

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

For the Year Ended December 31, 2005



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

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

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SLAYTON, MINNESOTA**

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

ORGANIZATION
2005

Office	Name	Term Expires
Commissioners		
1st District	Kevin Vickerman	January 2009
2nd District	Robert Moline	January 2009
3rd District	Lyle Onken	January 2007
4th District	Alfred Gertsema**	January 2007
5th District	William J. Sauer*	January 2009
Officers		
Elected		
Attorney	Paul M. Malone	January 2007
Auditor/Treasurer	Gary Spaeth	January 2007
County Judge	David Christenson	January 2007
County Recorder	James V. Johnson	January 2007
Registrar of Titles	James V. Johnson	January 2007
Sheriff	Steven Telkamp	January 2007
Appointed		
Assessor	Marcy Barritt	Indefinite
Highway Engineer	Randy Groves	Indefinite
Court Administrator	Steven Schulze	Indefinite
Veterans Service Officer	James Reinert	Indefinite
Coroner	Dr. H. Dean Hughes	Indefinite

*Chair for 2006

**Chair for 2005

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**ORGANIZATION
2005
SHETEK AREA WATER AND SEWER COMMISSION**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Commissioners		
Dean Salmon	President	December 2008
Larry Mechtenberg	Vice President	December 2005
Nancy Snedeker	Secretary	December 2006
Bobbi Jo Kimpe	Member	December 2005
Jon Hoyme	Member	December 2006
Advisory Commissioners		
Heather Peters	Member	December 2007
Dave Marks	Member	December 2008
Keith Johnson	Member	December 2005
Henry Faragalli	Member	December 2005
Leroy Biren	Member	December 2006

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Murray County Memorial Hospital, which is both a major fund (Hospital Enterprise Fund) and 89 percent, 101 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those statements were audited by other auditors whose report thereon has been furnished to us; and our opinion expressed here, insofar as it relates to amounts included for the Hospital, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Murray County Memorial Hospital were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented

component unit, each major fund, and the aggregate remaining fund information of Murray County as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2007, on our consideration of Murray County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(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, 2005. The MD&A provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$42,380,823, of which \$34,474,511 is invested in capital assets, net of related debt, and \$585,951 is restricted to specific purposes. The \$7,320,361 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$1,451,033 for the year ended December 31, 2005. A large part of the increase is attributable to the County's investing in infrastructure assets without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$4,357,705. General revenues and other items totaling \$5,808,738 funded the net cost.

The General Fund balance decreased by \$495,925, the Road and Bridge Special Revenue Fund balance increased by \$751,514, and the Ditch Special Revenue Fund balance decreased by \$40,007.

For the year ended December 31, 2005, the unreserved fund balance of the General Fund was \$3,250,116, or 54.2 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business. The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Assessing the County's overall fiscal health will require consideration of other non-financial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets.

The government-wide financial statements of the County are divided into three categories:

- **Governmental activities**--Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities**--The County charges fees to cover the costs of certain services it provides. Included here are the operations of the Murray County Memorial Hospital and Congregate Housing.
- **Component units**--The County includes the Shetek Area Water and Sewer Commission, a legally separate entity, because the County is legally accountable for it.

The government-wide statements can be found as Exhibits 1 and 2 of this report.

Fund Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances 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, Human Services Special Revenue Fund, and Ditch Special Revenue Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

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

Business-type funds are maintained by Murray County to account for the Murray County Memorial Hospital and Congregate Housing. The financial statements for these funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic business-type fund financial statements can be found as 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 reflected in the government-wide statements because the resources of these 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 a separate statement of fiduciary net assets on Exhibit 10.

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 28 through 66 of this report.

Other Information

Other information is provided as supplementary information regarding Murray County intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$50,043,722 at the close of 2005. The largest portion of the net assets (78.4 percent) reflects its investment in capital assets (for example: 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 2004 is presented.

	Net Assets (in thousands)			
	Governmental Activities	Business-Type Activities	Total	
			2005	2004
Assets				
Current and other assets	\$ 11,954	\$ 4,778	\$ 16,732	\$ 16,664
Capital assets	<u>35,020</u>	<u>7,731</u>	<u>42,751</u>	<u>39,289</u>
Total Assets	<u>\$ 46,974</u>	<u>\$ 12,509</u>	<u>\$ 59,483</u>	<u>\$ 55,953</u>
Liabilities				
Long-term liabilities	\$ 4,023	\$ 2,986	\$ 7,009	\$ 5,844
Other liabilities	<u>570</u>	<u>1,860</u>	<u>2,430</u>	<u>4,327</u>
Total Liabilities	<u>\$ 4,593</u>	<u>\$ 4,846</u>	<u>\$ 9,439</u>	<u>\$ 10,171</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 34,475	\$ 4,750	\$ 39,225	\$ 36,210
Restricted	586	-	586	686
Unrestricted	<u>7,320</u>	<u>2,913</u>	<u>10,233</u>	<u>8,886</u>
Total Net Assets	<u>\$ 42,381</u>	<u>\$ 7,663</u>	<u>\$ 50,044</u>	<u>\$ 45,782</u>

Unrestricted net assets--the part of net assets 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--are 20.4 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 3.5 percent (\$42,380,823 for 2005 compared to \$40,929,790 for 2004). Key elements in this increase in net assets are as follows, with comparative data for 2004.

Governmental Activities Changes in Net Assets (in thousands)		
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 1,219	\$ 989
Operating grants and contributions	2,178	2,410
Capital grants and contributions	1,937	2,872
General revenues		
Property taxes	3,909	3,733
Other	1,905	1,351
	<u>\$ 11,148</u>	<u>\$ 11,355</u>
Expenses		
General government	\$ 1,647	\$ 1,695
Public safety	1,202	1,115
Highways and streets	3,246	3,984
Sanitation	1,076	407
Human services	968	982
Health	72	189
Culture and recreation	501	368
Conservation of natural resources	641	566
Economic development	208	265
Interest	130	130
	<u>\$ 9,691</u>	<u>\$ 9,701</u>
Revenues Over Expenses	\$ 1,457	\$ 1,654
Transfers to business-type activities	<u>(6)</u>	<u>(5)</u>
Increase in Net Assets	\$ 1,451	\$ 1,649
Net Assets - January 1	<u>40,930</u>	<u>39,281</u>
Net Assets - December 31	<u>\$ 42,381</u>	<u>\$ 40,930</u>

The cost of all governmental activities for 2005 was \$9,691,419 and, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$3,909,481. The amount paid by those who directly benefited from the programs was \$1,218,636, and the amount paid by other governments and organizations

to subsidize certain programs with grants and contributions was \$2,178,496. Capital grants and contributions were \$1,936,582. The County paid for the remaining “public benefit” portion of governmental activities with \$1,310,246 in general revenues, which are grants and contributions not restricted to specific programs and interest.

The following table presents 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.

**Governmental Activities
2005
(in thousands)**

	Total Cost of Services	Net Cost of Services
General government	\$ 1,647	\$ 1,222
Public safety	1,202	1,027
Highways and streets	3,246	(244)
Sanitation	1,075	702
All others	2,521	1,651
Total	\$ 9,691	\$ 4,358

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 the balances left at year-end that are available for spending. Such information is useful in assessing the County’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,544,464, an increase of \$215,582 in comparison with the prior year. Of the combined ending fund balances, \$6,968,828 represents unreserved fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,250,116. As a measure of the General Fund’s liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 54.2 percent of total General Fund expenditures. The General Fund total fund balance decreased by \$336,407 (including a prior period adjustment), and its unreserved fund balance decreased by \$1,128,259.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,382,063 at fiscal year-end, representing 68.9 percent of its annual expenditures. The Road and Bridge Special Revenue Fund total fund balance increased by \$751,514 during 2005, and its unreserved fund balance increased by \$629,961.

The Human Services Special Revenue Fund has no fund balance, as Lincoln, Lyon, & Murray Human Services performs human services functions for Murray County through a joint powers agreement.

The Ditch Special Revenue Fund had an unreserved fund balance of \$1,336,649 at fiscal year-end. The ending fund balance decreased \$40,007 during 2005.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board revised the General Fund budget. These budget amendments fall into two categories: new information changing original budget estimates and greater than anticipated costs.

With these adjustments, the actual charges to appropriations (expenditures) were \$436,642 over the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2005, totaled \$35,019,511 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$707,249, or 2.06 percent, from the previous year. The major capital asset events were: construction of highways and streets, various building improvements, and purchase of highway and other miscellaneous equipment.

**Capital Assets at Year-End
(Net of Depreciation, in thousands)**

	2005	2004
Land, including right-of-way	\$ 581	\$ 581
Infrastructure	30,672	30,477
Buildings	2,229	1,834
Work in progress	119	35
Improvements other than buildings	152	155
Machinery and equipment	1,266	1,230
Total	<u>\$ 35,019</u>	<u>\$ 34,312</u>

Additional information about the County’s capital assets can be found in Note 3.A.3. to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,275,000, which was backed by the full faith and credit of the government.

