

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

For the Year Ended December 31, 2004



**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
2004

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Steve Johnson*	January 2005
2nd District	Kevin Anderson	January 2005
3rd District	Lyle Onken	January 2007
4th District	Alfred Gertsema**	January 2007
5th District	William J. Sauer	January 2005
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 2004

**Chair for 2005

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**ORGANIZATION
2004
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
Ted Haugen	Secretary	December 2004
Dean McDaniel	Member	December 2004
Nancy Snedeker	Member	December 2007
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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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

We have audited the basic 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, 2004, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Murray County Memorial Hospital, which represent the amounts shown for the Hospital Enterprise major fund. 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 Enterprise Fund, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Hospital Enterprise Fund 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, 2004, 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 August 31, 2005, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 31, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(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, 2004. 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 \$40,929,790, of which \$33,831,414 is invested in capital assets, net of related debt, and \$685,481 is restricted to specific purposes. The \$6,412,895 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$1,648,931 for the year ended December 31, 2004. 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 \$3,430,708. General revenues and other items totaling \$5,079,639 funded the net cost.

The General Fund balance increased by \$188,201, the Road and Bridge Special Revenue Fund balance decreased by \$218,507, and the Ditch Special Revenue Fund balance increased by \$17,674.

For the year ended December 31, 2004, the unreserved fund balance of the General Fund was \$4,378,375, or 94.8 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 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 District, 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 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 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 62 of this report.

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 \$45,781,670 at the close of 2004. The largest portion of the net assets (79.1 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 2003 is presented.

	Net Assets (in thousands)			
	Governmental Activities	Business- Type Activities	Total 2004	Total 2003
Assets				
Current and other assets	\$ 11,970	\$ 4,694	\$ 16,664	\$ 17,373
Capital assets	34,312	4,977	39,289	34,438
Total Assets	\$ 46,282	\$ 9,671	\$ 55,953	\$ 51,811
Liabilities				
Long-term liabilities	\$ 4,382	\$ 1,462	\$ 5,844	\$ 6,085
Other liabilities	970	3,357	4,327	1,920
Total Liabilities	\$ 5,352	\$ 4,819	\$ 10,171	\$ 8,005
Net Assets				
Invested in capital assets, net of related debt	\$ 33,831	\$ 2,379	\$ 36,210	\$ 32,801
Restricted	686	-	686	1,867
Unrestricted	6,413	2,473	8,886	9,138
Total Net Assets	\$ 40,930	\$ 4,852	\$ 45,782	\$ 43,806

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 19.4 percent of the net assets.

Governmental Activities

The County's governmental activities increased net assets by 4.2 percent (\$40,929,790 for 2004 compared to \$39,280,859 for 2003). Key elements in this increase in net assets are as follows, with comparative data for 2003.

**Governmental Activities
Changes in Net Assets
(in thousands)**

	2004	2003
Revenue		
Program revenues		
Charges for services	\$ 989	\$ 777
Operating grants and contributions	2,410	3,917
Capital grants and contributions	2,872	371
General revenues		
Property taxes	3,733	3,226
Other	1,346	1,377
	<u>\$ 11,350</u>	<u>\$ 9,668</u>
Total Revenues		
Expenses		
General government	\$ 1,695	\$ 1,575
Public safety	1,115	960
Highways and streets	3,984	2,710
Sanitation	407	839
Human services	982	956
Health	189	213
Culture and recreation	368	315
Conservation of natural resources	566	805
Economic development	265	88
Interest	130	127
	<u>\$ 9,701</u>	<u>\$ 8,588</u>
Total Expenses		
Increase in Net Assets	\$ 1,649	\$ 1,080
Net Assets - January 1	<u>39,281</u>	<u>38,201</u>
Net Assets - December 31	<u>\$ 40,930</u>	<u>\$ 39,281</u>

The cost of all governmental activities for 2004 was \$9,701,258 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 \$3,733,511. The amount paid by those who directly benefited from the programs was \$988,834, and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was \$2,409,735. Capital grants and contributions were \$2,871,981. The County paid for the remaining “public benefit” portion of governmental activities with \$1,346,128 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
2004
(in thousands)**

	Total Cost of Services	Net Cost of Services
General government	\$ 1,695	\$ 1,414
Public safety	1,115	927
Highways and streets	3,984	(695)
Human services	982	982
All others	1,925	803
Total	\$ 9,701	\$ 3,431

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 \$8,169,364, a decrease of \$12,632 in comparison with the prior year. Of the combined ending fund balances, \$7,507,133 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 \$4,378,375. 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 94.8 percent of total General Fund expenditures. The General Fund total fund balance increased by \$188,201 and its unreserved fund balance increased by \$92,650.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,752,102 at fiscal year-end, representing 26.0 percent of its annual expenditures. The Road and Bridge Special Revenue Fund total fund balance decreased by \$218,507 during 2004, and its unreserved fund balance decreased by \$165,100, due to fewer contracts payable at year-end compared to the 2003 year-end.

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

The Ditch Special Revenue Fund had an unreserved fund balance of \$1,376,656 at fiscal year-end. The ending fund balance increased \$17,674 during 2004.

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 \$21,057 above the final budget amounts. The most significant positive variances occurred in the E-911 and Heartland Express Departments where actual expenditures will occur the following year. A significant negative variance was caused by a loan that was made to a local Economic Development Authority.

On the other hand, resources available for appropriation were \$189,611 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2004, totaled \$34,312,262 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,843,275, or 9.0 percent, from the previous year. The major capital asset events were: construction of highways and streets; a land purchase and various building improvements; purchase of highway and other miscellaneous equipment; and a locomotive at the Railroad Park and Museum.

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

	2004	2003
Land, including right-of-way	\$ 581	\$ 558
Infrastructure	30,477	27,835
Buildings	1,834	1,806
Work in progress	35	-
Improvements other than buildings	155	164
Machinery and equipment	1,230	1,106
Total	<u>\$ 34,312</u>	<u>\$ 31,469</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$4,845,000, which was backed by the full faith and credit of the government.

Outstanding Debt (in thousands)		2004	2003
General obligation notes		\$ 810	\$ 810
General obligation ditch bonds		2,455	2,725
General obligation refunding bonds		1,580	1,470
Total		\$ 4,845	\$ 5,005

The County’s debt related to general obligation bonds increased by \$1,310,000 (26.2 percent) during the fiscal year, due primarily to the County refunding bonds previously issued by the Slayton Economic Development Authority for financing the construction of the Sunrise Terrace congregate housing project in 1997.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2004, 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 2005 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2004 was 4.3 percent. This compares favorably with the state unemployment rate of 4.4 percent and shows a decrease from the County’s 4.4 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 2005 are budgeted to increase \$147,079, or 3.0 percent, over the 2004 original budget.
- The County's net property tax levy for 2004 (2005 payable) increased by \$208,539, or 5.0 percent.

