

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

For the Year Ended December 31, 2006



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

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	20
Proprietary Funds		
Statement of Fund Net Assets	Exhibit 7	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	23
Statement of Cash Flows	Exhibit 9	24
Fiduciary Funds		
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 10	26
Notes to the Financial Statements		27

**MURRAY COUNTY
SLAYTON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>	
Financial Section (Continued)			
Required Supplementary Information			
Budgetary Comparison Schedules			
General Fund	Schedule 1	73	
Road and Bridge Special Revenue Fund	Schedule 2	76	
Human Services Special Revenue Fund	Schedule 3	77	
Ditch Special Revenue Fund	Schedule 4	78	
Notes to the Required Supplementary Information		79	
Supplementary Information			
Agency Funds			
Statement of Changes in Assets and Liabilities	Statement 1	80	
Other Schedule			
Schedule of Intergovernmental Revenue	Schedule 5	81	
Management and Compliance Section			
Schedule of Findings and Recommendations	Schedule 6	82	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>			94

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

ORGANIZATION
2006

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

*Chair for 2006

**Chair for 2007

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
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 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, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Murray County Memorial Hospital, which is both a major fund (Hospital Enterprise Fund) and 93 percent, 101 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those statements were audited by other auditors whose report thereon has been furnished to us; and our opinion expressed here, insofar as it relates to amounts included for the Hospital, is based solely on the report of the other auditors.

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

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

component unit, each major fund, and the aggregate remaining fund information of Murray County as of December 31, 2006, 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 schedule and statements 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. The supplementary 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 April 18, 2008, on our consideration of Murray County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

April 18, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. 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 \$45,122,640, of which \$36,546,478 is invested in capital assets, net of related debt, and \$705,487 is restricted to specific purposes. The \$7,870,675 remaining may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's governmental activities' net assets increased by \$2,741,817 for the year ended December 31, 2006. 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 \$3,489,738. General revenues and other items totaling \$6,231,555 funded the net cost.
- The General Fund balance increased by \$817,332, the Road and Bridge Special Revenue Fund balance decreased by \$256,594, and the Ditch Special Revenue Fund balance decreased by \$133,160.
- For the year ended December 31, 2006, the unreserved fund balance of the General Fund was \$4,521,004, or 82.9 percent, of the total General Fund expenditures for the year of \$5,452,709.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and Ditch Special Revenue Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

All fiduciary activities are reported in a separate statement of fiduciary net assets on Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 72 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$56,109,116 at the close of 2006. The largest portion of the net assets (71.1 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 2005 is presented.

	Net Assets (in thousands)			
	Governmental Activities	Business-Type Activities	Total	
			2006	2005
Assets				
Current and other assets	\$ 12,604	\$ 9,256	\$ 21,860	\$ 16,732
Capital assets	<u>36,821</u>	<u>8,152</u>	<u>44,973</u>	<u>42,751</u>
Total Assets	<u>\$ 49,425</u>	<u>\$ 17,408</u>	<u>\$ 66,833</u>	<u>\$ 59,483</u>
Liabilities				
Long-term liabilities	\$ 3,494	\$ 4,886	\$ 8,380	\$ 7,009
Other liabilities	<u>808</u>	<u>1,536</u>	<u>2,344</u>	<u>2,430</u>
Total Liabilities	<u>\$ 4,302</u>	<u>\$ 6,422</u>	<u>\$ 10,724</u>	<u>\$ 9,439</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 36,547	\$ 3,331	\$ 39,878	\$ 39,225
Restricted	705	-	705	586
Unrestricted	<u>7,871</u>	<u>7,655</u>	<u>15,526</u>	<u>10,233</u>
Total Net Assets	<u>\$ 45,123</u>	<u>\$ 10,986</u>	<u>\$ 56,109</u>	<u>\$ 50,044</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 27.7 percent of the net assets.

Governmental Activities

The County's governmental activities' net assets increased by 6.5 percent (\$45,122,640 for 2006 compared to \$42,380,823 for 2005). Key elements in this increase in net assets are as follows, with comparative data for 2005.