	Outstanding Debt (in thousands)	
	2005	2004
General obligation notes	\$ 545	\$ 810
General obligation ditch bonds	2,225	2,455
General obligation refunding bonds	1,505	1,580
	<hr/>	<hr/>
Total	<u>\$ 4,275</u>	<u>\$ 4,845</u>

The County's debt related to general obligation bonds decreased by \$570,000 (11.8 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2005, the County's outstanding debt was 0.5 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2005 was 4.2 percent. This compares favorably with the state unemployment rate of 4.4 percent and shows a decrease from the County's 4.3 percent rate of one year ago. This could have a positive impact on the level of services requested by County residents.
- Mortgage interest rates remain low, and refinancing of mortgages and/or financing of new construction continues to occur.
- General Fund expenditures for 2006 are budgeted to increase \$151,491, or 3.0 percent, over the 2005 original budget.
- The County's net property tax levy for 2005 (2005 payable) increased by \$208,539, or 5.0 percent.

SHETEK AREA WATER AND SEWER COMMISSION

The Shetek Area Water and Sewer Commission is a component unit of the County. The component unit is included in the County's financial report because of the significance of its operational and financial relationship with the County. It is reported in a separate column to emphasize that it is legally separate from the County.

Financial Highlights

Governmental activities' total net assets are a deficit of \$3,430. The Commission expects an excess of revenues over expenses in the future will eliminate the deficit.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the Commission's financial position. The Commission's liabilities exceeded assets by \$3,430 at the close of 2005.

Shetek Area Water and Sewer Commission Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ (233)	\$ 3,468
Receivables - net	237	-
Total Assets	\$ 4	\$ 3,468
Liabilities		
Accounts payable and other liabilities	3,434	16,718
Net Assets		
Unrestricted	<u>\$ (3,430)</u>	<u>\$ (13,250)</u>

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Murray 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, Heidi E. Winter, Murray County Government Center, P. O. Box 57, Slayton, Minnesota 56172.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 7,920,994	\$ 971,998	\$ 8,892,992	\$ (233)
Receivables - net	3,195,646	3,811,173	7,006,819	237
Internal balances	600,000	(600,000)	-	-
Inventories	238,024	233,774	471,798	-
Prepaid items	-	127,142	127,142	-
Restricted assets				
Cash and pooled investments	-	8,400	8,400	-
Investments	-	7,750	7,750	-
Deferred debt issuance costs	-	20,134	20,134	-
Capital assets				
Non-depreciable capital assets	700,563	963,480	1,664,043	-
Depreciable capital assets - net of accumulated depreciation	34,318,948	6,767,426	41,086,374	-
Other assets				
Investment in Shetek Medical Services	-	197,963	197,963	-
Total Assets	\$ 46,974,175	\$ 12,509,240	\$ 59,483,415	\$ 4
<u>Liabilities</u>				
Accounts payable and other current liabilities	\$ 462,609	\$ 1,840,604	\$ 2,303,213	\$ 3,434
Accrued interest payable	46,571	11,683	58,254	-
Unearned revenue	61,079	-	61,079	-
Payable from restricted assets				
Accounts payable	-	8,400	8,400	-
Long-term liabilities				
Due within one year	630,669	65,000	695,669	-
Due in more than one year	3,392,424	2,920,654	6,313,078	-
Total Liabilities	\$ 4,593,352	\$ 4,846,341	\$ 9,439,693	\$ 3,434
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 34,474,511	\$ 4,750,204	\$ 39,224,715	\$ -
Restricted for				
Public safety	4,953	-	4,953	-
Highways and streets	530,699	-	530,699	-
Other purposes	50,299	-	50,299	-
Unrestricted	7,320,361	2,912,695	10,233,056	(3,430)
Total Net Assets	\$ 42,380,823	\$ 7,662,899	\$ 50,043,722	\$ (3,430)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Functions/Programs			
Primary government			
Governmental activities			
General government	\$ 1,646,643	\$ 367,838	\$ 56,391
Public safety	1,202,490	43,253	131,799
Highways and streets	3,245,845	83,344	1,507,855
Sanitation	1,075,504	324,347	49,079
Human services	967,755	-	961
Health	71,630	1,029	-
Culture and recreation	501,359	42,007	223,394
Conservation of natural resources	641,395	356,072	46,833
Economic development	208,192	746	162,184
Interest	130,606	-	-
Total governmental activities	\$ 9,691,419	\$ 1,218,636	\$ 2,178,496
Business-type activities			
Hospital	\$ 10,344,432	\$ 13,114,421	\$ -
Congregate Housing	265,225	252,572	-
Total business-type activities	\$ 10,609,657	\$ 13,366,993	\$ -
Total Primary Government	\$ 20,301,076	\$ 14,585,629	\$ 2,178,496
Component unit			
Shetek Area Water and Sewer District	\$ 703,445	-	\$ 712,675

General Revenues

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

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Unit
	Governmental Activities	Primary Government Business-Type Activities	Total	
\$ -	\$ (1,222,414)	\$ -	\$ (1,222,414)	
-	(1,027,438)	-	(1,027,438)	
1,898,787	244,141	-	244,141	
-	(702,078)	-	(702,078)	
-	(966,794)	-	(966,794)	
-	(70,601)	-	(70,601)	
37,795	(198,163)	-	(198,163)	
-	(238,490)	-	(238,490)	
-	(45,262)	-	(45,262)	
-	(130,606)	-	(130,606)	
\$ 1,936,582	\$ (4,357,705)	\$ -	\$ (4,357,705)	
\$ -	\$ -	\$ 2,769,989	\$ 2,769,989	
-	-	(12,653)	(12,653)	
\$ -	\$ -	\$ 2,757,336	\$ 2,757,336	
\$ 1,936,582	\$ (4,357,705)	\$ 2,757,336	\$ (1,600,369)	
\$ -				\$ 9,230
	\$ 3,909,481	\$ -	\$ 3,909,481	\$ -
	260,586	-	260,586	-
	6,813	-	6,813	-
	55,479	-	55,479	-
	1,310,246	-	1,310,246	-
	272,130	47,686	319,816	147
	-	-	-	443
	(5,997)	5,997	-	-
	\$ 5,808,738	\$ 53,683	\$ 5,862,421	\$ 590
	\$ 1,451,033	\$ 2,811,019	\$ 4,262,052	\$ 9,820
	40,929,790	4,851,880	45,781,670	(13,250)
	\$ 42,380,823	\$ 7,662,899	\$ 50,043,722	\$ (3,430)

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 4,069,972	\$ 2,496,376	\$ 9,842	\$ 1,342,224	\$ 7,918,414
Petty cash and change funds	2,580	-	-	-	2,580
Taxes receivable					
Prior	26,982	5,478	8,389	-	40,849
Special assessments receivable					
Prior	8,169	-	-	16	8,185
Noncurrent	720,409	-	-	1,446,014	2,166,423
Accounts receivable	22,832	1,857	-	-	24,689
Accrued interest receivable	101,672	-	-	-	101,672
Loans receivable	189,402	-	-	-	189,402
Due from other funds	-	150,670	-	-	150,670
Due from other governments	36,446	627,980	-	-	664,426
Advances to other funds	600,000	-	-	-	600,000
Inventories	9,783	228,241	-	-	238,024
Total Assets	<u>\$ 5,788,247</u>	<u>\$ 3,510,602</u>	<u>\$ 18,231</u>	<u>\$ 2,788,254</u>	<u>\$ 12,105,334</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 87,079	\$ 33,976	\$ -	\$ 2,058	\$ 123,113
Salaries payable	194,667	28,347	-	617	223,631
Due to other funds	150,670	-	-	-	150,670
Due to other governments	102,009	1,114	9,842	2,900	115,865
Deferred revenue - unavailable	804,932	627,161	8,389	1,446,030	2,886,512
Deferred revenue - unearned	61,079	-	-	-	61,079
Total Liabilities	\$ 1,400,436	\$ 690,598	\$ 18,231	\$ 1,451,605	\$ 3,560,870
Fund Balances					
Reserved for					
Encumbrances	\$ 49,000	\$ 194,456	\$ -	\$ -	\$ 243,456
Advances to other funds	600,000	-	-	-	600,000
Inventories	9,783	228,241	-	-	238,024
Loans receivable	189,402	-	-	-	189,402
Missing heirs	100	-	-	-	100
Law library	7,302	-	-	-	7,302
Recorder's technology fund	36,075	-	-	-	36,075
Recorder's compliance fund	14,124	-	-	-	14,124
Sheriff's contingency	4,953	-	-	-	4,953
Highway allotments	-	15,244	-	-	15,244
Supervision fees	6,068	-	-	-	6,068
Septic/sewer loans	220,888	-	-	-	220,888
Unreserved					
Designated for future expenditures	1,278,160	1,500,000	-	-	2,778,160
Designated for capital improvements	402,963	-	-	-	402,963
Designated for compensated absences	267,205	125,306	-	-	392,511
Designated for sanitation	289,004	-	-	-	289,004
Designated for capital equipment	336,972	-	-	-	336,972
Designated for County septic system loans	109,238	-	-	-	109,238
Designated for economic development	102,981	-	-	-	102,981
Designated for postemployment benefits	23,613	-	-	-	23,613
Designated for parks	163,810	-	-	-	163,810
Designated for employee benefit insurance	32,870	-	-	-	32,870
Designated for human services	243,300	-	-	-	243,300
Undesignated	-	756,757	-	1,336,649	2,093,406
Total Fund Balances	\$ 4,387,811	\$ 2,820,004	\$ -	\$ 1,336,649	\$ 8,544,464
Total Liabilities and Fund Balances	\$ 5,788,247	\$ 3,510,602	\$ 18,231	\$ 2,788,254	\$ 12,105,334