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, Gary D. Spaeth, 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, 2004**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 8,414,362	\$ 1,790,064	\$ 10,204,426	\$ 3,468
Receivables - net	3,360,533	1,950,201	5,310,734	-
Inventories	195,241	171,824	367,065	-
Prepaid items	-	53,652	53,652	-
Restricted assets				
Cash and pooled investments	-	11,200	11,200	-
Investments	-	505,347	505,347	-
Deferred debt issue costs	-	21,392	21,392	-
Capital assets				
Non-depreciable capital assets	616,351	1,229,549	1,845,900	-
Depreciable capital assets - net of accumulated depreciation	33,695,911	3,747,683	37,443,594	-
Other assets				
Investment in Shetek Medical Services	-	190,206	190,206	-
Total Assets	\$ 46,282,398	\$ 9,671,118	\$ 55,953,516	\$ 3,468
<u>Liabilities</u>				
Accounts payable and other current liabilities	\$ 556,533	\$ 3,345,856	\$ 3,902,389	\$ 16,718
Accrued interest payable	51,865	-	51,865	-
Unearned revenue	361,839	-	361,839	-
Payable from restricted assets				
Accounts payable	-	11,200	11,200	-
Long-term liabilities				
Due within one year	610,182	75,000	685,182	-
Due in more than one year	3,772,189	1,387,182	5,159,371	-
Total Liabilities	\$ 5,352,608	\$ 4,819,238	\$ 10,171,846	\$ 16,718
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 33,831,414	\$ 2,378,674	\$ 36,210,088	\$ -
Restricted for				
Public safety	23,238	-	23,238	-
Highways and streets	293,140	-	293,140	-
Equipment replacement	329,152	-	329,152	-
Other purposes	39,951	-	39,951	-
Unrestricted	6,412,895	2,473,206	8,886,101	(13,250)
Total Net Assets	\$ 40,929,790	\$ 4,851,880	\$ 45,781,670	\$ (13,250)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
<u>Functions/Programs</u>			
Governmental activities			
General government	\$ 1,694,792	\$ 280,633	\$ 114
Public safety	1,114,652	40,303	109,056
Highways and streets	3,984,436	170,248	1,675,564
Sanitation	407,559	213,585	174,483
Human services	981,647	-	-
Health	189,452	27,758	77,980
Culture and recreation	368,109	28,907	41,623
Conservation of natural resources	565,866	227,400	183,363
Economic development	264,750	-	147,552
Interest	129,995	-	-
Total governmental activities	\$ 9,701,258	\$ 988,834	\$ 2,409,735
Business-type activities			
Hospital	\$ 8,459,377	\$ 8,791,249	\$ -
Congregate Housing	299,070	251,518	-
Total business-type activities	\$ 8,758,447	\$ 9,042,767	\$ -
Total Primary Government	\$ 18,459,705	\$ 10,031,601	\$ 2,409,735
Component unit			
Shetek Area Water and Sewer District	\$ 106,198	\$ -	\$ 84,500

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous
Gain on sale of capital assets

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	
\$ -	\$ (1,414,045)	\$ -	\$ (1,414,045)	
38,744	(926,549)	-	(926,549)	
2,833,237	694,613	-	694,613	
-	(19,491)	-	(19,491)	
-	(981,647)	-	(981,647)	
-	(83,714)	-	(83,714)	
-	(297,579)	-	(297,579)	
-	(155,103)	-	(155,103)	
-	(117,198)	-	(117,198)	
-	(129,995)	-	(129,995)	
\$ 2,871,981	\$ (3,430,708)	\$ -	\$ (3,430,708)	
\$ -	\$ -	\$ 331,872	\$ 331,872	
-	-	(47,552)	(47,552)	
\$ -	\$ -	\$ 284,320	\$ 284,320	
\$ 2,871,981	\$ (3,430,708)	\$ 284,320	\$ (3,146,388)	
\$ -				\$ (21,698)
	\$ 3,733,511	\$ -	\$ 3,733,511	\$ -
	5,865	-	5,865	-
	64,536	-	64,536	-
	1,103,633	-	1,103,633	-
	175,588	36,558	212,146	331
	-	-	-	434
	1,750	-	1,750	-
	(5,244)	5,244	-	-
	\$ 5,079,639	\$ 41,802	\$ 5,121,441	\$ 765
	\$ 1,648,931	\$ 326,122	\$ 1,975,053	\$ (20,933)
	39,280,859	4,525,758	43,806,617	7,683
	\$ 40,929,790	\$ 4,851,880	\$ 45,781,670	\$ (13,250)

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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, 2004**

	General	Road and Bridge	Human Services	Ditch	Total Governmental Funds
<u>Assets</u>					
Cash and pooled investments	\$ 4,945,386	\$ 2,000,851	\$ -	\$ 1,384,137	\$ 8,330,374
Undistributed cash in agency funds	56,111	8,945	14,400	1,952	81,408
Petty cash and change funds	2,580	-	-	-	2,580
Taxes receivable					
Prior	29,748	6,624	9,818	-	46,190
Special assessments receivable					
Prior	6,318	-	-	2,130	8,448
Noncurrent	-	-	-	1,618,742	1,618,742
Accounts receivable	21,585	228	-	-	21,813
Accrued interest receivable	59,720	-	-	-	59,720
Loans receivable	878,284	-	-	-	878,284
Due from other funds	-	2,642	-	-	2,642
Due from other governments	29,556	697,780	-	-	727,336
Inventories	9,731	185,510	-	-	195,241
Total Assets	<u>\$ 6,039,019</u>	<u>\$ 2,902,580</u>	<u>\$ 24,218</u>	<u>\$ 3,006,961</u>	<u>\$ 11,972,778</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge	Human Services	Ditch	Total Governmental Funds
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 89,566	\$ 14,178	\$ -	\$ 8,236	\$ 111,980
Salaries payable	199,841	36,610	-	1,080	237,531
Contracts payable	-	88,140	-	-	88,140
Due to other funds	2,642	-	-	-	2,642
Due to other governments	957,319	1,138	14,400	117	972,974
Deferred revenue - unavailable	36,066	361,552	9,818	1,620,872	2,028,308
Deferred revenue - unearned	29,367	332,472	-	-	361,839
Total Liabilities	\$ 1,314,801	\$ 834,090	\$ 24,218	\$ 1,630,305	\$ 3,803,414
Fund Balances					
Reserved for					
Encumbrances	\$ 58,404	\$ 111,437	\$ -	\$ -	\$ 169,841
Inventories	9,731	185,510	-	-	195,241
Loans receivable	208,059	-	-	-	208,059
Missing heirs	100	-	-	-	100
Law library	6,460	-	-	-	6,460
Recorder's equipment purchases	39,851	-	-	-	39,851
Sheriff's contingency	23,238	-	-	-	23,238
Highway allotments	-	19,441	-	-	19,441
Unreserved					
Designated for future expenditures	2,500,000	1,500,000	-	-	4,000,000
Designated for compensated absences	186,915	77,882	-	-	264,797
Designated for recycling	4,868	-	-	-	4,868
Designated for insurance contingencies	100,000	-	-	-	100,000
Designated for employee benefit insurance	90,000	-	-	-	90,000
Designated for human services	243,300	-	-	-	243,300
Undesignated	1,253,292	174,220	-	1,376,656	2,804,168
Total Fund Balances	\$ 4,724,218	\$ 2,068,490	\$ -	\$ 1,376,656	\$ 8,169,364
Total Liabilities and Fund Balances	\$ 6,039,019	\$ 2,902,580	\$ 24,218	\$ 3,006,961	\$ 11,972,778

