
Total Governmental Activities	\$ 6,429,386	\$ 2,823,933
Business-Type Activities		
Accounts	\$ 316,649	\$ -
Interest	1,376	-
Due from other governments	150,435	-
Total Business-Type Activities	\$ 468,460	\$ -

During 2015, Lyon County issued General Obligation Drainage Bonds, Series 2015B, on Joint Ditch Nos. 13 and 31 with Lincoln County. Lincoln County residents are responsible for \$195,000 that will be collected by Lincoln County through special assessments and paid to Lyon County for repayment on the bond.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 1,323,327	\$ -	\$ -	\$ -	\$ 1,323,327
Right-of-Way	1,113,350	-	-	-	1,113,350
Construction in Progress	679,492	1,097,095	(623,348)	-	1,153,239
Total Capital Assets, Not Being Depreciated	<u>\$ 3,116,169</u>	<u>\$ 1,097,095</u>	<u>\$ (623,348)</u>	<u>\$ -</u>	<u>\$ 3,589,916</u>
Capital Assets, Being Depreciated:					
Land Improvements	3,185,022	48,920	-	-	3,233,942
Buildings	33,126,560	319,878	(11,250)	-	33,435,188
Machinery and Equipment	8,153,960	519,210	(328,559)	-	8,344,611
Infrastructure	106,492,275	2,601,567	-	-	109,093,842
Total Capital Assets, Being Depreciated	<u>\$ 150,957,817</u>	<u>\$ 3,489,575</u>	<u>\$ (339,809)</u>	<u>\$ -</u>	<u>\$ 154,107,583</u>
Accumulated Depreciation for:					
Land Improvements	708,750	108,188	-	-	816,938
Buildings	6,975,026	667,412	(11,250)	-	7,631,188
Machinery and Equipment	5,654,663	686,866	(325,097)	-	6,016,432
Infrastructure	33,855,580	2,228,736	-	-	36,084,316
Total Accumulated Depreciation	<u>47,194,019</u>	<u>3,691,202</u>	<u>(336,347)</u>	<u>-</u>	<u>50,548,874</u>
Total Capital Assets, Being Depreciated, Net	<u>103,763,798</u>	<u>(201,627)</u>	<u>(3,462)</u>	<u>-</u>	<u>103,558,709</u>
Governmental Activities Capital Assets, Net	<u>\$ 106,879,967</u>	<u>\$ 895,468</u>	<u>\$ (626,810)</u>	<u>\$ -</u>	<u>\$ 107,148,625</u>

Construction in progress of governmental activities consists of amounts completed on open road projects, software purchases and upgrades, and the addition to the Government Center.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 390,432	\$ -	\$ -	\$ -	\$ 390,432
Construction in Progress	-	46,896	-	-	46,896
Total Capital Assets, Not Being Depreciated	390,432	46,896	-	-	437,328
Capital Assets, Being Depreciated:					
Buildings	\$ 187,823	\$ -	\$ -	\$ -	\$ 187,823
Machinery and Equipment	2,176,556	157,421	(133,742)	-	2,200,235
Landfill Cells	10,342,085	-	-	-	10,342,085
Infrastructure	508,946	-	-	-	508,946
Total Capital Assets, Being Depreciated	\$ 13,215,410	\$ 157,421	\$ (133,742)	\$ -	\$ 13,239,089
Accumulated Depreciation for:					
Buildings	\$ 98,231	\$ 6,260	\$ -	\$ -	\$ 104,491
Machinery and Equipment	1,121,762	171,189	(108,107)	-	1,184,844
Landfill cells	7,977,552	363,774	-	-	8,341,326
Infrastructure	233,036	35,521	-	-	268,557
Total Accumulated Depreciation	9,430,581	576,744	(108,107)	-	9,899,218
Total Capital Assets, Being Depreciated, Net	3,784,829	(419,323)	(25,635)	-	3,339,871
Business-Type Capital Assets, Net	\$ 4,175,261	\$ (372,427)	\$ (25,635)	\$ -	\$ 3,777,199

There was no construction in progress for the business-type activities in 2018.

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

Governmental Activities:	
General Government	\$ 642,698
Public Safety	281,357
Highways and Streets, Including Depreciation of Infrastructure Assets	2,598,700
Sanitation	6,628
Culture and Recreation	146,963
Conservation of Natural Resources	14,856
Total Depreciation Expense - Governmental Activities	<u>\$ 3,691,202</u>
Business-Type Activities	
Landfill	<u>\$ 576,744</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and Bridge Special Revenue Fund	\$ 115
General Fund	Landfill Enterprise Fund	127,452
Road and Bridge Special Revenue Fund	Landfill Enterprise Fund	48
Road and Bridge Special Revenue Fund	General Fund	5,276
		<hr/>
Total Due To/From Other Funds		<u>\$ 132,891</u>

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

2. Advances To/From Other Funds

The composition of interfund balances as of December 31, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 102,042

The Ditch Special Revenue Fund advance is to provide working capital to County Ditch No. 37 Lateral B with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments collected through 2026.

3. Transfers In/Transfers Out

The composition of transfers in and transfers out as of December 31, 2018 consist of \$20,609 that was transferred from the General Fund to the Capital Project Fund. The purpose of this transfer was for reimbursement of capital outlay expenditure and closure of the Capital Projects Fund.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2018, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts payable	\$ 574,503	\$ 43,530
Claims payable	145,945	-
Salaries payable	356,284	18,082
Contracts payable	197,087	-
Due to other governments	258,229	124,908
	<u>1,532,048</u>	<u>186,520</u>
Total Payables	<u>\$ 1,532,048</u>	<u>\$ 186,520</u>