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	8,544,464
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		35,019,511
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,886,512
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Special assessment general obligation bonds	\$ (2,225,000)	
Loans payable	(861,339)	
Capital equipment notes	(544,242)	
Compensated absences	(392,512)	
Accrued interest payable	(46,571)	(4,069,664)
Net assets of governmental activities (Exhibit 1)		<u>\$ 42,380,823</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 5

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

	General	Road and Bridge	Human Services	Ditch	Total
Revenues					
Taxes	\$ 3,004,667	\$ 447,845	\$ 729,710	\$ -	\$ 4,182,222
Special assessments	287,297	-	-	332,722	620,019
Licenses and permits	38,192	-	-	-	38,192
Intergovernmental	1,462,355	3,279,894	244,635	-	4,986,884
Charges for services	324,523	16,500	-	-	341,023
Fines and forfeits	823	-	-	-	823
Gifts and contributions	153,398	-	-	-	153,398
Investment earnings	232,058	-	-	-	232,058
Miscellaneous	293,027	69,809	-	5,864	368,700
Total Revenues	\$ 5,796,340	\$ 3,814,048	\$ 974,345	\$ 338,586	\$ 10,923,319
Expenditures					
Current					
General government	\$ 1,936,455	\$ -	\$ -	\$ -	\$ 1,936,455
Public safety	1,185,455	-	-	-	1,185,455
Highways and streets	-	3,163,072	-	-	3,163,072
Sanitation	344,847	-	-	-	344,847
Health	18,768	-	-	-	18,768
Culture and recreation	626,071	-	-	-	626,071
Conservation of natural resources	526,426	-	-	75,205	601,631
Economic development	209,594	-	-	-	209,594
Intergovernmental	765,259	293,603	967,755	-	2,026,617
Debt service					
Principal	351,860	-	-	230,000	581,860
Interest	27,722	-	-	105,768	133,490
Administrative (fiscal) fees	403	-	-	1,247	1,650
Total Expenditures	\$ 5,992,860	\$ 3,456,675	\$ 967,755	\$ 412,220	\$ 10,829,510
Excess of Revenues Over (Under)					
Expenditures	\$ (196,520)	\$ 357,373	\$ 6,590	\$ (73,634)	\$ 93,809
Other Financing Sources (Uses)					
Transfers in	\$ 30,480	\$ 364,500	\$ -	\$ 33,627	\$ 428,607
Transfers out	(404,124)	(23,890)	(6,590)	-	(434,604)
Loans issued	74,187	-	-	-	74,187
Proceeds from sale of assets	-	10,800	-	-	10,800
Total Other Financing Sources (Uses)	\$ (299,457)	\$ 351,410	\$ (6,590)	\$ 33,627	\$ 78,990
Net Change in Fund Balances	\$ (495,977)	\$ 708,783	\$ -	\$ (40,007)	\$ 172,799
Fund Balances - January 1, before adjustment	\$ 4,724,218	\$ 2,068,490	\$ -	\$ 1,376,656	\$ 8,169,364
Prior period adjustment (Note 1.F.)	159,518	-	-	-	159,518
Fund Balances - January 1, restated	\$ 4,883,736	\$ 2,068,490	\$ -	\$ 1,376,656	\$ 8,328,882
Increase in reserved for inventories	\$ 52	\$ 42,731	\$ -	\$ -	\$ 42,783
Fund Balances - December 31	\$ 4,387,811	\$ 2,820,004	\$ -	\$ 1,336,649	\$ 8,544,464

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 172,799

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

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

Deferred revenue - December 31	\$ 2,886,512	
Deferred revenue - January 1	<u>(2,028,308)</u>	858,204

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

Expenditures for general capital assets and infrastructure	\$ 2,223,954	
Current year depreciation	<u>(1,516,705)</u>	707,249

The issuance of long-term debt provides current financial resources to governmental funds, but adds to liabilities in the statement of net assets.

The net proceeds of new debt are:		
Loans issued		(94,107)

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

General obligation bonds	\$ 230,000	
Capital notes payable	265,000	
Loans payable	<u>86,860</u>	581,860

Septic/ISTS loans previously reported in the General Fund are now reported solely in the government-wide statements.

Loans payable at January 1	\$ (854,092)	
Restatement of General Fund balance	<u>159,518</u>	(694,574)

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	\$ 5,294	
Amortization of discounts and deferred issuance charges	(760)	
Change in compensated absences	(127,715)	
Change in inventories	<u>42,783</u>	(80,398)

Change in net assets of governmental activities (Exhibit 2) \$ 1,451,033

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PROPRIETARY FUNDS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Assets			
Current assets			
Cash and pooled investments	\$ 729,936	\$ 242,062	\$ 971,998
Accounts receivable - net	132,371	393	132,764
Patient receivables - net	3,678,409	-	3,678,409
Inventories	233,774	-	233,774
Prepaid items	127,142	-	127,142
Total current assets, unrestricted	\$ 4,901,632	\$ 242,455	\$ 5,144,087
Restricted assets			
Cash and pooled investments	\$ -	\$ 8,400	\$ 8,400
Assets designated for capital acquisitions	7,750	-	7,750
Total restricted assets	\$ 7,750	\$ 8,400	\$ 16,150
Total current assets	\$ 4,909,382	\$ 250,855	\$ 5,160,237
Noncurrent assets			
Deferred debt issuance costs	\$ -	\$ 20,134	\$ 20,134
Capital assets			
Nondepreciable	\$ 963,480	\$ -	\$ 963,480
Depreciable - net	5,693,885	1,073,541	6,767,426
Total capital assets - net	\$ 6,657,365	\$ 1,073,541	\$ 7,730,906
Total noncurrent assets	\$ 6,657,365	\$ 1,093,675	\$ 7,751,040
Other assets			
Investment in Shetek Medical Services	\$ 197,963	\$ -	\$ 197,963
Total Assets	\$ 11,764,710	\$ 1,344,530	\$ 13,109,240

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 1,250,413	\$ 5,796	\$ 1,256,209
Salaries payable	173,024	5,033	178,057
Vacation and sick leave	344,000	-	344,000
Payroll taxes and other	62,254	-	62,254
Due to other governments	-	84	84
Interest payable	11,683	-	11,683
Advance from other funds	600,000	-	600,000
General obligation bonds payable - current	-	65,000	65,000
Total current liabilities, payable from current assets	\$ 2,441,374	\$ 75,913	\$ 2,517,287
Current liabilities payable from restricted assets			
Accounts payable	-	8,400	8,400
Total current liabilities	\$ 2,441,374	\$ 84,313	\$ 2,525,687
Noncurrent liabilities			
Compensated absences payable - long-term	\$ -	\$ 4,952	\$ 4,952
General obligation bonds payable - long-term - net of unamortized discount and deferred amount on refunding	-	1,325,702	1,325,702
Line of credit note payable	1,590,000	-	1,590,000
Total noncurrent liabilities	\$ 1,590,000	\$ 1,330,654	\$ 2,920,654
Total Liabilities	\$ 4,031,374	\$ 1,414,967	\$ 5,446,341
Net Assets			
Invested in capital assets - net of related debt	\$ 5,067,365	\$ (317,161)	\$ 4,750,204
Unrestricted	2,665,971	246,724	2,912,695
Total Net Assets	\$ 7,733,336	\$ (70,437)	\$ 7,662,899

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Operating Revenues			
Charges for services	\$ -	\$ 245,739	\$ 245,739
Patient service revenues - net	12,584,832	-	12,584,832
Miscellaneous	484,222	6,833	491,055
Total Operating Revenues	\$ 13,069,054	\$ 252,572	\$ 13,321,626
Operating Expenses			
Personal services	\$ -	\$ 62,488	\$ 62,488
Employee benefits	996,201	-	996,201
Professional services	-	2,315	2,315
Contracted services	-	35,401	35,401
Other services and charges	-	8,922	8,922
Supplies	2,727,907	7,199	2,735,106
Payroll	3,596,459	-	3,596,459
Utilities	-	20,045	20,045
Advertising	-	(17)	(17)
Insurance	-	4,665	4,665
Repairs and maintenance	-	3,988	3,988
Purchased services	2,518,032	-	2,518,032
Depreciation	505,833	51,121	556,954
Total Operating Expenses	\$ 10,344,432	\$ 196,127	\$ 10,540,559
Operating Income (Loss)	\$ 2,724,622	\$ 56,445	\$ 2,781,067
Nonoperating Revenues (Expenses)			
Investment income	\$ 47,686	\$ -	\$ 47,686
Grants	37,610	-	37,610
Interest expense	-	(67,840)	(67,840)
Bond issuance costs	-	(1,258)	(1,258)
Gain on investment in Shetek Medical Services	7,757	-	7,757
Total Nonoperating Revenues (Expenses)	\$ 93,053	\$ (69,098)	\$ 23,955
Income (Loss) Before Transfers	\$ 2,817,675	\$ (12,653)	\$ 2,805,022
Transfers in	-	5,997	5,997
Change in net assets	\$ 2,817,675	\$ (6,656)	\$ 2,811,019
Net Assets - January 1	4,915,661	(63,781)	4,851,880
Net Assets - December 31	\$ 7,733,336	\$ (70,437)	\$ 7,662,899