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	8,169,364
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.		34,312,262
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,028,308
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	\$ (2,455,000)	
Capital equipment notes	(808,482)	
Compensated absences	(264,797)	
Accrued interest payable	(51,865)	(3,580,144)
Net assets of governmental activities (Exhibit 1)		<u>\$ 40,929,790</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 2,514,644	\$ 466,566	\$ 759,033	\$ -	\$ 3,740,243
Special assessments	125,233	-	-	394,584	519,817
Licenses and permits	22,761	-	-	-	22,761
Intergovernmental	1,403,074	5,828,435	222,614	-	7,454,123
Charges for services	325,995	37,681	-	-	363,676
Fines and forfeits	75	-	-	-	75
Gifts and contributions	49,460	-	-	-	49,460
Investment earnings	175,588	-	-	-	175,588
Miscellaneous	270,851	118,866	-	58,187	447,904
Total Revenues	\$ 4,887,681	\$ 6,451,548	\$ 981,647	\$ 452,771	\$ 12,773,647
Expenditures					
Current					
General government	\$ 1,790,538	\$ -	\$ -	\$ -	\$ 1,790,538
Public safety	1,101,338	-	-	-	1,101,338
Highways and streets	-	6,433,563	-	-	6,433,563
Sanitation	326,789	-	-	-	326,789
Health	114,141	-	-	-	114,141
Culture and recreation	380,901	-	-	-	380,901
Conservation of natural resources	484,325	-	-	74,304	558,629
Economic development	262,625	-	-	-	262,625
Intergovernmental	147,695	305,202	981,647	-	1,434,544
Debt service					
Principal retirement	-	-	-	270,000	270,000
Interest	10,657	-	-	115,753	126,410
Administrative (fiscal) fees	-	-	-	1,477	1,477
Total Expenditures	\$ 4,619,009	\$ 6,738,765	\$ 981,647	\$ 461,534	\$ 12,800,955
Excess of Revenues Over (Under) Expenditures	\$ 268,672	\$ (287,217)	\$ -	\$ (8,763)	\$ (27,308)
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ 50,714	\$ -	\$ 26,437	\$ 77,151
Transfers out	(82,395)	-	-	-	(82,395)
Proceeds from sale of assets	1,750	-	-	-	1,750
Total Other Financing Sources (Uses)	\$ (80,645)	\$ 50,714	\$ -	\$ 26,437	\$ (3,494)
Net Change in Fund Balances	\$ 188,027	\$ (236,503)	\$ -	\$ 17,674	\$ (30,802)
Fund Balance - January 1	4,536,017	2,286,997	-	1,358,982	8,181,996
Increase (decrease) in reserved for inventories	174	17,996	-	-	18,170
Fund Balance - December 31	\$ 4,724,218	\$ 2,068,490	\$ -	\$ 1,376,656	\$ 8,169,364

**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, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (30,802)**

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 expenditures 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	\$ 2,028,308	
Deferred revenue - January 1	(3,448,272)	(1,419,964)

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	\$ 4,446,171	
Current year depreciation	(1,602,896)	2,843,275

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

Principal paid on general obligation bonds		270,000
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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	\$ (1,348)	
Amortization of discounts and deferred issuance charges	(760)	
Change in compensated absences	(29,640)	
Change in inventories	18,170	(13,578)

Change in net assets of governmental activities (Exhibit 2) **\$ 1,648,931**

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PROPRIETARY FUNDS

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 1,526,771	\$ 263,293	\$ 1,790,064
Accounts receivable - net	125,331	459	125,790
Patient receivables - net	1,824,411	-	1,824,411
Inventories	171,824	-	171,824
Prepaid items	53,652	-	53,652
Total current assets	\$ 3,701,989	\$ 263,752	\$ 3,965,741
Restricted assets			
Cash and pooled investments	\$ -	\$ 11,200	\$ 11,200
Assets designated for capital acquisitions	505,347	-	505,347
Total restricted assets	\$ 505,347	\$ 11,200	\$ 516,547
Noncurrent assets			
Deferred debt issuance charges	\$ -	\$ 21,392	\$ 21,392
Capital assets			
Nondepreciable	\$ 1,229,549	\$ -	\$ 1,229,549
Depreciable - net	2,623,021	1,124,662	3,747,683
Total capital assets - net	\$ 3,852,570	\$ 1,124,662	\$ 4,977,232
Total noncurrent assets	\$ 3,852,570	\$ 1,146,054	\$ 4,998,624
Other assets			
Investment in Shetek Medical Services	\$ 190,206	\$ -	\$ 190,206
Total Assets	\$ 8,250,112	\$ 1,421,006	\$ 9,671,118

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,572,349	\$ 6,553	\$ 1,578,902
Salaries payable	286,975	4,618	291,593
Vacation and sick leave	280,000	-	280,000
Payroll taxes and other	55,127	-	55,127
Due to other governments	-	234	234
Line of credit	1,140,000	-	1,140,000
General obligation bonds payable - current	-	75,000	75,000
Total current liabilities	\$ 3,334,451	\$ 86,405	\$ 3,420,856
Current liabilities payable from restricted assets			
Accounts payable	\$ -	\$ 11,200	\$ 11,200
Noncurrent liabilities			
Compensated absences payable - long-term	\$ -	\$ 3,624	\$ 3,624
General obligation bonds payable - long-term - net of unamortized discount and deferred amount on refunding	-	1,383,558	1,383,558
Total noncurrent liabilities	\$ -	\$ 1,387,182	\$ 1,387,182
Total Liabilities	\$ 3,334,451	\$ 1,484,787	\$ 4,819,238
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 2,712,570	\$ (333,896)	\$ 2,378,674
Unrestricted	2,203,091	270,115	2,473,206
Total Net Assets	\$ 4,915,661	\$ (63,781)	\$ 4,851,880