2. Unearned Revenues/Deferred Inflows of Resources

In the governmental funds, unearned revenues and deferred inflows of resources consist of special assessments, taxes, state grants, and other receivables not collected soon enough after year-end to pay liabilities of the current period, and state grants received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2017, are summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants</u>	<u>Other</u>	<u>Total</u>
Governmental Funds:					
General Fund	\$ 100,757	\$ 396,616	\$ -	\$ -	\$ 497,373
Special Revenue Funds:					
Road and Bridge	26,023	-	2,117,673	-	2,143,696
Human Services	37,888	-	-	-	37,888
Ditch	-	2,997,733	-	165,000	3,162,733
Debt Service Fund	17,584	-	-	-	17,584
Total	<u>\$ 182,252</u>	<u>\$ 3,394,349</u>	<u>\$ 2,117,673</u>	<u>\$ 165,000</u>	<u>\$ 5,859,274</u>
Liability:					
Unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred Inflows of Resources:					
Unavailable Revenue	182,252	3,394,349	2,117,673	165,000	5,859,274
Total	<u>\$ 182,252</u>	<u>\$ 3,394,349</u>	<u>\$ 2,117,673</u>	<u>\$ 165,000</u>	<u>\$ 5,859,274</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt

Capital Leases

Lyon County has lease agreements that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Capital leases consist of the following at December 31, 2018:

Lease	Final Maturity	Installment	Payment Amount	Original Issue Amount	Outstanding Balance December 31, 2018
2016 Ford Police Utility	2019	Monthly	\$ 678	\$ 24,407	\$ 1,793
2016 Ford Police Utility	2019	Monthly	678	24,407	2,034
2017 Ford Police Utility	2020	Monthly	697	25,088	11,898
2017 Dodge Charger	2020	Monthly	750	26,996	11,442
2017 Dodge Charger	2020	Monthly	697	25,077	10,628
2017 Dodge Charger	2020	Monthly	750	27,007	11,882
2018 Dodge Charger	2021	Monthly	648	23,339	18,520
2018 Dodge Charger	2021	Monthly	648	23,339	18,520
Total Capital Leases					<u>\$ 86,717</u>

Capital lease payments for the squad cars are paid from the General Fund. Capital lease assets comprise \$246,130 of machinery and equipment capital assets and \$59,302 of current year depreciation. The future minimum lease obligations and the net present value of the minimum lease payments as of December 31, 2018, were as follows:

Year Ending December 31	Governmental Activities
2019	\$ 54,109
2020	26,687
2021	5,921
Present Value of Minimum Lease Payments	<u>\$ 86,717</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt (Continued)

Bonds Payable

On December 7, 2017, Lyon County issued General Obligation Jail Refunding Bond, Series 2017A, in the amount of \$2,425,000, with interest of 3.0 to 4.40 percent. The term of the bonds is 5 years, with interest payments starting in 2018 and principal payments starting in 2019. Payments on the general obligation jail refunding bonds are made to the Debt Service Fund.

On August 20, 2015, Lyon County issued General Obligation Capital Improvement Plan Bonds, Series 2015A, in the amount of \$10,000,000, with interest rates of 3.0 to 5.0 percent. The term of the bonds is 15 years, with interest payments starting in 2016 and principal payments starting in 2022. Payments on the capital improvement plan bonds will be made by the Debt Service Fund.

On November 19, 2015, Lyon County issued General Obligation Ditch Bonds, Series 2015B, in the amount of \$2,610,000, with interest rates of 3.0 to 4.0 percent, to be paid over 20 years. Payments on the ditch bonds will be made by the Ditch Special Revenue Fund.

On July 1, 2008, Lyon County issued General Obligation Jail Bonds, Series 2008A, in the amount of \$8,545,000, with interest rates of 4.0 to 5.0 percent, to finance the costs of constructing a new jail and law enforcement facility. Payments on the general obligation jail bonds are made by the Debt Service Fund.

On August 1, 2008, Lyon County issued General Obligation Drainage Refunding Bonds, Series 2008B, in the amount of \$715,000, with interest rates of 3.15 to 4.25 percent, to refund General Obligation Bonds, Series 1997 and 1999A. Payments on the general obligation drainage refunding bonds are made by the Ditch Special Revenue Fund.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt (Continued)

Bonds Payable (Continued)

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
Special Assessment Bonds with Government Commitment 2008B G.O. Drainage Refunding Bonds	2019	\$35,000 - \$85,000	3.15 - 4.25	\$ 715,000	\$ 35,000
2015B G.O. Ditch Bonds	2036	\$100,000 - \$160,000	3.00 - 4.00	2,610,000	2,390,000
Plus: Unamortized Premium					<u>68,291</u>
Special Assessment Bonds with Government Commitment, Net					<u>\$ 2,493,291</u>
<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
General Obligation Bonds					
2008A G.O. Jail Bonds	2021	\$150,000 - \$840,000	4.00 - 5.00	\$8,545,000	\$ -
2015A G.O. Capital Improvement Plan Bonds	2031	\$800,000 - \$1,195,000	3.00 - 5.00	10,000,000	10,000,000
2017A G.O. Jail Refunding Bonds	2021	\$790,000 - \$825,000	3.00 - 4.40	2,425,000	2,425,000
Plus: Unamortized Premium					<u>718,561</u>
General Obligation Bonds, Net					<u>\$ 13,143,561</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

3. Long-Term Debt (Continued)

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
Cottonwood River Restoration CWP Project	2022	\$24,662	2.00	\$ 445,043	\$ 51,533
Yellow Medicine River Watershed CWP Project	2018	\$9,535	2.00	172,070	-
Redwood Watershed Phosphorus CWP Project	2021	\$25,038	2.00	<u>451,831</u>	<u>85,631</u>
Total Loans Payable				<u>\$ 1,068,944</u>	<u>\$ 137,164</u>

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.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2018</u>
Note Payable	2030	\$25,000 - \$30,000	2.000 - 3.125	\$ 385,000	\$ 305,000

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2018, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 790,000	\$ 452,081	\$ 160,000	\$ 72,831
2020	810,000	428,081	130,000	68,263
2021	825,000	410,156	130,000	64,363
2022	800,000	384,381	135,000	60,388
2023	840,000	343,381	140,000	56,263
2024 – 2028	4,890,000	1,052,931	725,000	214,537
2029 – 2033	3,470,000	168,734	660,000	102,562
Thereafter	-	-	345,000	17,144
Total	\$ 12,425,000	\$ 3,239,747	\$ 2,425,000	\$ 656,351