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 10,930,834	\$ 250,438	\$ 11,181,272
Other revenues received	477,182	-	477,182
Payments to employees	(3,553,635)	(60,745)	(3,614,380)
Payments to suppliers	(6,373,481)	(84,025)	(6,457,506)
Net cash provided by (used in) operating activities	\$ 1,480,900	\$ 105,668	\$ 1,586,568
Cash Flows from Noncapital Financing Activities			
Grants	\$ 37,610	\$ -	\$ 37,610
Transfers in	-	5,997	5,997
Net cash provided by (used in) noncapital financing activities	\$ 37,610	\$ 5,997	\$ 43,607
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	\$ -	\$ (75,000)	\$ (75,000)
Interest paid on long-term debt	-	(60,696)	(60,696)
Purchases of capital assets	(3,310,628)	-	(3,310,628)
Net cash provided by (used in) capital and related financing activities	\$ (3,310,628)	\$ (135,696)	\$ (3,446,324)
Cash Flows from Investing Activities			
Proceeds from issuance of line of credit	\$ 450,000	\$ -	\$ 450,000
Investment income	47,686	-	47,686
Decrease (increase) in assets limited as to use	497,597	-	497,597
Net cash provided by (used in) investing activities	\$ 995,283	\$ -	\$ 995,283
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (796,835)	\$ (24,031)	\$ (820,866)
Cash and Cash Equivalents - January 1	1,526,771	274,493	1,801,264
Cash and Cash Equivalents - December 31	\$ 729,936	\$ 250,462	\$ 980,398
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7			
Cash and pooled investments	\$ 729,936	\$ 242,062	\$ 971,998
Restricted cash and pooled investments	-	8,400	8,400
Total Cash and Cash Equivalents	\$ 729,936	\$ 250,462	\$ 980,398

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 2,724,622	\$ 56,445	\$ 2,781,067
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 505,833	\$ 51,121	\$ 556,954
(Increase) decrease in accounts receivable	(1,861,038)	66	(1,860,972)
(Increase) decrease in inventories	(61,950)	-	(61,950)
(Increase) decrease in prepaid items	(73,490)	-	(73,490)
Increase (decrease) in accounts payable	278,064	(3,557)	274,507
Increase (decrease) in salaries payable	(113,951)	415	(113,536)
Increase (decrease) in vacation and sick leave	64,000	-	64,000
Increase (decrease) in payroll taxes and other	7,127	-	7,127
Increase (decrease) in interest payable	11,683	-	11,683
Increase (decrease) in due to other governments	-	(150)	(150)
Increase (decrease) in compensated absences	-	1,328	1,328
Total adjustments	\$ (1,243,722)	\$ 49,223	\$ (1,194,499)
Net Cash Provided by (Used in) Operating Activities	\$ 1,480,900	\$ 105,668	\$ 1,586,568
Noncash Investing, Capital, and Financing Activities			
Capitalization of interest	\$ 99,393	\$ -	\$ 99,393

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 106,767</u>
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Liabilities

Due to other governments	<u>\$ 106,767</u>
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**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies, established in GAAP and used by the County, are discussed below.

A. Financial Reporting Entity

Murray County was established May 23, 1857, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Murray County and its component units. 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.

Blended Component Units

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Murray County has the following blended component units.

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Murray County Memorial Hospital provides acute inpatient and outpatient care to the County area.	County Commissioners are the members of the Murray County Memorial Hospital Board.	Separate financial statements can be obtained at: 2042 Juniper Avenue Slayton, Minnesota 56172

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Murray County Economic Development Authority	The Authority's governing body is substantively the same as the governing body of the County.	Separate financial statements are not issued for the Murray County Economic Development Authority.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component unit of Murray County is discretely presented:

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Shetek Area Water and Sewer Commission is responsible for constructing and operating a sanitary water and sewer district within Murray County.	The County appoints Commission members and must approve any debt.	Significant accounting policies of the Water and Sewer Commission do not differ from those of the County. Separate financial statements for the Commission are not issued.

Joint Ventures

The County participates in several joint ventures described in Note 6.C. The County also participates in jointly-governed organizations described in Note 6.D.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Murray 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities, different business-type activities, and discretely presented component units 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 and blended component units. 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 presents two enterprise funds. The County reports all of its funds as major funds.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

The Hospital Enterprise Fund accounts for unrestricted donations received by the Hospital or nonoperating gains in the period received. Donations restricted by donors or grantors for specific operating purposes are reported in other revenue to the extent used within the period.

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.
- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The County reports the following major enterprise funds:

- The Hospital Fund is used to account for the operation of the Murray County Memorial Hospital, a blended component unit of Murray County.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Congregate Housing Fund is used to account for the operation of the Murray County Congregate Housing facility.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The 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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$296,875.

The Hospital's investment income for the year ended December 31, 2005, was \$47,686 and is included in nonoperating revenues.

Murray County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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).

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, with private pay dates over 30 days old have interest assessed at 1.5 percent per month. Due to the uncertainty of collecting private pay accounts, these interest charges are recognized as income when received.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management’s best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from parties due to bad debts. Management considers historical

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

write-off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

In addition, the Board has restricted portions of the Hospital Enterprise Fund investments for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment of the County, as well as the blended component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	3 - 30
Buildings	5 - 40
Public domain infrastructure	10 - 50
Machinery and equipment	3 - 20

7. Investment in Shetek Medical Services, LLC

The Hospital is a 40 percent owner in Shetek Medical Services, LLC. This venture provides various healthcare-related services to the surrounding area. The Hospital's investment in the clinic is reported on the equity method of accounting. The net gain on the investment, totaling \$7,757 for the year ended December 31, 2005, is included in nonoperating gains.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

In the government-wide financial statements, and in 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

E. Hospital Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates of discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows:

Medicare--The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2002.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1 Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Clinical services are paid on a fixed fee schedule or on a cost-related basis for rural health clinic services.

Medicaid--Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are reimbursed on a fee-screen basis. Clinical services are paid on a fixed fee schedule or on a cost-related basis for rural health clinic services.

Blue Cross--Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge and/or at a discount from established charges. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment. Clinic services are paid on a fixed fee schedule. Clinical services are paid on a fixed fee schedule.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, at least a reasonable possibility exists that recorded estimates will change by a material amount in the near term. Occasionally, final settled costs reports are reopened when necessary to appeal specific items.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

A summary of net patient and resident service revenue and contractual adjustments is as follows:

Total patient and resident service revenue	<u>\$</u>	19,194,973
Contractual adjustments and provision for bad debts		
Medicare	\$	(5,309,191)
Medicaid		(293,378)
Blue Cross		(186,739)
Other		(583,623)
Provisions for bad debts		<u>(237,210)</u>
 Total contractual adjustments and provisions for bad debts	 \$	 <u>(6,610,141)</u>
 Net Patient and Resident Service Revenue	 \$	 <u><u>12,584,832</u></u>

F. Prior Period Adjustment

Fund balance for the General Fund at January 1, 2005, has been restated. The restatement is as follows:

Fund Balance, as previously reported	<u>\$</u>	4,724,218
To adjust for change in accounting method for septic/sewer loans		<u>159,518</u>
 Fund Balance, as Restated	 \$	 <u><u>4,883,736</u></u>

2. Stewardship, Compliance, and Accountability

A. Deficit Net Assets

The Congregate Housing Enterprise Fund had deficit net assets for the year ended December 31, 2005, of \$70,437. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

B. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	\$ 5,992,860	\$ 5,556,218	\$ 436,642
Ditch Special Revenue Fund	412,220	397,808	14,412

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 7,920,994
Business-type activities	
Cash and pooled investments	971,998
Restricted assets – cash and pooled investments	8,400
Restricted assets – assets designated for capital acquisitions	7,750
Component unit – Shetek Area Water and Sewer Commission	(233)
Agency funds	
Cash and pooled investments	<u>106,767</u>
Total Cash and Investments	<u>\$ 9,015,676</u>

Fund Financial Statements	
Governmental funds	
Cash and pooled investments	\$ 7,918,414
Petty cash and change funds	2,580
Proprietary funds	
Cash and pooled investments	971,998
Restricted assets – cash and pooled investments	8,400
Restricted assets – assets designated for capital acquisitions	7,750
Component unit – Shetek Area Water and Sewer Commission	(233)
Agency funds	
Cash and pooled investments	<u>106,767</u>
Total Cash and Investments	<u>\$ 9,015,676</u>

Deposits	
Checking	\$ 464,819
Certificates of deposit	3,717,118
Invested in MAGIC Fund	1,789,409
Invested in U.S. government agency securities	384,000
Invested in negotiable certificates of deposit	2,655,000
Petty cash and change funds	<u>5,330</u>
Total Deposits, Cash on Hand, and Investments	<u>\$ 9,015,676</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