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Operating Revenues			
Charges for services	\$ -	\$ 244,476	\$ 244,476
Patient service revenues - net	8,332,145	-	8,332,145
Miscellaneous	402,926	7,042	409,968
Total Operating Revenues	\$ 8,735,071	\$ 251,518	\$ 8,986,589
Operating Expenses			
Personal services	\$ -	\$ 58,893	\$ 58,893
Employee benefits	883,101	-	883,101
Professional services	-	1,220	1,220
Contracted services	-	36,901	36,901
Other services and charges	-	4,457	4,457
Supplies	1,823,278	3,792	1,827,070
Payroll	3,124,416	-	3,124,416
Travel	-	45	45
Telephone	-	910	910
Utilities	-	20,057	20,057
Advertising	-	790	790
Insurance	-	1,300	1,300
Repairs and maintenance	-	48,086	48,086
Purchased services	2,366,291	-	2,366,291
Depreciation	262,291	51,121	313,412
Total Operating Expenses	\$ 8,459,377	\$ 227,572	\$ 8,686,949
Operating Income (loss)	\$ 275,694	\$ 23,946	\$ 299,640
Nonoperating Revenues (Expenses)			
Investment income	\$ 31,957	\$ 4,601	\$ 36,558
Grants	14,521	-	14,521
Contributions	200	-	200
Interest expense	-	(70,240)	(70,240)
Bond issuance costs	-	(1,258)	(1,258)
Gain on investment in Shetek Medical Services	41,457	-	41,457
Total Nonoperating Revenues (Expenses)	\$ 88,135	\$ (66,897)	\$ 21,238
Income (Loss) Before Transfers	\$ 363,829	\$ (42,951)	\$ 320,878
Transfers in	-	5,244	5,244
Change in net assets	\$ 363,829	\$ (37,707)	\$ 326,122
Net Assets - January 1	4,551,832	(26,074)	4,525,758
Net Assets - December 31	\$ 4,915,661	\$ (63,781)	\$ 4,851,880

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

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
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	\$ 7,875,062	\$ 252,813	\$ 8,127,875
Other revenues received	404,905	-	404,905
Payments to employees	(3,802,129)	(57,804)	(3,859,933)
Payments to suppliers	(3,057,986)	(116,296)	(3,174,282)
Net cash provided by (used in) operating activities	\$ 1,419,852	\$ 78,713	\$ 1,498,565
Cash Flows from Noncapital Financing Activities			
Grants	\$ 14,521	\$ -	\$ 14,521
Contributions	200	-	200
Transfers in	-	5,244	5,244
Net cash provided by (used in) noncapital financing activities	\$ 14,721	\$ 5,244	\$ 19,965
Cash Flows from Capital and Related Financing Activities			
Proceeds from capital debt refunding	\$ -	\$ 8,365	\$ 8,365
Principal paid on long-term debt	-	(45,000)	(45,000)
Interest paid on long-term debt	-	(63,096)	(63,096)
Purchases of capital assets	(2,321,482)	-	(2,321,482)
Net cash provided by (used in) capital and related financing activities	\$ (2,321,482)	\$ (99,731)	\$ (2,421,213)
Cash Flows from Investing Activities			
Proceeds from issuance of line of credit	\$ 1,140,000	\$ -	\$ 1,140,000
Investment income	31,957	-	31,957
Decrease (increase) in assets limited as to use	775,211	-	775,211
Net cash provided by (used in) investing activities	\$ 1,947,168	\$ -	\$ 1,947,168
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,060,259	\$ (15,774)	\$ 1,044,485
Cash and Cash Equivalents - January 1	466,512	290,267	756,779
Cash and Cash Equivalents - December 31	\$ 1,526,771	\$ 274,493	\$ 1,801,264
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7			
Cash and pooled investments	\$ 1,526,771	\$ 263,293	\$ 1,790,064
Restricted cash and pooled investments	-	11,200	11,200
Total Cash and Cash Equivalents	\$ 1,526,771	\$ 274,493	\$ 1,801,264

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

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004
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)	\$ 275,694	\$ 23,946	\$ 299,640
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 262,291	\$ 51,121	\$ 313,412
(Increase) decrease in accounts receivable	(465,104)	196	(464,908)
(Increase) decrease in inventories	(55,310)	-	(55,310)
(Increase) decrease in prepaid items	119,345	240	119,585
Increase (decrease) in accounts payable	976,743	2,432	979,175
Increase (decrease) in salaries payable	211,625	(15)	211,610
Increase (decrease) in vacation and sick leave	49,000	-	49,000
Increase (decrease) in payroll taxes and other	45,568	-	45,568
Increase (decrease) in due to other governments	-	30	30
Increase (decrease) in compensated absences	-	763	763
Total adjustments	\$ 1,144,158	\$ 54,767	\$ 1,198,925
Net Cash Provided by (Used in) Operating Activities	\$ 1,419,852	\$ 78,713	\$ 1,498,565

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2004

Assets

Cash and pooled investments	<u>\$ 115,147</u>
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Liabilities

Due to other governments	<u>\$ 115,147</u>
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**MURRAY COUNTY
SLAYTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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 that are 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 District 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 which are described in Note 6.B. The County also participates in jointly-governed organizations which are described in Note 6.C.

**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 to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are 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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments 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 2004 were \$195,529.

The Hospital's investment income for the year ended December 31, 2004, was \$31,957 and is included in nonoperating revenues.

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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

3. Receivables and Payables

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

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

Advances between funds, as reported in the fund financial statements, are offset by 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 on 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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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 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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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, their use is limited by applicable laws and regulations.

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. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 unit, are depreciated using the straight-line method over the following estimated useful lives:

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

<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 \$41,457 for the year ended December 31, 2004, is included in nonoperating gains.

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 that are not considered to be available to liquidate liabilities of the current period.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

11. Fund Equity

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1 Summary of Significant Accounting Policies (Continued)

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, 2001. 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.

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 that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are reimbursed on a fee-screen basis.

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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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.

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

Total patient and resident service revenue	\$ 12,198,912
Contractual adjustments	
Medicare	\$ (2,890,823)
Medicaid	(215,996)
Blue Cross	(47,809)
Other	(471,529)
Provisions for bad debts	(240,610)
Total contractual adjustments	\$ (3,866,767)
Net Patient and Resident Service Revenue	\$ 8,332,145

2. Stewardship, Compliance, and Accountability

The Congregate Housing Enterprise Fund had deficit net assets for the year ended December 31, 2004, of \$63,781. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

	Murray County	Water and Sewer District
Cash and pooled investments	\$ 10,204,426	\$ 3,468
Restricted assets		
Congregate Housing Enterprise Fund		
Cash and pooled investments	11,200	-
Hospital Enterprise Fund		
Funds internally designated for capital acquisitions	505,347	
Fiduciary fund		
Taxes and Penalties Agency Fund	115,147	-
Total Cash and Investments	\$ 10,836,120	\$ 3,468

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$6,073,725. The bank balance deposit amount was \$5,205,774. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	Bank Balance	
	Murray County	Water and Sewer District
Covered Deposits		
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 873,317	\$ 3,468
Collateralized with securities held by the pledging financial institution's agent in the County's name	4,332,457	-
Total covered deposits	\$ 5,205,774	\$ 3,468
Uncollateralized	-	-
Total	\$ 5,205,774	\$ 3,468