Year Ending December 31	Note Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2019	\$ 25,000	\$ 8,194	\$ 46,708	\$ 2,511
2020	25,000	7,694	47,647	1,572
2021	30,000	7,144	35,893	678
2022	25,000	6,469	6,916	104
2023	25,000	5,719	-	-
2024 – 2028	125,000	17,328	-	-
2029 – 2033	50,000	1,562	-	-
Total	\$ 305,000	\$ 54,109	\$ 137,164	\$ 4,865

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2018, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 13,175,000	\$ -	\$ 750,000	\$ 12,425,000	\$ 790,000
Plus: unamortized premium	791,241	-	72,680	718,561	-
General obligation bonds, net	<u>\$ 13,966,241</u>	<u>\$ -</u>	<u>\$ 822,680</u>	<u>\$ 13,143,561</u>	<u>\$ 790,000</u>
Special assessment bonds with government commitment	\$ 2,580,000	\$ -	\$ 155,000	\$ 2,425,000	\$ 160,000
Plus: unamortized premium	74,500	-	6,209	68,291	-
Special assessment bonds with government commitment, net	<u>\$ 2,654,500</u>	<u>\$ -</u>	<u>\$ 161,209</u>	<u>\$ 2,493,291</u>	<u>\$ 160,000</u>
Total bonds payable	<u>\$ 16,620,741</u>	<u>\$ -</u>	<u>\$ 983,889</u>	<u>\$ 15,636,852</u>	<u>\$ 950,000</u>
Note payable	330,000	-	25,000	305,000	25,000
Loans payable	188,762	-	51,598	137,164	46,708
Capital leases	109,333	46,678	69,294	86,717	54,109
Compensated absences	611,707	395,699	389,965	617,441	70,568
Governmental Activities Long-Term Liabilities	<u>\$ 17,860,543</u>	<u>\$ 442,377</u>	<u>\$ 1,519,734</u>	<u>\$ 16,783,186</u>	<u>\$ 1,146,385</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care	\$ 2,795,909	\$ -	\$ 192,123	\$ 2,603,786	\$ -
Compensated absences	43,272	16,393	14,075	45,590	-
Business-Type Activities Long-Term Liabilities	<u>\$ 2,839,181</u>	<u>\$ 19,290</u>	<u>\$ 206,198</u>	<u>\$ 2,649,276</u>	<u>\$ -</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources (Continued)

6. 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 statement of net position date. The \$2,603,786 landfill closure and postclosure care liability at December 31, 2018, represents the cumulative amount reported to date based on the use of 32.58 percent of the estimated capacity of the landfill.

The County will recognize the remaining estimated cost of closure and postclosure care of \$5,387,128 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2018. Based on the current permitted capacity, the landfill has an estimated operating life of 68 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, 2018, restricted assets of \$4,370,461 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. Detailed Notes on All Funds (Continued)

D. Fund Balances

Fund Balances	General	Special Revenue		Debt Service	Total
		Road and Bridge	Ditch		
Nonspendable					
Prepaid items	\$ 70,527	\$ 3,096	\$ -	\$ -	\$ 73,623
Inventories	-	231,902	-	-	231,902
Advances to other funds	102,042	-	-	-	102,042
Restricted					
DARE program	16,426	-	-	-	16,426
Law library	21,612	-	-	-	21,612
Recorder's technology	185,809	-	-	-	185,809
Recorder's compliance	256,020	-	-	-	256,020
Debt service	-	-	-	1,552,451	1,552,451
Ditch	-	-	1,144,699	-	1,144,699
Enhanced 911	325,208	-	-	-	325,208
Sheriff's contingency	4,989	-	-	-	4,989
Sheriff's forfeited property	21,942	-	-	-	21,942
Attorney's forfeited property	73,242	-	-	-	73,242
Sheriff's gun permits	168,645	-	-	-0	168,645
Probation supervision fees	60,663	-	-	-	60,663
Septic/sewer loans	137,164	-	-	-	137,164
Fish and wildlife trust	198,467	-	-	-	198,467
Aquatic invasive species	155,637	-	-	-	155,637
Highway allotments	-	356,780	-	-	356,780
Road projects - local option					
sales tax	-	2,526,729	-	-	2,526,729
Road projects - wheelage tax	-	711,294	-	-	711,294
State Park Grant	-	102,350	-	-	102,350
Hwys and Streets	-	1,311,949	-	-	1,311,949
Committed					
County septic systems program	135,042	-	-	-	135,042
Garvin Park trust	36,238	-	-	-	36,238
Aggregate - gravel pit	209,901	-	-	-	209,901
Recycling and household hazardous waste assessments	304,986	-	-	-	304,986
Assigned					
Criminal justice contingency	56,799	-	-	-	56,799
Self-insurance	487,176	-	-	-	487,176
Capital projects	621,006	-	-	-	621,006
Elections	61,876	-	-	-	61,876
Road and bridge	-	3,105,655	-	-	3,105,655
Unassigned	9,156,906	-	-	-	9,156,906
Total Fund Balances	\$ 12,868,323	\$ 8,349,756	\$ 1,144,699	\$ 1,552,451	\$ 23,915,229

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Pension Plans

1. Plan Description

The County participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (GERP)

Most full-time and certain part-time employees of the County are covered by the General Employees Retirement Plan (GERP). GERP members belong to the Coordinated Plan, and are covered by Social Security.

Public Employees Police and Fire Plan (PEPFP)

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

Local Government Correctional Plan (PECP)

The Local Government Correctional Plan, referred to as the Public Employees Correctional Fund (PECP), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

GERP Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided (Continued)

Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

PEPFP Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0% increase. An annual adjustment will equal 2.5% any time the plan exceeds a 90% funded ratio for two consecutive years. If the adjustment is increased to 2.5% and the funded ratio falls below 80% for one year or 85% for two consecutive years, the postretirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided (Continued)

PECP Benefits

Benefits for Correctional Plan members first hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in that plan. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the Correctional Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

3. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERP Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50 percent for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018, were \$352,039. The County's contributions were equal to the required contributions as set by state statute.