The Shetek Area Water and Sewer Commission's bank balance of \$131,542 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 34,696
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**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$157,317 of U.S. Government Agency securities and \$189,682 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration	Interest Rate	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5 Percent of Portfolio	Risk Maturity Date	
U.S. government agency securities					
Federal Farm Credit Bank Bond	AAA	S&P	<5%	5/19/10	\$ 169,000
Federal Home Loan Bank Bond	AAA	S&P	<5%	7/14/10	\$ 215,000
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 1,789,409
Negotiable certificates of deposit					
Bank Trust of Alabama, AL	N/A	N/A		12/20/2006	\$ 75,000
Atlanta Business Bank, GA	N/A	N/A		6/7/2007	90,000
Community Bank Pickens, GA	N/A	N/A		6/8/2007	90,000
First Citizens National Bank, TN	N/A	N/A		6/7/2007	90,000
R G Premier Bank, Puerto Rico	N/A	N/A		5/30/2007	95,000
Seattle Savings Bank, WA	N/A	N/A		2/10/2006	98,000
Alliance Bank, CA	N/A	N/A		5/31/2007	96,000
Brand Banking Co., GA	N/A	N/A		1/18/2006	97,000
Capital Bank and Trust, TN	N/A	N/A		11/27/2006	96,000
Commerce National Bank, OH	N/A	N/A		5/31/2007	96,000
Community National Bank, MN	N/A	N/A		11/27/2006	96,000
Fidelity Bank of Florida, FL	N/A	N/A		2/17/2006	96,000
First International Bank, TX	N/A	N/A		1/18/2006	97,000
Firstbank, Puerto Rico	N/A	N/A		11/27/2006	96,000
Flagstar Bank, MI	N/A	N/A		2/17/2006	96,000
Hemisphere National Bank, FL	N/A	N/A		5/31/2007	96,000
Heritage Bank, IL	N/A	N/A		1/18/2006	97,000
Imperial Capital Bank, CA	N/A	N/A		2/17/2006	96,000
Mercantile Trust & Savings Bank, IL	N/A	N/A		5/31/2007	96,000
Missouri State Bank, MO	N/A	N/A		1/18/2006	97,000
NBank, GA	N/A	N/A		2/17/2006	96,000
Omni National Bank, NC	N/A	N/A		11/27/2006	96,000
PanAmerican Bank, FL	N/A	N/A		8/20/2007	96,000
Perpetual Federal Savings Bank, OH	N/A	N/A		8/27/2007	96,000
PineBank, FL	N/A	N/A		1/18/2006	97,000
Providian National Bank, NH	N/A	N/A		5/31/2007	96,000
Texas Community Bank, TX	N/A	N/A		2/17/2006	96,000
Viking Community Bank, WA	N/A	N/A		11/27/2006	96,000
Total negotiable certificates of deposit			54.98%		\$ 2,655,000

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Risk Maturity Date	
Total investments					\$ 4,828,409
Checking					464,819
Certificates of deposit					3,717,118
Petty cash					5,330
Total Cash and Investments					<u>\$ 9,015,676</u>

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

S&P - Standard & Poor's

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and business-type activities, net of applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 40,849	\$ -
Special assessments	2,174,608	1,796,127
Accounts	24,689	-
Interest	101,672	-
Loans receivable	189,402	159,866
Due from other governments	664,426	-
Total Governmental Activities	<u>\$ 3,195,646</u>	<u>\$ 1,955,993</u>
Business-Type Activities		
Accounts	\$ 132,764	\$ -
Patients	3,678,409	-
Total Business-Type Activities	<u>\$ 3,811,173</u>	<u>\$ -</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

In 2001, the Murray County Board transferred responsibility for managing and operating the Murray County Economic Development Revolving Loan Fund to the newly formed Economic Development Authority, which is accounted for in the General Fund. The purpose of the fund is to provide low-interest, flexible-term loans for the development of new businesses or the expansion of existing ones. These loans have been made to private enterprises and are offset by a reserve of fund balance. Changes in loans receivable are as follows:

Loan Agreements			
Beginning balance	\$		187,391
Loans made in 2005			27,500
Loan repayments			<u>(25,489)</u>
Ending Balance	\$		<u>189,402</u>

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 242,598	\$ -	\$ -	\$ 242,598
Right-of-way	338,662	-	-	338,662
Work in progress	<u>35,091</u>	<u>119,303</u>	<u>35,091</u>	<u>119,303</u>
Total capital assets not depreciated	<u>\$ 616,351</u>	<u>\$ 119,303</u>	<u>\$ 35,091</u>	<u>\$ 700,563</u>
Capital assets depreciated				
Land improvements	\$ 188,055	\$ 5,040	\$ -	\$ 193,095
Buildings	3,286,682	508,693	-	3,795,375
Machinery and equipment	3,404,170	341,320	88,505	3,656,985
Infrastructure	<u>40,736,845</u>	<u>1,284,689</u>	<u>-</u>	<u>42,021,534</u>
Total capital assets Depreciated	<u>\$ 47,615,752</u>	<u>\$ 2,139,742</u>	<u>\$ 88,505</u>	<u>\$ 49,666,989</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 32,623	\$ 8,286	\$ -	\$ 40,909
Buildings	1,452,702	113,566	-	1,566,268
Machinery and equipment	2,174,515	304,993	88,505	2,391,003
Infrastructure	10,260,001	1,089,860	-	11,349,861
Total accumulated depreciation	<u>\$ 13,919,841</u>	<u>\$ 1,516,705</u>	<u>\$ 88,505</u>	<u>\$ 15,348,041</u>
Total capital assets depreciated, net	<u>\$ 33,695,911</u>	<u>\$ 623,037</u>	<u>\$ -</u>	<u>\$ 34,318,948</u>
Governmental Activities Capital Assets, Net	<u>\$ 34,312,262</u>	<u>\$ 742,340</u>	<u>\$ 35,091</u>	<u>\$ 35,019,511</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 143,401	\$ -	\$ -	\$ 143,401
Construction in progress	1,086,148	2,968,929	3,234,998	820,079
Total capital assets not depreciated	<u>\$ 1,229,549</u>	<u>\$ 2,968,929</u>	<u>\$ 3,234,998</u>	<u>\$ 963,480</u>
Capital assets depreciated				
Land improvements	\$ 92,044	\$ 18,170	\$ -	\$ 110,214
Buildings	3,635,390	2,764,316	-	6,399,706
Fixed equipment	773,454	383,981	-	1,157,435
Major movable equipment	2,222,241	406,319	-	2,628,560
Total capital assets depreciated	<u>\$ 6,723,129</u>	<u>\$ 3,572,786</u>	<u>\$ -</u>	<u>\$ 10,295,915</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 59,367	\$ 4,352	\$ -	\$ 63,719
Buildings	1,281,412	229,310	3,910	1,506,812
Fixed equipment	650,094	33,680	-	683,774
Major movable equipment	984,572	289,612	-	1,274,184
Total accumulated depreciation	\$ 2,975,445	\$ 556,954	\$ 3,910	\$ 3,528,489
Total capital assets depreciated, net	\$ 3,747,684	\$ 3,015,832	\$ (3,910)	\$ 6,767,426
Business-Type Activities Capital Assets, Net	\$ 4,977,233	\$ 5,984,761	\$ 3,231,088	\$ 7,730,906

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

Governmental Activities	
General government	\$ 81,375
Public safety	60,254
Highways and streets, including depreciation of infrastructure assets	1,300,173
Sanitation	17,780
Culture and recreation, including depreciation of infrastructure assets	56,092
Conservation of natural resources	1,031
Total Depreciation Expense - Governmental Activities	\$ 1,516,705
Business-Type Activities	
Hospital	\$ 505,833
Congregate Housing	51,121
Total Depreciation Expense - Business-Type Activities	\$ 556,954

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge	General	\$ 150,670

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Hospital	\$ 600,000

The funds were advanced to the Hospital Fund to provide cash flows for the construction project at the Hospital. The balance is expected to be liquidated in the subsequent year.

3. Interfund Transfers

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

Transfer to Road and Bridge Fund from General Fund	\$ 364,500	Provide funding
Transfer to Ditch Fund from General Fund	33,627	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund	5,997	Provide funding
Transfer to General Fund from Road and Bridge Fund	23,890	Reimbursement
Transfer to General Fund from Human Services Fund	6,590	Recapture tax
Total Interfund Transfers	\$ 434,604	

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 123,113	\$ 1,256,209
Salaries	223,631	178,057
Payroll taxes and other	-	62,254
Due to other governments	115,865	84
Vacation and sick leave	-	344,000
	\$ 462,609	\$ 1,840,604
Total Payables		

The Shetek Area Water and Sewer Commission has \$3,434 in accounts payable at December 31, 2005.

2. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Truck purchase	\$ -	\$ 24,500
Truck purchase	-	24,500
Road grader purchase	-	194,456
	\$ -	\$ 243,456
Total Construction Commitments		
Business-Type Activities		
Clinic and outreach expansion and renovation	\$ 820,079	\$ 1,600,000

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2005, was \$184,980.

4. Long-Term Debt

Business-Type Activities--Line of Credit Note Payable

In 2005, the Hospital Enterprise Fund increased a line of credit from \$1,140,000 to \$1,590,000 to finance current construction projects. The line of credit calls for interest only payments monthly at 4.9 percent interest until permanent financing can be arranged in 2006.