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Murray County	Water and Sewer District
	1	2	3		
Negotiable certificates of deposit with brokers	\$ 690,577	\$ -	\$ 139,423	\$ 830,000	\$ -
Federal Home Loan Mortgage Corporation notes	496,160	-	-	496,160	-
Federal Farm Credit Bank bond	108,892	-	60,108	169,000	-
Federal Home Loan Bank bond	138,531	-	76,469	215,000	-
Total Investments	\$ 1,434,160	\$ -	\$ 276,000	\$ 1,710,160	\$ -
Add					
Change funds and petty cash				5,330	-
Checking				1,381,908	3,468
Certificates of deposit				4,691,817	-
Minnesota Association of Governments Investing for Counties (MAGIC) Fund				1,307,905	-
Certificates of deposit purchased through MAGIC Fund				1,739,000	-
Total Cash and Investments				\$ 10,836,120	\$ 3,468

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 46,190	\$ -
Special assessments	1,627,190	1,350,500
Accounts	21,813	-
Interest	59,720	-
Loans receivable	878,284	755,215
Due from other governments	727,336	-
Total Governmental Activities	\$ 3,360,533	\$ 2,105,715
Business-Type Activities		
Accounts	\$ 125,790	\$ -
Patients	1,824,411	-
Total Business-Type Activities	\$ 1,950,201	\$ -

Loans Receivable

County septic loan program	\$ 24,349
Economic development loans	183,710
Clean Water Partnership loans	670,225
Total	\$ 878,284

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Loans Receivable (Continued)

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.

In 1998, the County agreed to act as loan and project sponsor for a loan agreement made under the Clean Water Partnership 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 the fund financial statements, these loans receivable are offset by a liability of due to other governments because the County is required to repay these funds to the Minnesota Pollution Control Agency. In the government-wide statements, the payable is shown as a long-term loan payable (see Note 3.C.7.). In 2004, the Board authorized the transfer of \$100,000 to the Clean Water Partnership Loan Fund for the County septic loan program. These loans are offset by a reserve of fund balance. Activity during 2004 was:

Loan Agreements	
Beginning balance	\$ 735,647
Loans made in 2004	260,245
Loan repayments	<u>(117,608)</u>
Ending Balance	<u>\$ 878,284</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 219,441	\$ 23,157	\$ -	\$ 242,598
Right-of-way	338,662	-	-	338,662
Work in progress	-	35,091	-	35,091
Total capital assets not depreciated	\$ 558,103	\$ 58,248	\$ -	\$ 616,351
Capital assets depreciated				
Land improvements	\$ 188,055	\$ -	\$ -	\$ 188,055
Buildings	3,098,532	195,499	7,349	3,286,682
Machinery and equipment	2,996,576	525,937	118,343	3,404,170
Infrastructure	37,070,358	3,666,487	-	40,736,845
Total capital assets depreciated	\$ 43,353,521	\$ 4,387,923	\$ 125,692	\$ 47,615,752
Less: accumulated depreciation for				
Land improvements	\$ 24,431	\$ 8,192	\$ -	\$ 32,623
Buildings	1,292,256	167,795	7,349	1,452,702
Machinery and equipment	1,890,519	402,339	118,343	2,174,515
Infrastructure	9,235,431	1,024,570	-	10,260,001
Total accumulated depreciation	\$ 12,442,637	\$ 1,602,896	\$ 125,692	\$ 13,919,841
Total capital assets depreciated, net	\$ 30,910,884	\$ 2,785,027	\$ -	\$ 33,695,911
Governmental Activities Capital Assets, Net	\$ 31,468,987	\$ 2,843,275	\$ -	\$ 34,312,262

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 143,401	\$ -	\$ -	\$ 143,401
Construction in progress	270,193	1,086,147	270,192	1,086,148
 Total capital assets not depreciated	 \$ 413,594	 \$ 1,086,147	 \$ 270,192	 \$ 1,229,549
Capital assets depreciated				
Land improvements	\$ 78,115	\$ 13,929	\$ -	\$ 92,044
Buildings	3,107,994	527,396	-	3,635,390
Fixed equipment	773,454	-	-	773,454
Major movable equipment	1,258,039	964,202	-	2,222,241
 Total capital assets depreciated	 \$ 5,217,602	 \$ 1,505,527	 \$ -	 \$ 6,723,129
Less: accumulated depreciation for				
Land improvements	\$ 56,513	\$ 2,854	\$ -	\$ 59,367
Buildings	1,157,516	123,896	-	1,281,412
Fixed equipment	638,514	11,580	-	650,094
Major movable equipment	809,490	175,082	-	984,572
 Total accumulated depreciation	 \$ 2,662,033	 \$ 313,412	 \$ -	 \$ 2,975,445
 Total capital assets depreciated, net	 \$ 2,555,569	 \$ 1,192,115	 \$ -	 \$ 3,747,684
 Business-Type Activities Capital Assets, Net	 \$ 2,969,163	 \$ 2,278,262	 \$ 270,192	 \$ 4,977,233

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

Governmental Activities	
General government	\$ 131,145
Public safety	52,122
Highways and streets, including depreciation of infrastructure assets	1,350,237
Sanitation	10,909
Culture and recreation, including depreciation of infrastructure assets	46,287
Health	12,110
Conservation of natural resources	86
 Total Depreciation Expense - Governmental Activities	 \$ 1,602,896

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities		
Hospital	\$	262,291
Congregate housing		51,121
Total Depreciation Expense - Business-Type Activities	\$	313,412

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge	General	\$ 2,642

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfer to Road and Bridge Fund from General Fund	\$	50,714	Provide funding
Transfer to Ditch Fund from General Fund		26,437	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund		5,244	Provide funding
Total Interfund Transfers	\$	82,395	

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 111,980	\$ 1,578,902
Salaries	237,531	291,593
Payroll taxes and other	-	55,127
Contracts	88,140	-
Due to other governments	118,882	234
Line of credit	-	1,140,000
Vacation and sick leave	-	280,000
	\$ 556,533	\$ 3,345,856
Total Payables		

The Shetek Area Water and Sewer District has \$16,718 in accounts payable at December 31, 2004.

2. Construction Commitments

The County has active construction projects as of December 31, 2004. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
E-911 equipment	\$ -	\$ 58,404
Truck purchase	-	60,236
Truck purchase	-	51,201
	\$ -	\$ 169,841
Total Construction Commitments		

**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, 2004, was \$49,379.

4. Short-Term Debt

In 2004, the Hospital Enterprise Fund obtained a line of credit of \$1,140,000 to finance current construction projects. The Hospital intends to obtain permanent financing in 2005.