PEPFP Contributions

Plan members were required to contribute 10.80 percent of their annual covered salary and the County was required to contribute 16.20 percent of pay for members in fiscal year in 2018. The County's contributions to the Police and Fire Plan for the year ended December 31, 2018, were \$188,649. The County's contributions were equal to the required contributions as set by state statute.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

3. Contributions (Continued)

PECP Contributions

Plan members were required to contribute 5.83% of their annual covered salary and the County was required to contribute 8.75% of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018 were \$92,838. The County's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

GERP Plan

At December 31, 2018, the County reported a liability of \$3,872,218 for its proportionate share of the General Employees Retirement Fund's net pension liability. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled \$127,034. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.0698 percent. It was 0.0728 percent measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$118,516 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$29,624 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Plan.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs (Continued)

At December 31, 2018, the County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 102,491	\$ 112,936
Changes in actuarial assumptions	369,895	435,085
Difference between projected and actual investment earnings	-	395,679
Changes in proportion	132,732	183,587
Contributions paid to PERA subsequent to the measurement date	183,650	-
Total	\$ 788,768	\$ 1,127,287

The \$183,649 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 107,762
2020	(188,990)
2021	(360,121)
2022	(80,820)

PEPFP Plan

At December 31, 2018, the County reported a liability of \$1,177,816 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs (Continued)

The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.1105 percent. It was 0.109 percent measured as of June 30, 2017. The County also recognized \$9,945 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014.

For the year ended December 31, 2018, the County recognized pension expense of \$64,919 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 47,472	\$ 288,948
Changes in actuarial assumptions	1,464,318	1,733,900
Difference between projected and actual investment earnings	-	246,697
Changes in proportion	121,576	39,288
Contributions paid to PERA subsequent to the measurement date	<u>96,405</u>	<u>-</u>
Total	<u>\$ 1,729,771</u>	<u>\$ 2,308,833</u>

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs (Continued)

The \$96,405 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ (9,714)
2020	(64,403)
2021	(157,251)
2022	(444,744)
2023	645

PECP Plan

At December 31, 2018, the County reported a liability of \$85,444 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportionate share of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was 0.52 percent. It was 0.52 percent measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$141,978 for its proportionate share of the Correctional Plan's pension expense.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

4. Pension Costs (Continued)

At December 31, 2018, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,463	\$ 9,132
Changes in actuarial assumptions	403,043	987,913
Difference between projected and actual investment earnings	-	96,950
Changes in proportion	9,516	696
Contributions paid to PERA subsequent to the measurement date	46,863	-
Total	\$ 463,885	\$ 1,094,691

The \$46,863 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	\$ 45,269
2020	(375,006)
2021	(330,043)
2022	(17,889)

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

5. Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$355,037.

6. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

	<u>GERF</u>	<u>PEFPF</u>	<u>PECF</u>
Inflation	2.50 Percent per Year	2.50 Percent per Year	2.00 Percent per Year
Active Member Payroll Growth	3.25 Percent per Year	3.25 Percent per Year	3.50 Percent per Year
Investment Rate of Return	7.50 Percent	7.50 Percent	7.50 Percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan, 1.0% per year for the Police and Fire Plan, and 2.0% per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

6. Actuarial Assumptions (Continued)

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- An end date of July 1, 2048, was added to the exiting \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Correctional Plan

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed postretirement benefit increase was changed from 2.50% per year to 2.00% per year.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

6. Actuarial Assumptions (Continued)

Correctional Plan (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return on a using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00

7. Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

A. Defined Benefit Pension Plans (Continued)

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 6,292,850	6.50%	\$ 2,525,312	6.50%	\$ 731,238
Current	7.50	3,872,218	7.50	1,177,816	7.50	85,444
1% Increase	8.50	1,874,055	8.50	63,493	8.50	(431,175)

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

B. Defined Contribution Plan

One Commissioner is covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution 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.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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 two percent of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2018, were:

	Employee	Employer
Contribution Amount	\$ 1,199	\$ 1,199
Percentage of Covered Payroll	5%	5%

C. Other Postemployment Benefits (OPEB)

1. Plan Description

In addition to providing a pension benefits plan, the County provides postemployment health care benefits for eligible retired employees, spouses and dependents through a single-employer fully insured plan. The Plan does not issue a publicly available financial report.

2. Contributions

The County currently has no assets that have been irrevocably deposited into a trust for future health benefits. Lyon County is funding this liability on a pay-as-you-go-basis. For the year ended December 31, 2018, the County contributed \$279,418 to the plan.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB) (Continued)

3. Benefits Provided

Pursuant to Minnesota Statutes 471.61, subdivision 2b, Lyon County provides postemployment health care benefits to certain retired employees. To be eligible for benefits, a participant must qualify to receive a retirement benefit from the Public Employees Retirement Association (PERA) of Minnesota (or similar plan) and must not participate in any other health benefits program providing coverage similar to that herein described when they retire from active employment. Eligible retirees may continue coverage under the County's health benefits program. Pursuant to the provision of the plan, retirees are required to pay 100 percent of the total premium cost. As of December 31, 2018, there was 52 retirees and 121 active participants receiving health benefits from the County's health plan.

4. Total OPEB Liability

The County's total OPEB liability of \$3,825,533 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2018. The total OPEB liability was rolled-forward from the valuation date to fiscal year ended December 31, 2018 using generally accepted actuarial principals. The Schedule of Changes in the County's Total OPEB Liability and Related Ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information.

5. Actuarial Assumptions and Other Inputs

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB) (Continued)

5. Actuarial Assumptions and Other Inputs (Continued)

The total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Health Care Trend Rates	6.50% grading to 5.00% over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvements Scale with Blue Collar adjustments for Police and Fire Personnel.

The assumptions in the actuarial valuation are based on the results of periodic actuarial experience studies.

The discount rate was based on the estimated yield of 20 year AA rated municipal bonds as of the measurement date.

6. Summary of Changes in Actuarial Assumptions

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)
- The retirement and withdrawal tables for all employees were updated.
- The discount rate was changed from 4.00% to 3.30%.