Governmental Activities--Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation notes					
2003 G.O. capital notes	2007	\$265,000 - \$275,000	1.40 to 2.10	\$ 810,000	\$ 545,000
Less: unamortized discount					(760)
Total General Obligation Notes, Net					<u>\$ 544,240</u>
Special assessment bonds with government commitment					
1999 G.O. ditch bonds	2014	\$15,000 - \$20,000	4.75 to 5.60	\$ 300,000	\$ 185,000
2001 G.O. ditch bonds	2017	\$80,000 - \$160,000	4.25 to 5.00	2,355,000	1,795,000
2002 G.O. ditch bonds	2011	\$40,000 - \$45,000	2.10 to 3.80	335,000	245,000
Total Special Assessment Bonds				<u>\$ 2,990,000</u>	<u>\$ 2,225,000</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Business-Type Activities--Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation bonds					
2004 G.O. refunding bonds	2022	\$75,000 - \$130,000	1.75 to 5.00	\$ 1,580,000	\$ 1,505,000
Less: deferred amounts for Issuance discount On refunding					(14,044) (100,254)
Total General Obligation Refunding Bonds, Net					<u>\$ 1,390,702</u>

Governmental Activities--Loans Payable

In 1998, the County agreed to act as loan and project sponsor for a loan agreement made under the Clean Water Partnership (CWP) Law with the State of Minnesota through its Pollution Control Agency. The loans are to be at an interest rate of three percent with repayment terms from 5 to 20 years and are used for the control and abatement of water pollution. In 2000 and 2001, the County entered into the Cottonwood River Restoration Clean Water Partnership Project and the Beaver Creek Clean Water Partnership Project with loans at 3.5 and 3.0 percent, respectively. In 2004, the Board authorized the transfer of \$100,000 to the Clean Water Partnership Loan Fund for the County septic loan program. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Cottonwood River CWP Project	2013	\$1,696	2.00	\$ 138,345	\$ 132,702
Beaver Creek CWP Project	2014	\$20,248	2.00	229,948	213,568
Lake Shetek CWP Project	2013	\$39,474	2.00	<u>712,332</u>	<u>515,069</u>
Total Loans Payable				<u>\$ 1,080,625</u>	<u>\$ 861,339</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Notes		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 270,000	\$ 8,137	\$ 230,000	\$ 96,592
2007	275,000	2,888	225,000	87,079
2008	-	-	220,000	77,389
2009	-	-	215,000	67,813
2010	-	-	215,000	58,318
2011 - 2015	-	-	885,000	158,593
2016 - 2017	-	-	235,000	9,798
Total	<u>\$ 545,000</u>	<u>\$ 11,025</u>	<u>\$ 2,225,000</u>	<u>\$ 555,582</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 88,606	\$ 13,621
2007	90,387	11,840
2008	92,204	10,296
2009	94,057	8,170
2010	77,201	6,372
2011 - 2014	260,630	9,976
Total	<u>\$ 703,085</u>	<u>\$ 60,275</u>

The loans payable to the Minnesota Pollution Control Agency of \$158,254 do not have fixed amortization schedules at December 31, 2005, and are not included in the table above.

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ 65,000	\$ 59,390
2007	65,000	58,009
2008	70,000	56,402
2009	70,000	54,565
2010	70,000	52,553
2011 - 2015	400,000	222,659
2016 - 2020	515,000	120,848
2021 - 2022	250,000	19,000
Total	<u>\$ 1,505,000</u>	<u>\$ 643,426</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation notes	\$ 810,000	\$ -	\$ 265,000	\$ 545,000	\$ 270,000
Special assessment debt with government commitment	2,455,000	-	230,000	2,225,000	230,000
Total bonds payable	\$ 3,265,000	\$ -	\$ 495,000	\$ 2,770,000	\$ 500,000
Less: deferred amounts for issuance discounts	(1,518)	-	(760)	(758)	-
Net bonds and notes payable	\$ 3,263,482	\$ -	\$ 494,240	\$ 2,769,242	\$ 500,000
Loans payable	854,092	94,107	86,860	861,339	88,606
Compensated absences	264,797	127,715	-	392,512	42,063
Governmental Activities Long-Term Liabilities	\$ 4,382,371	\$ 221,822	\$ 581,100	\$ 4,023,093	\$ 630,669

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 1,580,000	\$ -	\$ 75,000	\$ 1,505,000	\$ 65,000
Line of credit notes	1,140,000	450,000	-	1,590,000	-
Compensated absences	3,624	1,328	-	4,952	-
Total long-term liabilities	\$ 2,723,624	\$ 451,328	\$ 75,000	\$ 3,099,952	\$ 65,000
Less: deferred amounts	(121,442)	-	(7,144)	(114,298)	-
Business-Type Activities Long-Term Liabilities	\$ 2,602,182	\$ 451,328	\$ 67,856	\$ 2,985,654	\$ 65,000

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

The Shetek Area Water and Sewer Commission does not have any employees that qualify for Public Employees Retirement Fund benefits.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2005	\$ 130,723	\$ 27,834
2004	126,882	21,642
2003	125,388	19,156

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$5,407, \$4,209, and \$3,938, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and at \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

5. Risk Management (Continued)

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000 with a substantial umbrella providing excess coverage. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

On June 21, 2006, Murray County Memorial Hospital signed a \$3,600,000 Hospital Revenue Note of 2006. The note bears interest at the rate of 4.9 percent and calls for monthly installments of principal and interest until June 2026. The note will be used to fund a construction project and pay off the line of credit.

On August 22, 2006, Murray County issued an \$11,554,549 General Obligation Revenue Note, Series 2006A, on behalf of the Shetek Area Water and Sewer Commission, a discretely presented component unit of Murray County, with an interest rate of 1.01 percent and a \$3,589,451 General Obligation Revenue Note, Series B, with no stated interest rate, for the construction of a sewer system.

Refunding of Debt

On January 1, 2007, Murray County issued General Obligation Refunding Bonds, Series 2007A, in the amount of \$1,625,000, with interest rates of 4.00 percent to 4.25 percent, to refund the following issues:

Crossover Refund

The General Obligation Drainage Bonds of 2001, dated, June 1, 2001, maturing after February 1, 2009. The balance of the outstanding maturities to be refunded is \$1,165,000, and interest rates are 4.50 percent to 5.00 percent.

The General Obligation Water Revenue Bonds, Series 1999, dated October 1, 1999, maturing after February 1, 2009. The balance of the outstanding maturities to be refunded is \$290,000, and interest rates are 5.50 percent to 5.80 percent.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

Refunding of Debt (Continued)

Current Refund

The General Obligation Drainage Bonds of 1999, dated November 1, 1999, maturing after February 1, 2007. The balance of the outstanding maturities to be refunded is \$135,000, and interest rates are 5.25 percent to 5.60 percent.

B. Contingent Liabilities

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

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

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

Lincoln, Lyon, & Murray Human Services was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. The Human Services began official operation on July 1, 1974, and performs welfare functions formerly performed by the individual counties. Local financing is provided by the three member counties on the basis of each County's welfare expenditures in 1973:

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

Lincoln, Lyon, & Murray Human Services is governed by two County Commissioners from each of the participating counties, who are chosen by their respective county boards, and one lay person from each participating county. At least one lay Board member is to be a woman. Financing is provided by state grants and appropriations from member counties. Murray County's contribution in 2005 was \$967,755.

At December 31, 2005, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,160,132. In addition, the Human Services reported total net assets of \$4,920,285. The Human Services' long-term debt at December 31, 2005, is composed of \$416,630 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services.

Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln, Lyon, Murray, and Pipestone Public Health Services

Murray County participates with other surrounding counties to provide health services to its citizens through a joint venture as authorized by Minn. Stat. § 471.59. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution in 2005 was \$52,584.

The Lincoln, Lyon, Murray, and Pipestone Public Health Service's 2005 financial report shows total net assets of \$905,772 and long-term liabilities of \$98,580.

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

Lincoln-Pipestone Rural Water System

Pursuant to Minn. Stat. ch. 116A, Murray County entered into a joint powers agreement with Lincoln, Lyon, Nobles, Pipestone, Rock, and Yellow Medicine Counties to establish the Lincoln-Pipestone Rural Water System. The Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it services. The cost of providing these services is recovered through user charges.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln County to finance the construction of the Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System.

The Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted assets of \$17,280,678. The increase in net assets for the year ended December 31, 2005, is \$552,492. Outstanding obligations at December 31, 2005, are \$19,479,940.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

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

The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$400.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

Red Rock Rural Water System

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

The Red Rock Rural Water System is governed by a nine-member Board appointed for terms of three years by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. A bond issue and notes payable are shown as long-term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2004 (the most recent information available), were \$6,425,534, and notes payable were \$267,419. Net assets were \$1,443,112.

A complete financial report of the Red Rock Rural Water System can be obtained at 305 West Whited Street, Jeffers, Minnesota 56145.

D. Jointly-Governed Organizations

Murray County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$2,875 of the County levy to the Project.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County paid \$500 in membership dues in 2005.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$2,916 of the County levy to the RCRCA.

Heron Lake Watershed District

The County Board is responsible for appointing two of the Board of Managers for the Heron Lake Watershed District, but the County's responsibility does not extend beyond making the appointments.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and two local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement.