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General obligation notes					
2003 G.O. capital notes	2007	\$265,000 - \$275,000	1.40 to 2.10	\$ 810,000	\$ 810,000
Less: unamortized discount					(1,518)
Total General Obligation Notes, Net					\$ 808,482
Special assessment bonds with government commitment					
1999 G.O. ditch bonds	2014	\$15,000 - \$20,000	4.75 to 5.60	\$ 300,000	\$ 210,000
2001 G.O. ditch bonds	2017	\$80,000 - \$160,000	4.25 to 5.00	2,355,000	1,955,000
2002 G.O. ditch bonds	2011	\$40,000 - \$45,000	2.10 to 3.80	335,000	290,000
Total Special Assessment Bonds				\$ 2,990,000	\$ 2,455,000

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General obligation bonds					
2004 G.O. refunding bonds	2022	\$75,000 - \$130,000	1.75 to 5.00	<u>\$ 1,580,000</u>	\$ 1,580,000
Less deferred amounts for					
For Issuance discount					(14,922)
On refunding					<u>(106,520)</u>
Total General Obligation Refunding Bonds, Net					<u>\$ 1,458,558</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Notes		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 265,000	\$ 12,355	\$ 230,000	105,767
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 - 2014	-	-	945,000	201,557
2015 - 2017	-	-	390,000	25,151
Total	<u>\$ 810,000</u>	<u>\$ 23,380</u>	<u>\$ 2,455,000</u>	<u>\$ 661,348</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2005	\$ 75,000	60,696
2006	65,000	59,390
2007	65,000	58,009
2008	70,000	56,402
2009	70,000	54,565
2010 - 2014	385,000	236,931
2015 - 2019	485,000	150,003
2020 - 2022	365,000	28,125
Total	<u>\$ 1,580,000</u>	<u>\$ 704,121</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation notes	\$ 810,000	\$ -	\$ -	\$ 810,000	\$ 265,000
Special assessment debt with government commitment	2,725,000	-	270,000	2,455,000	230,000
Total bonds payable	\$ 3,535,000	\$ -	\$ 270,000	\$ 3,265,000	\$ 495,000
Less: deferred amounts for issuance discounts	(2,278)	-	(760)	(1,518)	-
Total bonds and notes payable	\$ 3,532,722	\$ -	\$ 269,240	\$ 3,263,482	\$ 495,000
Loans payable	844,562	95,321	85,791	854,092	86,860
Compensated absences	235,157	29,640	-	264,797	28,322
Governmental Activities Long-Term Liabilities	<u>\$ 4,612,441</u>	<u>\$ 124,961</u>	<u>\$ 355,031</u>	<u>\$ 4,382,371</u>	<u>\$ 610,182</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

The loans payable to Minnesota Pollution Control Agency of \$854,092 do not have fixed amortization schedules at December 31, 2004.

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ -	\$ 1,580,000	\$ -	\$ 1,580,000	\$ 75,000
Compensated absences	2,861	763	-	3,624	-
Capital leases	1,470,000	-	1,470,000	-	-
Long-Term Liabilities	\$ 1,472,861	\$ 1,580,763	\$ 1,470,000	\$ 1,583,624	\$ 75,000
Less: deferred amounts	-	(121,442)	-	(121,442)	-
Business-Type Activities Long-Term Liabilities	<u>\$ 1,472,861</u>	<u>\$ 1,459,321</u>	<u>\$ 1,470,000</u>	<u>\$ 1,462,182</u>	<u>\$ 75,000</u>

8. Advance Refunding of Debt

Murray County issued \$1,580,000 of General Obligation Housing Development Refunding Bonds of 2004 to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$1,425,000 of the City of Slayton Economic Development Authority General Obligation Housing Development Bonds, Series 1996. These bonds are the basis of the \$1,600,000 capital lease arrangement between the City and the County for the purchase of a building to operate a congregate housing facility. As a result, the refunded bonds are considered to be defeased, and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$112,786. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the refunded debt. The transaction also resulted in an economic gain of \$52,833 and a reduction of \$68,768 in future debt service payments.

**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 and the Murray County Memorial Hospital 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.

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 Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For Public Employees 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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 web at 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund, were:

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

	Public Employees Retirement Fund	Public Employees Police and Fire Fund
2004	\$ 126,882	\$ 21,642
2003	125,388	19,156
2002	114,433	15,111

The Hospital's contributions to the Public Employees Retirement Fund for the years ending December 31, 2004, 2003, and 2002, were \$161,168, \$114,765, and \$92,701, respectively.

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

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 elected local government officials, except 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 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.

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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, were \$4,209, \$3,938, and \$3,358, respectively, equal to the contractually required contribution 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and at \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. 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.

Malpractice Insurance

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 \$5,000,000. 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.

B. 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 Board 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

B. 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 2004 was \$981,647.

At December 31, 2004, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$5,797,784. In addition, under the new reporting model, the Board reported total net assets of \$5,544,165. The Board's long-term debt at December 31, 2004, is composed of \$401,365 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 2004 was \$62,202.

The Lincoln, Lyon, Murray, and Pipestone Public Health Service's 2003 financial report (the most recent information available) shows total retained earnings of \$718,969 and long-term liabilities of \$77,259. The increase in retained earnings was \$33,620.

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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.

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. Outstanding obligations at December 31, 2004, are \$20,374,465.

The Water System's 2004 financial report shows total net assets of \$37,728,801, including unrestricted of \$1,239,240. The increase in net assets for the year ended December 31, 2004, is \$2,037,687.

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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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.

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, 2003 (the most recent information available), were \$7,115,000, and notes payable were \$55,437. Retained earnings were \$1,164,138.

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

C. 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.

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 2004.

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.

D. 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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

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

E. Functional Expenses - Hospital Enterprise Fund

The Hospital provides general health care services to patients within its geographic location. Expenses related to providing these services by functional class for the year ended December 31, 2004, are:

Patient health care services	\$ 7,313,985
General and administrative	<u>1,145,392</u>
Total	<u>\$ 8,459,377</u>