7. Changes in the Total OPEB Liability

	Governmental Activities	Business-Type Activities	Total OPEB Liability
Balance at December 31, 2017	\$ 3,695,526	\$ 150,612	\$ 3,846,138
Changes for the year:			
Service Cost	126,939	5,165	132,104
Interest Cost	121,755	4,954	126,709
Benefit Payments	(268,494)	(10,924)	(279,418)
Net Changes	(19,800)	(805)	(20,605)
Balance at December 31, 2018	\$ 3,675,726	\$ 149,807	\$ 3,825,533

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB) (Continued)

8. Sensitivity Results

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.30%)	Discount Rate (3.30%)	1% Increase (4.30%)
Total OPEB Liability	\$ 4,185,611	\$ 3,825,533	\$ 3,512,012

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease (5.50%) decreasing to 4.00%)	Discount Rate (6.50%) decreasing to 5.00%)	1% Increase (7.50%) decreasing to 6.00%)
Total OPEB Liability	\$ 3,538,833	\$ 3,825,533	\$ 4,169,423

9. OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized OPEB expense of \$258,813. At December 31, 2018, the County reported no deferred inflows of resources and \$279,418 in deferred outflows of resources resulting from contributions subsequent to the measurement date which will be recognized as a reduction of the OPEB liability in the year ended December 31, 2019.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors 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 all other risk, other than pertaining to health insurance, 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 \$500,000 per claim in 2018 and 2019. 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. 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

A. Risk Management (Continued)

The County established a limited risk management program for health coverage in 2014. Premiums are paid into the 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 internal service fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The December 31, 2018, liability is determined based on detailed reports received by the County from the third-party administrator for claims incurred, adjusted, and paid through March 31, 2019. Changes in the balances of claims liabilities during 2017 and 2018 are as follows:

	2017	2018
Unpaid Claims, January 1	\$ 42,254	\$ 107,495
Incurred Claims	1,554,560	1,887,296
Claims Payments	(1,489,319)	(1,848,846)
Unpaid Claims, December 31	\$ 107,495	\$ 145,945

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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

B. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2018, the Lincoln-Pipestone Rural Water System had \$40,841,000 of general obligation bonds and other loans outstanding through 2056. 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 specifically 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 taxing powers are pledged. The participating counties (Jackson, 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 be required to make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

C. Joint Ventures

The County has an ongoing financial interest or responsibility in the following 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:

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

C. Joint Ventures (Continued)

Southwest Health and Human Services (Continued)

(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.

Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. 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 2018 for the human services function was \$3,028,998 and its contribution to the health services function was \$316,748.

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

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, 2018, were \$40,841,000.

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, Martin, 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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

C. Joint Ventures (Continued)

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 2018, Lyon County contributed \$3,027 to the Joint Powers Board.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

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 2018 was \$318,328.

Brown-Lyon-Redwood-Renville Drug Task Force

As of January 1, 2011, the Brown-Lyon-Redwood Drug Task Force changed its name to the Brown-Lyon-Redwood-Renville Drug Task Force. The Brown-Lyon-Redwood-Renville 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, as of January 1, 2010. Renville County joined the Task Force as of January 1, 2011. 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. Financing is provided through contributions of the participating counties, grants, and forfeitures. During 2018, Lyon County paid \$84,194 to the Task Force.

Fiscal agent responsibilities for the Task Force are with the City of New Ulm. The Task Force is reported as an agency fund in the City of New Ulm's financial statements.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

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 2018, Lyon County made contributions of \$45,434 to the A.C.E. of Southwest Minnesota.

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.

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

D. Jointly-Governed Organizations

Lyon County, in conjunction with other governmental entities, has formed the jointly-governed organization listed below:

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 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 2018, Lyon County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

5. Restatement for Change in Accounting Principle

During the year ended December 31, 2018, the County adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. These pronouncements require the restatement of the December 31, 2017 net position of the governmental activities and business-type activities as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Position as Previously Stated	\$ 107,842,837	\$ 10,276,112
Prior Period Adjustment	<u>(1,703,213)</u>	<u>(69,122)</u>
Net Position as Restated	<u>\$ 106,139,624</u>	<u>\$ 10,206,990</u>

REQUIRED SUPPLEMENTARY INFORMATION

**LYON COUNTY
MARSHALL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 8,219,381	\$ 8,219,381	\$ 8,075,259	\$ (144,122)
Special Assessments	326,601	326,601	405,025	78,424
Licenses and Permits	17,655	17,655	51,570	33,915
Intergovernmental	1,956,344	1,956,344	2,365,840	409,496
Charges for Services	963,000	963,000	1,184,294	221,294
Gifts and Contributions	-	-	1,769	1,769
Investment Earnings	70,000	70,000	413,782	343,782
Miscellaneous	818,400	818,400	1,039,994	221,594
Total Revenues	\$ 12,371,381	\$ 12,371,381	\$ 13,537,533	\$ 1,166,152
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	\$ 217,575	\$ 217,575	\$ 207,083	\$ 10,492
Courts	130,000	130,000	93,044	36,956
Law Library	16,000	16,000	32,388	(16,388)
Administrator	221,420	221,420	202,204	19,216
Auditor - Treasurer	632,550	632,550	635,367	(2,817)
Information Technology	327,600	327,600	325,914	1,686
Elections	130,500	130,500	246,206	(115,706)
Central Services	580,738	580,738	632,008	(51,270)
Attorney	558,585	558,585	584,871	(26,286)
Recorder	356,435	356,435	343,359	13,076
Assessor	401,880	401,880	358,404	43,476
Building and Plant	657,650	657,650	952,516	(294,866)
Veterans Service Officer	98,850	98,850	109,639	(10,789)
Human Resources	166,775	166,775	167,622	(847)
Lyon County Self Insurance Trust	-	-	2,673	(2,673)
Other General Government	-	-	5,327	(5,327)
Total General Government	\$ 4,496,558	\$ 4,496,558	\$ 4,898,625	\$ (402,067)
PUBLIC SAFETY				
Sheriff	\$ 2,754,200	\$ 2,754,200	\$ 2,762,582	\$ (8,382)
Law Enforcement Center	2,004,975	2,004,975	2,065,483	(60,508)
Boat and Water Safety	-	-	1,627	(1,627)
Joint Law Enforcement Center	185,900	185,900	171,431	14,469
Coroner	30,000	30,000	5,953	24,047
Sentence to Serve	65,000	65,000	65,798	(798)
County Criminal Justice	-	-	800	(800)
Probation and Parole	363,000	363,000	509,127	(146,127)
Emergency Services	85,200	85,200	85,229	(29)
E-911 System	104,000	104,000	65,260	38,740
SWMRRB Grants	-	-	6,184	(6,184)
Total Public Safety	\$ 5,592,275	\$ 5,592,275	\$ 5,739,474	\$ (147,199)