F. Functional Expenses - Hospital Enterprise Fund

The Hospital provides general healthcare services to patients within its geographic location. Expenses related to providing these services by functional class for the year ended December 31, 2005, are:

Patient healthcare services	\$ 8,842,398
General and administrative	<u>1,502,034</u>
Total	<u>\$ 10,344,432</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

G. Concentrations of Credit Risk - Hospital Enterprise Fund

The Hospital grants credit, without collateral, to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2005, follows:

Medicare	35%
Medicaid	5
Other third-party payors	<u>60</u>
Total	<u>100%</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,495,031	\$ 2,755,631	\$ 3,004,667	\$ 249,036
Special assessments	243,939	243,939	287,297	43,358
Licenses and permits	16,350	16,350	38,192	21,842
Intergovernmental	1,650,766	1,657,766	1,462,355	(195,411)
Charges for services	236,480	236,480	324,523	88,043
Fines and forfeits	-	-	823	823
Gifts and contributions	15,650	26,650	153,398	126,748
Investment earnings	166,850	166,850	232,058	65,208
Miscellaneous	157,526	150,526	293,027	142,501
Total Revenues	\$ 4,982,592	\$ 5,254,192	\$ 5,796,340	\$ 542,148
Expenditures				
Current				
General government				
Commissioners	\$ 170,614	\$ 176,614	\$ 210,160	\$ (33,546)
Courts	12,500	12,500	5,904	6,596
Law library	14,000	14,000	11,186	2,814
Auditor/Treasurer	303,417	303,417	309,871	(6,454)
License center	80,302	80,302	89,465	(9,163)
Assessor	172,552	174,739	154,919	19,820
Elections	300	300	186	114
Accounting and auditing	20,000	20,000	28,233	(8,233)
Data processing	79,200	79,200	65,041	14,159
Attorney	104,410	104,410	95,362	9,048
Recorder	116,106	116,106	117,658	(1,552)
Planning and zoning	99,646	99,646	91,209	8,437
Buildings and plant	221,795	589,835	576,579	13,256
Veterans service officer	31,766	31,766	30,636	1,130
Motor pool	8,366	8,366	6,139	2,227
Machine room	29,700	31,500	28,137	3,363
Human resources	45,475	45,475	48,841	(3,366)
Computer networking	33,723	35,849	21,557	14,292
Safety officer	2,085	2,085	486	1,599
Other general government	2,600	49,669	44,886	4,783
Total general government	\$ 1,548,557	\$ 1,975,779	\$ 1,936,455	\$ 39,324

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 759,285	\$ 759,285	\$ 778,104	\$ (18,819)
Drug dog	-	6,000	20,705	(14,705)
Boat and water safety	8,271	8,271	9,157	(886)
Coroner	2,600	2,600	14,247	(11,647)
Jail services	102,000	102,000	207,688	(105,688)
E-911 system	27,735	46,532	63,157	(16,625)
Probation	46,400	46,400	35,635	10,765
Civil defense	44,929	44,929	52,762	(7,833)
Other public safety	6,800	6,800	4,000	2,800
Total public safety	\$ 998,020	\$ 1,022,817	\$ 1,185,455	\$ (162,638)
Sanitation				
Solid waste	\$ 108,836	\$ 108,836	\$ 95,829	\$ 13,007
Recycling	199,670	199,670	249,018	(49,348)
Total sanitation	\$ 308,506	\$ 308,506	\$ 344,847	\$ (36,341)
Health				
Nursing service	\$ 7,820	\$ 7,820	\$ 4,227	\$ 3,593
Other health	-	-	14,541	(14,541)
Total health	\$ 7,820	\$ 7,820	\$ 18,768	\$ (10,948)
Culture and recreation				
Historical society	\$ 46,626	\$ 46,626	\$ 34,719	\$ 11,907
Minnesota trails	19,000	19,000	15,523	3,477
Transportation	184,955	184,955	168,913	16,042
Parks	239,950	247,574	329,301	(81,727)
Senior citizens	11,002	11,002	12,303	(1,301)
Regional library	60,842	60,842	61,012	(170)
Other	4,300	4,300	4,300	-
Total culture and recreation	\$ 566,675	\$ 574,299	\$ 626,071	\$ (51,772)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	\$ 127,301	\$ 127,301	\$ 124,779	\$ 2,522
Soil and water conservation	134,171	134,171	131,392	2,779
Agricultural inspection	33,100	33,100	33,610	(510)
Agricultural society	27,800	27,800	27,183	617
RCRCA	4,316	4,316	3,618	698
Flood control	4,915	4,915	3,636	1,279
Water quality loan program	60,000	60,000	128,218	(68,218)
Water planning	43,310	43,310	68,088	(24,778)
Other	7,240	7,240	5,902	1,338
Total conservation of natural resources	\$ 442,153	\$ 442,153	\$ 526,426	\$ (84,273)
Economic development				
Community development	\$ 96,093	\$ 96,093	\$ 56,186	\$ 39,907
Other	3,800	3,800	153,408	(149,608)
Total economic development	\$ 99,893	\$ 99,893	\$ 209,594	\$ (109,701)
Intergovernmental				
Sanitation	\$ 15,500	\$ 712,671	\$ 712,675	\$ (4)
Health	\$ 52,584	\$ 52,584	\$ 52,584	\$ -
Debt service				
Principal	\$ 334,901	\$ 334,901	\$ 351,860	\$ (16,959)
Interest	24,795	24,795	27,722	(2,927)
Administrative (fiscal) charges	-	-	403	(403)
Total debt service	\$ 359,696	\$ 359,696	\$ 379,985	\$ (20,289)
Total Expenditures	\$ 4,399,404	\$ 5,556,218	\$ 5,992,860	\$ (436,642)
Excess of Revenues Over (Under)				
Expenditures	\$ 583,188	\$ (302,026)	\$ (196,520)	\$ 105,506

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers in	\$ 41,000	\$ 41,000	\$ 30,480	\$ (10,520)
Transfers out	(349,500)	(349,500)	(404,124)	(54,624)
Loans issued	-	-	74,187	74,187
Total Other Financing Sources (Uses)	\$ (308,500)	\$ (308,500)	\$ (299,457)	\$ 9,043
Net Change in Fund Balance	\$ 274,688	\$ (610,526)	\$ (495,977)	\$ 114,549
Fund Balance - January 1, as previously reported	\$ 4,724,218	\$ 4,724,218	\$ 4,724,218	\$ -
Prior period adjustment (Note 1.E.)	159,518	159,518	159,518	-
Fund Balance - January 1, as restated	\$ 4,883,736	\$ 4,883,736	\$ 4,883,736	\$ -
Increase (decrease) in reserved for inventories	\$ -	\$ -	\$ 52	\$ 52
Fund Balance - December 31	\$ 5,158,424	\$ 4,273,210	\$ 4,387,811	\$ 114,601

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 542,379	\$ 542,379	\$ 447,845	\$ (94,534)
Intergovernmental	2,749,072	2,749,072	3,279,894	530,822
Charges for services	5,550	5,550	16,500	10,950
Miscellaneous	34,250	34,250	69,809	35,559
Total Revenues	\$ 3,331,251	\$ 3,331,251	\$ 3,814,048	\$ 482,797
Expenditures				
Current				
Highways and streets				
Administration	\$ 253,209	\$ 253,209	\$ 261,312	\$ (8,103)
Engineering	215,002	215,002	160,944	54,058
Maintenance	1,180,550	1,184,350	1,155,110	29,240
Construction	1,270,000	1,270,000	1,176,414	93,586
Equipment and maintenance shops	330,744	330,744	409,292	(78,548)
Total highways and streets	\$ 3,249,505	\$ 3,253,305	\$ 3,163,072	\$ 90,233
Intergovernmental				
Highways and streets	300,100	300,100	293,603	6,497
Total Expenditures	\$ 3,549,605	\$ 3,553,405	\$ 3,456,675	\$ 96,730
Excess of Revenues Over (Under) Expenditures	\$ (218,354)	\$ (222,154)	\$ 357,373	\$ 579,527
Other Financing Sources (Uses)				
Transfers in	\$ 214,500	\$ 214,500	\$ 364,500	\$ 150,000
Transfers out	-	-	(23,890)	(23,890)
Proceeds from sale of assets	-	-	10,800	10,800
Total Other Financing Sources (Uses)	\$ 214,500	\$ 214,500	\$ 351,410	\$ 136,910
Net Change in Fund Balance	\$ (3,854)	\$ (7,654)	\$ 708,783	\$ 716,437
Fund Balance - January 1	2,068,490	2,068,490	2,068,490	-
Increase (decrease) in reserved for inventories	-	-	42,731	42,731
Fund Balance - December 31	\$ 2,064,636	\$ 2,060,836	\$ 2,820,004	\$ 759,168

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 847,754	\$ 847,754	\$ 729,710	\$ (118,044)
Intergovernmental	122,554	122,554	244,635	122,081
Total Revenues	\$ 970,308	\$ 970,308	\$ 974,345	\$ 4,037
Expenditures				
Intergovernmental				
Human services	970,308	970,308	967,755	2,553
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 6,590	\$ 6,590
Other Financing Sources (Uses)				
Transfers out	-	-	(6,590)	(6,590)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 336,100	\$ 336,100	\$ 332,722	\$ (3,378)
Miscellaneous	1,500	1,500	5,864	4,364
Total Revenues	\$ 337,600	\$ 337,600	\$ 338,586	\$ 986
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 44,315	\$ 60,954	\$ 75,205	\$ (14,251)
Debt service				
Principal	230,032	230,032	230,000	32
Interest	106,822	106,822	105,768	1,054
Administrative (fiscal) fees	-	-	1,247	(1,247)
Total Expenditures	\$ 381,169	\$ 397,808	\$ 412,220	\$ (14,412)
Excess of Revenues Over (Under) Expenditures	\$ (43,569)	\$ (60,208)	\$ (73,634)	\$ (13,426)
Other Financing Sources (Uses)				
Transfers in	16,700	16,700	33,627	16,927
Net Change in Fund Balance	\$ (26,869)	\$ (43,508)	\$ (40,007)	\$ 3,501
Fund Balance - January 1	1,376,656	1,376,656	1,376,656	-
Fund Balance - December 31	\$ 1,349,787	\$ 1,333,148	\$ 1,336,649	\$ 3,501

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

1. General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 4,399,404	\$ 1,156,814	\$ 5,556,218
Road and Bridge Special Revenue Fund	3,549,605	3,800	3,553,405
Ditch Special Revenue Fund	381,169	16,639	397,808

Over the course of the year, the County Board revised the County's General Fund budget several times. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and new grant awards.