F. 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, 2004, follows:

Medicare	45%
Medicaid	3
Other third-party payors	<u>52</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, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,834,525	\$ 2,593,793	\$ 2,514,644	\$ (79,149)
Special assessments	228,723	228,723	125,233	(103,490)
Licenses and permits	16,350	16,350	22,761	6,411
Intergovernmental	977,076	1,217,808	1,403,074	185,266
Charges for services	273,230	273,230	325,995	52,765
Fines and forfeits	-	-	75	75
Gifts and contributions	123,905	123,905	49,460	(74,445)
Investment earnings	108,650	108,650	175,588	66,938
Miscellaneous	135,611	135,611	270,851	135,240
Total Revenues	\$ 4,698,070	\$ 4,698,070	\$ 4,887,681	\$ 189,611
Expenditures				
Current				
General government				
Commissioners	\$ 161,150	\$ 161,150	\$ 164,207	\$ (3,057)
Courts	14,500	14,500	6,726	7,774
Law library	14,000	14,000	11,102	2,898
Auditor/Treasurer	316,558	321,245	306,066	15,179
License center	-	57,500	82,365	(24,865)
Assessor	167,455	167,455	177,119	(9,664)
Elections	13,150	13,150	15,872	(2,722)
Accounting and auditing	-	25,000	37,607	(12,607)
Data processing	78,764	87,600	66,050	21,550
Attorney	96,606	96,606	85,598	11,008
Recorder	111,357	111,357	114,295	(2,938)
Planning and zoning	79,533	79,533	93,975	(14,442)
Buildings and plant	246,370	353,100	324,321	28,779
Veterans service officer	-	27,883	30,031	(2,148)
County car	15,700	20,700	17,880	2,820
Machine room	32,100	39,316	31,228	8,088
Human resources	36,752	38,090	56,484	(18,394)
Computer networking	33,234	33,234	32,869	365
Safety officer	2,095	2,095	762	1,333
Other general government	56,038	56,038	135,981	(79,943)
Total general government	\$ 1,475,362	\$ 1,719,552	\$ 1,790,538	\$ (70,986)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 765,495	\$ 799,059	\$ 745,183	\$ 53,876
Boat and water safety	7,900	7,900	9,486	(1,586)
Snowmobile safety	4,800	4,800	215	4,585
Coroner	2,600	2,600	12,680	(10,080)
Jail services	63,000	63,000	140,201	(77,201)
E-911 system	172,350	213,155	54,219	158,936
Probation	46,400	46,400	41,560	4,840
DARE program	1,000	1,000	1,000	-
Civil defense	39,887	45,676	96,794	(51,118)
Other public safety	1,000	1,000	-	1,000
Total public safety	\$ 1,104,432	\$ 1,184,590	\$ 1,101,338	\$ 83,252
Sanitation				
Solid waste	\$ 94,136	\$ 94,136	\$ 60,758	\$ 33,378
Recycling	255,273	255,273	266,031	(10,758)
Total sanitation	\$ 349,409	\$ 349,409	\$ 326,789	\$ 22,620
Health				
Nursing service	\$ -	\$ -	\$ 6,941	\$ (6,941)
Transportation	33,450	33,450	25,587	7,863
Heartland express	153,397	153,397	78,368	75,029
Aging grant	7,380	7,380	3,192	4,188
Other health	-	-	53	(53)
Total health	\$ 194,227	\$ 194,227	\$ 114,141	\$ 80,086
Culture and recreation				
Historical society	\$ 45,391	\$ 45,391	\$ 42,366	\$ 3,025
Minnesota trails	-	-	15,122	(15,122)
Parks	204,736	220,845	242,880	(22,035)
Senior citizens	8,985	8,985	10,215	(1,230)
Regional library	58,865	58,865	58,838	27
Other	1,000	1,000	11,480	(10,480)
Total culture and recreation	\$ 318,977	\$ 335,086	\$ 380,901	\$ (45,815)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	\$ 120,458	\$ 120,458	\$ 107,402	\$ 13,056
Soil and water conservation	164,769	164,769	119,361	45,408
Agricultural inspection	30,375	30,375	31,273	(898)
Agricultural society	27,000	27,000	27,750	(750)
River basin	-	-	823	(823)
RCRCA	-	-	4,273	(4,273)
Flood control	3,025	3,025	3,619	(594)
Water quality loan program	98,654	98,654	118,155	(19,501)
Predator control	1,000	1,000	1,725	(725)
Water planning	75,724	75,724	63,520	12,204
Other	12,326	12,326	6,424	5,902
Total conservation of natural resources	\$ 533,331	\$ 533,331	\$ 484,325	\$ 49,006
Economic development				
Community development	\$ 124,185	\$ 124,185	\$ 111,696	\$ 12,489
Other	3,330	3,330	150,929	(147,599)
Total economic development	\$ 127,515	\$ 127,515	\$ 262,625	\$ (135,110)
Intergovernmental				
Sanitation	\$ 15,500	\$ 84,500	\$ 85,493	\$ (993)
Health	\$ 59,084	\$ 59,084	\$ 62,202	\$ (3,118)
Debt service				
Interest	\$ 10,658	\$ 10,658	\$ 10,657	\$ 1
Total Expenditures	\$ 4,188,495	\$ 4,597,952	\$ 4,619,009	\$ (21,057)
Excess of Revenues Over (Under) Expenditures				
	\$ 509,575	\$ 100,118	\$ 268,672	\$ 168,554
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (82,395)	\$ (82,395)
Proceeds from sale of assets	-	-	1,750	1,750
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (80,645)	\$ (80,645)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Net Change in Fund Balance	\$ 509,575	\$ 100,118	\$ 188,027	\$ 87,909
Fund Balance - January 1	4,536,017	4,536,017	4,536,017	-
Increase (decrease) in reserved for inventories	-	-	174	174
Fund Balance - December 31	<u>\$ 5,045,592</u>	<u>\$ 4,636,135</u>	<u>\$ 4,724,218</u>	<u>\$ 88,083</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 527,357	\$ 527,357	\$ 466,566	\$ (60,791)
Intergovernmental	4,082,343	3,932,343	5,828,435	1,896,092
Charges for services	7,500	7,500	37,681	30,181
Miscellaneous	35,450	38,450	118,866	80,416
Total Revenues	\$ 4,652,650	\$ 4,505,650	\$ 6,451,548	\$ 1,945,898
Expenditures				
Current				
Highways and streets				
Administration	\$ 240,725	\$ 240,725	\$ 250,732	\$ (10,007)
Engineering	208,482	208,482	184,557	23,925
Maintenance	1,166,320	1,222,600	1,198,425	24,175
Construction	2,448,000	2,448,000	4,436,130	(1,988,130)
Equipment and maintenance shops	315,820	315,820	363,719	(47,899)
Total highways and streets	\$ 4,379,347	\$ 4,435,627	\$ 6,433,563	\$ (1,997,936)
Intergovernmental				
Highways and streets	280,100	286,100	305,202	(19,102)
Total Expenditures	\$ 4,659,447	\$ 4,721,727	\$ 6,738,765	\$ (2,017,038)
Excess of Revenues Over (Under) Expenditures	\$ (6,797)	\$ (216,077)	\$ (287,217)	\$ (71,140)
Other Financing Sources (Uses)				
Transfers in	40,000	40,000	50,714	10,714
Net Change in Fund Balance	\$ 33,203	\$ (176,077)	\$ (236,503)	\$ (60,426)
Fund Balance - January 1	2,286,997	2,286,997	2,286,997	-
Increase (decrease) in reserved for inventories	-	-	17,996	17,996
Fund Balance - December 31	\$ 2,320,200	\$ 2,110,920	\$ 2,068,490	\$ (42,430)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 853,297	\$ 853,297	\$ 759,033	\$ (94,264)
Intergovernmental	117,011	117,011	222,614	105,603
Total Revenues	\$ 970,308	\$ 970,308	\$ 981,647	\$ 11,339
Expenditures				
Intergovernmental				
Human services	970,308	970,308	981,647	(11,339)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -
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, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 320,600	\$ 320,600	\$ 394,584	\$ 73,984
Miscellaneous	-	-	58,187	58,187
Total Revenues	\$ 320,600	\$ 320,600	\$ 452,771	\$ 132,171
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 20,530	\$ 37,169	\$ 74,304	\$ (37,135)
Debt service				
Principal retirement	235,100	235,100	270,000	(34,900)
Interest	160,000	160,000	115,753	44,247
Administrative (fiscal) fees	1,050	1,050	1,477	(427)
Total Expenditures	\$ 416,680	\$ 433,319	\$ 461,534	\$ (28,215)
Excess of Revenues Over (Under) Expenditures	\$ (96,080)	\$ (112,719)	\$ (8,763)	\$ 103,956
Other Financing Sources (Uses)				
Transfers in	16,700	16,700	26,437	9,737
Net Change in Fund Balance	\$ (79,380)	\$ (96,019)	\$ 17,674	\$ 113,693
Fund Balance - January 1	1,358,982	1,358,982	1,358,982	-
Fund Balance - December 31	\$ 1,279,602	\$ 1,262,963	\$ 1,376,656	\$ 113,693