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

**LYON COUNTY
MARSHALL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (CONTINUED)				
CURRENT				
SANITATION				
Environmental	\$ 639,026	\$ 639,026	\$ 709,729	\$ (70,703)
CULTURE AND RECREATION				
Parks	\$ 264,065	\$ 264,065	\$ 350,844	\$ (86,779)
Other	118,400	118,400	222,388	(103,988)
Total Culture and Recreation	\$ 382,465	\$ 382,465	\$ 573,232	\$ (190,767)
CONSERVATION OF NATURAL RESOURCES				
Extension	\$ 145,986	\$ 145,986	\$ 141,213	\$ 4,773
Soil and Water Conservation	317,200	317,200	268,616	48,584
Water Quality Loan Program	-	-	83,643	(83,643)
Other	83,145	83,145	83,180	(35)
Total Conservation of Natural Resources	\$ 546,331	\$ 546,331	\$ 576,652	\$ (30,321)
ECONOMIC DEVELOPMENT				
Community Development	\$ 56,200	\$ 56,200	\$ 57,325	\$ (1,125)
INTERGOVERNMENTAL				
Health	\$ 316,748	\$ 316,748	321,202	\$ (4,454)
Culture and Recreation	341,778	341,778	344,828	(3,050)
Total Intergovernmental	\$ 658,526	\$ 658,526	\$ 666,030	\$ (7,504)
DEBT SERVICE				
Principal	\$ -	\$ -	\$ 120,892	\$ (120,892)
Interest	-	-	3,489	(3,489)
Total Debt Service	\$ -	\$ -	\$ 124,381	\$ (124,381)
Total Expenditures	\$ 12,371,381	\$ 12,371,381	\$ 13,345,448	\$ (974,067)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	192,085	192,085
OTHER FINANCING SOURCES (USES)				
Transfers Out	\$ -	\$ -	\$ (20,609)	\$ 20,609
Proceeds from Capital Lease	-	-	46,678	(46,678)
Total Other Financing Sources (Uses)	-	-	26,069	(26,069)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	218,154	\$ 218,154
Fund Balance - Beginning of Year,			12,650,169	
FUND BALANCE - END OF YEAR			<u>\$ 12,868,323</u>	

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

**LYON COUNTY
MARSHALL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 3,965,146	\$ 3,965,146	\$ 3,965,146	\$ -
Intergovernmental	3,976,316	3,976,316	5,223,329	1,247,013
Charges for Services	20,000	20,000	13,312	(6,688)
Investment Earnings	-	-	38,029	38,029
Miscellaneous	355,500	355,500	359,590	4,090
Total Revenues	8,316,962	8,316,962	9,599,406	1,282,444
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Public Works	\$ 7,050	\$ 7,050	\$ 4,758	\$ 2,292
Administration	390,398	390,398	345,055	45,343
Construction	5,267,323	5,267,323	3,709,670	1,557,653
Maintenance	2,301,426	2,301,426	1,830,936	470,490
Equipment and Maintenance Shops	921,598	921,598	1,124,106	(202,508)
Total Highways and Streets	8,887,795	8,887,795	7,014,525	1,873,270
INTERGOVERNMENTAL				
Highways and Streets	\$ 400,000	\$ 400,000	\$ 463,018	\$ (63,018)
Total Expenditures	\$ 9,287,795	\$ 9,287,795	\$ 7,477,543	\$ 1,810,252
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(970,833)	(970,833)	2,121,863	3,092,696
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	-	-	1,412	1,412
NET CHANGE IN FUND BALANCE	<u>\$ (970,833)</u>	<u>\$ (970,833)</u>	2,123,275	<u>\$ 3,094,108</u>
Fund Balance - Beginning of Year			6,206,634	
Increase in Inventory			<u>19,847</u>	
FUND BALANCE - END OF YEAR			<u>\$ 8,349,756</u>	

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

**LYON COUNTY
MARSHALL, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 3,029,416	\$ 3,029,416	\$ 2,940,293	\$ (89,123)
Intergovernmental	-	-	88,705	88,705
Total Revenues	3,029,416	3,029,416	3,028,998	(418)
EXPENDITURES				
INTERGOVERNMENTAL				
Human Services	\$ 3,029,416	\$ 3,029,416	\$ 3,028,998	\$ 418
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance - Beginning of Year			-	
FUND BALANCE - END OF YEAR			<u>\$ -</u>	

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

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Measurement Date January 1, 2018
Total OPEB Liability	
Service Cost	\$ 132,104
Interest Cost	126,709
Changes of Assumptions	-
Benefit Payments	<u>(279,418)</u>
Net Change in Total OPEB Liability	<u>(20,605)</u>
Total OPEB Liability - Beginning	<u>3,846,138</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 3,825,533</u></u>
Covered-employee Payroll	\$ 6,403,797
County's OPEB Liability as a Percentage of Covered-employee Payroll	59.74%

Note 1: The County implemented GASB Statement No. 75 in fiscal year 2018, and the above table will be expanded to 10 years of information as the information becomes available.