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SUPPLEMENTARY INFORMATION

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 115,147	\$ 8,990,542	\$ 9,034,664	\$ 71,025
<u>Liabilities</u>				
Due to other governments	\$ 115,147	\$ 8,990,542	\$ 9,034,664	\$ 71,025
 <u>SOUTHWEST MINNESOTA OPPORTUNITY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 35,742	\$ -	\$ 35,742
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 35,742	\$ -	\$ 35,742
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 115,147	\$ 9,026,284	\$ 9,034,664	\$ 106,767
<u>Liabilities</u>				
Due to other governments	\$ 115,147	\$ 9,026,284	\$ 9,034,664	\$ 106,767

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 2

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
SHETEK AREA WATER AND SEWER DISTRICT
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL
DECEMBER 31, 2005**

	General Fund	Reconciliation	Statement of Net Assets
<u>Assets</u>			
Cash and pooled investments	\$ (233)	\$ -	\$ (233)
Due from other governments	237	-	237
Total Assets	\$ 4		
<u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Accounts payable	\$ 3,434	-	3,434
Fund Balance			
Unreserved Undesignated	(3,430)	3,430	
Total Liabilities and Fund Balance	\$ 4		
Net Assets			
Unrestricted		\$ (3,430)	\$ (3,430)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 3

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
SHETEK AREA WATER AND SEWER DISTRICT
WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Statement of Activities</u>
Revenues			
Intergovernmental			
Local grants			
County appropriations	\$ 712,675	\$ -	\$ 712,675
Investment earnings	147	-	147
Miscellaneous	443	-	443
Total Revenues	\$ 713,265	\$ -	\$ 713,265
Expenditures/Expenses			
Current			
Sanitation	703,445	-	703,445
Net Change in Fund Balance/Net Assets	\$ 9,820	\$ -	\$ 9,820
Fund Balance/Net Assets - January 1	(13,250)	-	(13,250)
Fund Balance/Net Assets - December 31	\$ (3,430)	\$ -	\$ (3,430)

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OTHER SCHEDULE

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 5

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

Shared Revenue

State

Highway users tax	\$	3,078,391
County program aid		791,729
PERA rate reimbursement		11,609
Disparity reduction aid		26,104
Police aid		21,642
Enhanced 911		61,096
Market value credit		480,804

Total Shared Revenue **\$ 4,471,375**

Payments

Local

Payments in lieu of taxes	\$	55,479
Local share of highway projects		35,510
Other		10,800

Total Payments **\$ 101,789**

Grants

State

Minnesota Department of Corrections	\$	8,350
Human Services		961
Natural Resources		20,756
Transportation		47,859
Pollution Control Agency		24,808
Water and Soil Resources Board		53,735
Office of Environmental Assistance		24,539
Peace Officer Standards and Training Board		3,172

Total State **\$ 184,180**

Federal

Department of Housing and Urban Development	\$	152,884
Justice		935
Transportation		66,176
Homeland Security		9,545

Total Federal **\$ 229,540**

Total State and Federal Grants **\$ 413,720**

Total Intergovernmental Revenue **\$ 4,986,884**

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Controls

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

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

Client's Response:

Management acknowledges the lack of segregation of the accounting functions and will implement oversight procedures.

ITEM ARISING THIS YEAR

05-1 Internal Controls Over Financial Reporting

The County Integrated Financial System (IFS) has been upgraded to accommodate the modified accrual basis and full accrual basis of accounting in separate general ledger systems to allow for the preparation of the annual financial statements.

The first step in the process is for counties to change their accounting practices and account structure to be COFARS (County Financial Accounting and Reporting Standards) compliant. The second step in the process is that counties code receipt and

Schedule 6
(Continued)

disbursement accounts with certain prescribed codes to allow for the detail accounts to be summarized as required in the financial statements. This process is called mapping the general ledger accounts. Last, the counties need to prepare modified accrual and full accrual journal entries to convert the financial information to the necessary accounting basis for the IFS financial statements.

During our audit, we noted the following deficiencies that prevent the IFS from providing accurate modified accrual fund financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

- Due to coding and mapping errors and incomplete listings of accruals, the IFS modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these adjustments related to receivables and payables. Changes resulting from the adjustments to the governmental funds financial statements on the modified accrual basis of accounting for selected financial statement captions were as follows:

Total Assets	\$	790,156
Total Liabilities		78,498
Total Fund Balance		549,998
Total Revenues		666,368
Total Expenditures		(928,322)
Total Transfers In		(285,619)
Total Transfers Out		(706,674)
Total Other Financing Sources		(36,102)

- The IFS full accrual statements prepared by the County were also materially misstated. The client did not book entries to convert the modified accrual statements to full accrual, with the most significant areas being capital assets and long-term debt. After adjustments to convert the modified accrual statements to full accrual were completed, the differences in the County's full accrual statements to audited amounts are summarized as follows:

Total Assets	\$	(33,644,003)
Total Liabilities		1,104,079
Total Fund Balance		(34,163,561)
Total Revenues		(12,959,908)
Total Expenditures		(7,901,520)
Total Transfers		(998,290)
Total Other Financing Sources		10,800

We recommend that the County train all persons coding receipts and disbursements to use and maintain COFARS-compliant accounts with correct mapping to allow for the detail to be summarized as required in the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statements, summary schedules and worksheets should be prepared by County staff to document the various accruals and to demonstrate how the accounts in the financial records are classified/summarized for the financial report. When the financial statements are completed in IFS, County staff should review the statements to ensure that the reported amounts can be traced back to the supporting schedules and worksheets prepared. Finally, the County will need to prepare full accrual journal entries in the separate ledger system to convert the financial statements from modified accrual to the full accrual basis. We are available to assist the County with the implementation of these recommendations.

Client's Response:

We will comply.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-4 Safekeeping of Collateral

The First National Bank of Fulda states that the collateral pledged to Murray County is held in safekeeping at the Federal Reserve Bank in Minneapolis. The safekeeping agreement between the First National Bank of Fulda and the County is an agreement addressed to First National Bank in Pierre, South Dakota. No documentation could be produced by Murray County from the Federal Reserve showing the collateral is pledged in the County's name and is indeed being kept at the Federal Reserve.

Minn. Stat. § 118A.03, subd. 7, states, "All collateral shall be placed in safekeeping in a restricted account at a Federal Reserve bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral."

We recommend that the County require depositories to have collateral pledged held outside the banking system of which the depository is a member or at the Federal Reserve and obtain monthly confirmation of collateral pledged directly from the institution holding the collateral.

Client's Response:

We will comply.

ITEM ARISING THIS YEAR

05-2 Collateral Pledged to Secure Deposits (Component Unit)

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2005, were insufficient for the amount on deposit at the Currie State Bank by \$34,696.

Minn. Stat. § 118A.03 provides that, to the extent funds deposited are in excess of available federal deposit insurance, the total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the banking day.

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

Client's Response:

We will comply.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-1 Contracting and Board Minutes

The Sheriff presented quotes to the County Board for the purchase of a 4x4 pickup and a squad car through the state bid process. The County Board minutes state that, "It was moved by . . . and passed to authorize the purchase of two

vehicles for the Sheriff(s) Department off the state contract. . . .” The Sheriff then purchased two 4x4 pickups from another vendor without bringing any information back to the County Board.

On January 16, 2007, the Sheriff stated he did not purchase the vehicles off the state contract because the local vendor’s price was lower. He also stated the expense of sending staff to pick up the vehicles in Elk River would have added additional costs to the County. We could not find a comparable vehicle listed on the state contract, and all of those listed were for a lower price than what was paid to the other vendor. There is no statement in the Board proceedings that gives the County Sheriff authority to make another agreement with another vendor. These facts should have been given to the County Board to make the final determination as to which vehicles would be purchased.

We recommend that the County Sheriff follow the requirements of Murray County’s purchasing policy. We also recommend that for the County to ensure compliance with Minnesota statutes in areas such as contracting, disbursements, and others, a complete and detailed record of County Board proceedings should be maintained. Any reasons for not taking a low bid should become part of the Board minutes along with the quotes and bids that are presented to the Board.

Client’s Response:

The County Auditor has met with the Sheriff to thoroughly go over the current purchasing policy and state bid process. The Sheriff has agreed to make every attempt to follow the purchasing policy for capital expenditures and the state bid process.

PREVIOUSLY REPORTED ITEM RESOLVED

Preparation of the Annual Financial Statements (02-5)

The County did not prepare the financial report for the audit by the Office of the State Auditor (OSA). Limited amounts of information for the financial statements were prepared by County staff.

Resolution

The County prepared most of the supporting workpapers for the 2005 financial statements but did not do the final adjustments to the general ledger. The deficiencies noted are discussed in comment 05-1.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and

Schedule 6
(Continued)

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Murray County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2005, and have issued our report thereon dated January 30, 2007. We did not audit the financial statements of the Murray County Memorial Hospital, a blended component unit of Murray County. Those statements were audited by other auditors. 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. The Hospital audit was not in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Murray County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 99-1 and 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions indicated above are not material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Murray County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 02-4 and 05-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: January 30, 2007