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**MURRAY COUNTY
SLAYTON, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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:

	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 4,188,495	\$ 409,457	\$ 4,597,952
Road and Bridge Special Revenue Fund	4,659,447	62,280	4,721,727
Ditch Special Revenue Fund	416,680	16,639	433,319

Over the course of the year, the County Board revised the County's General Fund budget several times. These budget amendments fall into two 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 FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 106,664</u>	<u>\$ 9,707,814</u>	<u>\$ 9,699,331</u>	<u>\$ 115,147</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 106,664</u>	<u>\$ 9,707,814</u>	<u>\$ 9,699,331</u>	<u>\$ 115,147</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 2

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
SHETEK AREA WATER AND SEWER DISTRICT
DECEMBER 31, 2004**

	General Fund	Reconciliation	Statement of Net Assets
<u>Assets</u>			
Cash and pooled investments	<u>\$ 3,468</u>	\$ -	\$ 3,468
<u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Accounts payable	\$ 16,718	-	<u>16,718</u>
Fund Balance			
Unreserved			
Undesignated	<u>(13,250)</u>	<u>13,250</u>	
Total Liabilities and Fund Balance	<u>\$ 3,468</u>		
Net Assets			
Unrestricted		<u>\$ (13,250)</u>	<u>\$ (13,250)</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 3

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
SHETEK AREA WATER AND SEWER DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Reconciliation	Statement of Activities
Revenues			
Intergovernmental			
Local grants			
County appropriations	\$ 84,500	\$ -	\$ 84,500
Investment earnings	331	-	331
Miscellaneous	434	-	434
Total Revenues	\$ 85,265	\$ -	\$ 85,265
Expenditures/Expenses			
Current			
Conservation of natural resources	143,591	(37,393)	106,198
Net Change in Fund Balance/Net Assets	\$ (58,326)	\$ 37,393	\$ (20,933)
Fund Balance/Net Assets - January 1	45,076	(37,393)	7,683
Fund Balance/Net Assets - December 31	\$ (13,250)	\$ -	\$ (13,250)
Reconciliation			
Net change in fund balance			\$ (58,326)
Payment of long-term liabilities, reported as conservation of natural resources expenditures in the fund, reduce liabilities at the government-wide level and have no effect on net assets.			37,393
Change in Net Assets			\$ (20,933)

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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, 2004**

Shared Revenue

State

Highway users tax	\$	5,002,001
County program aid		599,019
PERA rate reimbursement		15,531
Disparity reduction aid		30,780
Police aid		19,255
Enhanced 911		39,701
Market value credit		458,303
		458,303

Total Shared Revenue **\$ 6,164,590**

Payments

Local

Payments in lieu of taxes	\$	64,536
Local share of highway projects		198,074
Public safety		7,855
Other		300
		300

Total Payments **\$ 270,765**

Grants

State

Minnesota Department/Board of		
Corrections	\$	12,337
Natural Resources		19,177
Pollution Control		127,655
Public Safety		552
Soil and Water Resources		53,653
Transportation		49,490
Office of Environmental Assistance		49,099
Peace Officers Board		2,865
		2,865

Total State **\$ 314,828**

Federal

Department of		
Housing and Urban Development	\$	147,552
Justice		415
Transportation		501,206
Energy		1,755
Homeland Security		53,012
		53,012

Total Federal **\$ 703,940**

Total State and Federal Grants **\$ 1,018,768**

Total Intergovernmental Revenue **\$ 7,454,123**

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II. 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Sheriff's Departmental Controls (00-1)

During our audit, we noted the Sheriff's Department had several internal control weaknesses relating to receipting and depositing collections and reconciling the bank statements.

Resolution

All funds received are receipted in a timely manner and remitted to the County Auditor/Treasurer's Office, and the bank statements are reconciled on a monthly basis.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Pledged to Secure Deposits (Component Unit) (03-1)

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2003, was insufficient for the amount on deposit at the Curry State Bank by \$83,460.

Resolution

During 2004, Shetek Water and Sewer District deposits were not of the level to require collateral as FDIC coverage was sufficient.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-5 Preparation of the Annual Financial Statements

The County Board has oversight responsibility to ensure the annual financial report is prepared for audit in a timely manner. Generally, this means the County Board should provide the necessary directives to County staff for the preparation and timely completion of the annual financial report. The annual financial report consists of financial statements prepared in accordance with generally accepted accounting principles for governments, related notes to the financial statements, and schedules. As part of the financial statements, summary schedules and worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report.

Currently, the County does not prepare the financial report for the audit by the Office of the State Auditor (OSA). Limited amounts of information for the financial statements are prepared by County staff.

We recommend that the County Board provide the necessary directives to County staff to prepare the summary schedules and trial balances. We also recommend the County Board ensure that staff assigned to prepare this information have a good understanding of generally accepted accounting principles for government and the time necessary to complete the information needed for the annual financial report by the date mutually agreed to with the OSA.



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Murray County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 31, 2005. 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 a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is described in the accompanying Schedule of Findings and Questioned Costs as item 99-1.

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 condition indicated above is not a material weakness.

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 Questioned Costs as item 02-4.

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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 31, 2005



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Murray County

Compliance

We have audited the compliance of Murray County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Murray County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Murray County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Murray County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 31, 2005. Our audit did not include the operations of the Hospital Enterprise Fund, which was audited by other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 31, 2005

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant	14.228	<u>\$ 147,552</u>
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	<u>\$ 415</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 487,808
Public Transportation for Non-Urbanized Areas	20.509	<u>13,398</u>
Total U.S. Department of Transportation		<u>\$ 501,206</u>
U.S. Department of Energy		
Passed Through Minnesota Pollution Control Agency Regional Biomass Energy Programs	81.079	<u>\$ 1,755</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	\$ 38,744
Emergency Management Performance Grants	97.042	11,111
State and Local All Hazards Emergency Operations Planning	97.051	<u>3,157</u>
Total U.S. Department of Homeland Security		<u>\$ 53,012</u>
Total Federal Awards		<u>\$ 703,940</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Murray County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.