Note 2: No assets have been accumulated in a trust.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN – LYON COUNTY
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability Associated with Entity Name	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0698%	\$ 3,872,218	\$ 127,034	\$ 3,999,252	\$ 4,692,766	82.51%	79.50%
2017	0.0728%	4,647,504	58,474	4,705,978	4,737,416	98.10%	75.90%
2016	0.0681%	5,529,382	72,227	5,601,609	4,225,610	130.85%	68.91%
2015	0.0718%	3,721,049	N/A	3,721,049	4,222,023	88.13%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A - Not Applicable

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

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PENSION CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN – LYON COUNTY
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 352,039	\$ 352,039	\$ -	\$ 4,693,853	7.50%
2017	351,958	351,958	-	4,692,773	7.50%
2016	327,281	327,281	-	4,363,735	7.50%
2015	327,218	327,218	-	4,362,892	7.50%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN – LYON COUNTY
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	.1105%	\$ 1,177,816	\$ 1,115,524	105.58%	88.80%
2017	.1090	1,471,630	1,120,166	131.38%	85.40
2016	.1010	4,053,306	976,625	415.03%	63.88
2015	.1080	1,227,133	985,736	124.49%	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PENSION CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN – LYON COUNTY
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 188,649	\$ 188,649	\$ -	\$ 1,164,500	16.20%
2017	180,715	180,715	-	1,115,525	16.20%
2016	166,452	166,452	-	1,027,480	16.20%
2015	164,195	164,195	-	1,013,546	16.20%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2018**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	.520%	\$ 85,444	\$ 1,036,101	8.25%	97.60%
2017	.520	1,482,005	1,037,427	142.85	67.90
2016	.510	1,863,101	961,042	193.86	58.16
2015	.510	78,846	919,327	8.58	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF PENSION CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2018**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	\$ 85,444	\$ 85,444	\$ -	\$ 976,503	8.75%
2017	90,659	90,659	-	1,036,103	8.75%
2016	84,412	84,412	-	964,703	8.75%
2015	86,066	86,066	-	983,612	8.75%

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 budgeted special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

The County did not amend the budgets for the General Fund or any of the special revenue funds.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budgets	Excess
Major Governmental Funds:			
General Fund	\$ 13,345,448	\$ 12,371,381	\$ 974,067

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 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.

6. Other Postemployment Benefits – Significant Plan Provision and Actuarial Assumption Changes

2012

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

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

6. Other Postemployment Benefits – Significant Plan Provision and Actuarial Assumption Changes
(Continued)

2012 (Continued)

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated to reflect the projection of 2000 rates to 2012 based on scale BB.
- Future retirees electing to continue coverage on the County medical plan was reduced from 50 percent to 35 percent.

2015

The County obtained an actuarial valuation as of January 1, 2015. Since the actuarial valuation as of January 1, 2012, the following assumptions have changed:

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short-term and long-term medical increases. At the time the valuation was completed, the actual 2015 medical cost increase was available. The actual 2015 increase of 14.9 percent has been taken into account in the valuation.
- The mortality table was updated to reflect the projection of RP 2000 rates to 2012 (with Blue Collar adjustment for Police and Fire Personnel) to the RP-2014 While Collar Mortality Table with MP-2015 Generational Improvement Scale (Blue Collar Tables for Police and Fire Personnel).
- The discount rate was changed from 4.5 percent to 4.0 percent.

Plan Provisions

- The service requirement for access to group insurance was changed from three years to five years due to changes in the public pension provisions.

2018

The County obtained an actuarial valuation as of January 1, 2015. Since the actuarial valuation as of January 1, 2012, the following assumptions have changed:

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

6. Other Postemployment Benefits – Significant Plan Provision and Actuarial Assumption Changes
(Continued)

2018 (Continued)

Actuarial Assumptions

- The discount rate was changed from 3.5 percent to 3.3 percent.

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.
- Minneapolis Employees Retire Fund plan provisions change the employer supplemental contribution to \$21,000,000 in calendar years 2017 and 2018 and returns to \$31,000 through calendar year 2031. The state's required contribution is \$16,000,000 in PERA's fiscal years 2018 and 2019 and returns to \$6,000,000 annually through calendar year 2031.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

A. General Employees Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

B. Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- As set by statute, the assumed post-retirement benefit increase was changed from 1.0% per year through 2064 and 2.5% per year, thereafter, to 1.0% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100 percent funding or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019, and January 1, 2020, from 10.80 percent to 11.30 and 11.80 percent of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.20 percent to 16.95 percent and 17.70 percent of pay, respectively. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

B. Police and Fire Plan (Continued)

2017

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested deferred members. The CSA has been changed to 33% for vested members and 2% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65% to 60%.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00% for all years to 1.00% per year through 2064 and 2.50% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**LYON COUNTY
MARSHALL, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

7. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

C. Correctional Plan

2018

- The Single Discount Rate was changed from 5.96% per annum to 7.50% per annum.
- The morality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50% per year to 2.00% per year.

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30% for vested and non-vested, deferred members. The CSA has been changed to 35% for vested members and 1% for non-vested members.
- The Single Discount Rate was changed from 5.31% per annum to 5.96% per annum.

2016

- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.31%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

SUPPLEMENTARY INFORMATION

AGENCY FUNDS

**LYON COUNTY
MARSHALL, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 joint 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 fund and government units.

This Page Has Been Intentionally Left Blank.

**LYON COUNTY
MARSHALL, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Balance January 1	Additions	Deductions	Balance December 31
ENTERPRISE DEVELOPMENT				
ASSETS				
Cash and Pooled Investments	\$ 1,223	\$ -	\$ -	\$ 1,223
LIABILITIES				
Due to Other Governments	\$ 1,223	\$ -	\$ -	\$ 1,223
LYON COUNTY AG SOCIETY				
ASSETS				
Cash and Pooled Investments	\$ 17,495	\$ 188,124	\$ 192,119	\$ 13,500
LIABILITIES				
Due to Other Governments	\$ 17,495	\$ 188,124	\$ 192,119	\$ 13,500
LYON COUNTY SOIL & WATER CONSERVATION DISTRICT PROJECTS				
ASSETS				
Cash and Pooled Investments	\$ 365,581	\$ 526,250	\$ 314,753	\$ 577,078
LIABILITIES				
Due to Other Governments	\$ 365,581	\$ 526,250	\$ 314,753	\$ 577,078
MINNESOTA PUBLIC SECTOR COLLATORATIVE				
ASSETS				
Cash and Pooled Investments	\$ 13,297	\$ 177	\$ 1,253	\$ 12,221
LIABILITIES				
Due to Other Governments	\$ 13,297	\$ 177	\$ 1,253	\$ 12,221

**LYON COUNTY
MARSHALL, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	<u>\$ 51,842</u>	<u>\$ 773,874</u>	<u>\$ 770,749</u>	<u>\$ 54,967</u>
LIABILITIES				
Due to Other Governments	<u>\$ 51,842</u>	<u>\$ 773,874</u>	<u>\$ 770,749</u>	<u>\$ 54,967</u>
SOUTHWEST MINNESOTA REGIONAL EMERGENCY COMMUNICATIONS BOARD				
ASSETS				
Cash and Pooled Investments	<u>\$ 114,151</u>	<u>\$ 215,405</u>	<u>\$ 111,708</u>	<u>\$ 217,848</u>
LIABILITIES				
Due to Other Governments	<u>\$ 114,151</u>	<u>\$ 215,405</u>	<u>\$ 111,708</u>	<u>\$ 217,848</u>
SOUTHWEST MINNESOTA REGIONAL PUBLIC SAFETY BOARD				
ASSETS				
Cash and Pooled Investments	<u>\$ 38,712</u>	<u>\$ 28,103</u>	<u>\$ 21,368</u>	<u>\$ 45,447</u>
LIABILITIES				
Due to Other Governments	<u>\$ 38,712</u>	<u>\$ 28,103</u>	<u>\$ 21,368</u>	<u>\$ 45,447</u>
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	<u>\$ 870,111</u>	<u>\$ 44,717,761</u>	<u>\$ 45,031,518</u>	<u>\$ 556,354</u>
LIABILITIES				
Due to Other Governments	<u>\$ 870,111</u>	<u>\$ 44,717,761</u>	<u>\$ 45,031,518</u>	<u>\$ 556,354</u>

**LYON COUNTY
MARSHALL, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	\$ 1,472,412	\$ 46,449,694	\$ 46,443,468	\$ 1,478,638
Total Assets	<u>\$ 1,472,412</u>	<u>\$ 46,449,694</u>	<u>\$ 46,443,468</u>	<u>\$ 1,478,638</u>
LIABILITIES				
Due to Other Governments	\$ 1,472,412	\$ 46,449,694	\$ 46,443,468	\$ 1,478,638
Total Liabilities	<u>\$ 1,472,412</u>	<u>\$ 46,449,694</u>	<u>\$ 46,443,468</u>	<u>\$ 1,478,638</u>

This Page Has Been Intentionally Left Blank.

OTHER SCHEDULES

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Primary Government
Appropriations and Shared Revenue	
State:	
Highway Users Tax	\$ 4,932,450
Market Value Credit	287,066
PERA Rate Reimbursement	40,500
Disparity Reduction Aid	26,855
Police Aid	141,377
County Program Aid	838,374
Enhanced 911	101,626
Riparian Protection Aid	161,664
Out of Home Placement	6,967
Aquatic Invasive Species Aid	55,070
Total Appropriations and Shared Revenue	\$ 6,591,949
Reimbursement for Services	
Local:	
Minnesota Department of Human Services	\$ 53,065
Lincoln County	23,792
Total Reimbursements for Services	\$ 76,857
Payments	
Local:	
Payments in Lieu of Taxes	\$ 362,664
Local Contributions	14,331
Total Payments	\$ 376,995
Grants	
State:	
Minnesota Department/Board of:	
Natural Resources	\$ 49,107
Public Safety	3,559
Corrections	70,037
Transportation	10,586
Secretary of State	61,314
Veterans Affairs	10,000
Peace Officer Standards and Training Board	16,269
Pollution Control Agency	196,095
Total State	\$ 416,967
Federal	
Department of:	
Transportation	\$ 220,263
Homeland Security	29,978
Total Federal	\$ 250,241
Total State and Federal Grants	\$ 667,208
Total Intergovernmental Revenue	\$ 7,713,009



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

Board of County Commissioners
Lyon County
Marshall, Minnesota

We have audited, in accordance with the 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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Lyon County's basic financial statements, and have issued our report thereon dated August 27, 2019.

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 (internal control) 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 Lyon County's internal control. Accordingly, we do not express an opinion on the effectiveness of Lyon County's internal control.

A deficiency in internal control 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control 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 and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Alexandria, Minnesota
August 27, 2019

This Page Has Been Intentionally Left Blank.

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2018**

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

NONE NOTED

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

PUBLISHING OF ITEMIZED CLAIMS (2018-001)

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: Lyon 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.

Cause: The County Board and management do not wish to incur additional costs of publication and continue to make claim information available in the official minutes and the minutes posted on the County's website, and warrant registers remain physically available at the Auditor/Treasurer's Office.

Effect: Noncompliance with Minn. Stat. §375.12.

Repeat Finding: Finding was a repeat finding from the prior year identified as Finding 2017-002

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.

View of Responsible Official: Acknowledged

**LYON COUNTY
MARSHALL, MINNESOTA
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

CONTRACTING AND BID LAWS (2018-002)

Criteria: Minnesota Statutes 471.425, subd. 4a requires each contract between the county and the prime contractor to include verbiage to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1 1/2 percent per month or any part of a month.

Condition: The County did not include the required wording regarding prompt payment in any of the applicable contract proposals let in 2018.

Context: The County did not include the requirement regarding prompt payment in any of the applicable contract proposals let in 2018.

Cause: The MNDOT did not indicate that this wording was still required in all applicable contracts requiring that the prompt payment wording should be included in the proposals. The engineering department incorrectly interpreted that MNDOT's omission in the standard contract was no longer required.

Effect: Noncompliance with Minn. Stat. § 471.425, subd. 4a.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the County comply with the above-noted statute and include the required wording in all applicable contracts.

View of Responsible Official: Acknowledged



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Lyon County, 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 (the County) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 27, 2019.

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

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 Counties*, except as described in the Schedule of Findings and Recommendations as items 2018-001 and 2018-002. 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, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Alexandria, Minnesota
August 27, 2019