Governmental Activities Changes in Net Assets (in thousands)		
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	\$ 1,318	\$ 1,219
Operating grants and contributions	3,938	2,178
Capital grants and contributions	557	1,937
General revenues		
Property taxes	4,056	3,909
Other	2,184	1,905
Total Revenues	<u>\$ 12,053</u>	<u>\$ 11,148</u>
Expenses		
General government	\$ 1,870	\$ 1,647
Public safety	1,234	1,202
Highways and streets	3,146	3,246
Sanitation	420	1,076
Human services	968	968
Health	64	72
Culture and recreation	670	501
Conservation of natural resources	690	641
Economic development	126	208
Interest	115	130
Total Expenses	<u>\$ 9,303</u>	<u>\$ 9,691</u>
Revenues Over Expenses	<u>\$ 2,750</u>	<u>\$ 1,457</u>
Transfers to business-type activities	<u>(8)</u>	<u>(6)</u>
Increase in Net Assets	<u>\$ 2,742</u>	<u>\$ 1,451</u>
Net Assets - January 1	<u>42,381</u>	<u>40,930</u>
Net Assets - December 31	<u>\$ 45,123</u>	<u>\$ 42,381</u>

The cost of all governmental activities for 2006 was \$9,302,953 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 \$4,056,256. The amount paid by those who directly benefited from the programs was \$1,317,964, and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was \$3,938,181. Capital grants and

contributions were \$557,070. The County paid for the remaining “public benefit” portion of governmental activities with \$1,292,399 in grants and contributions not restricted to specific programs and \$401,725 in 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		
2006		
(in thousands)		
	Total Cost of Services	Net Cost of Services
General government	\$ 1,870	\$ 1,281
Public safety	1,234	989
Highways and streets	3,146	(725)
Human services	969	969
All others	2,084	976
Total	\$ 9,303	\$ 3,490

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 \$8,972,042, an increase of \$427,578 in comparison with the prior year. Of the combined ending fund balances, \$8,021,678 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 \$4,521,004. 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 82.9 percent of total General Fund expenditures. The General Fund total fund balance increased by \$817,332, and its unreserved fund balance increased by \$1,270,888.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,297,185 at fiscal year-end, representing 48.6 percent of its annual expenditures. The Road and Bridge Special Revenue Fund's total fund balance decreased by \$256,594 during 2006, and its unreserved fund balance decreased by \$84,878.

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

The Ditch Special Revenue Fund had an unreserved fund balance of \$1,203,489 at fiscal year-end. The ending fund balance decreased \$133,160 during 2006.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board revised the General Fund budget. The expenditure budget increased \$650,525. 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 \$88,719 below the final budget amounts.

On the other hand, revenues were \$479,580 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2006, totaled \$36,821,478 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,801,967, or 5.15 percent, from the previous year. The major capital asset events were: construction of highways and streets, various building improvements, and purchase of highway and other miscellaneous equipment.

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

	2006	2005
Land, including right-of-way	\$ 581	\$ 581
Infrastructure	32,218	30,672
Buildings	2,136	2,229
Work in progress	168	119
Improvements other than buildings	180	152
Machinery and equipment	1,538	1,266
	<hr/>	<hr/>
Total	<u>\$ 36,821</u>	<u>\$ 35,019</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of \$7,257,000, which was backed by the full faith and credit of the government.

	Outstanding Debt (in thousands)	
	2006	2005
General obligation notes	\$ 275	\$ 545
General obligation ditch bonds	1,995	2,225
General obligation refunding bonds	1,440	1,505
Hospital revenue note	3,547	-
Total	\$ 7,257	\$ 4,275

The County's debt related to general obligation bonds decreased by \$565,000 (13.2 percent) during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2006, the County's outstanding debt was 1.2 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 2007 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2006 was 4.3 percent. This is equal to the state unemployment rate of 4.3 percent and shows an increase from the County's 4.2 percent rate of one year ago.
- Mortgage interest rates remain low, and refinancing of mortgages and/or financing of new construction continues to occur.
- General Fund expenditures for 2007 are budgeted to increase \$159,066, or 5.0 percent, over the 2006 original budget.
- The County's net property tax levy for 2006 (2006 payable) increased by \$218,966, 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, Heidi E. Winter, Murray County Government Center, P. O. Box 57, Slayton, Minnesota 56172.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-Type Activities	Total	
<u>Assets</u>				
Cash and pooled investments	\$ 8,802,706	\$ 4,811,008	\$ 13,613,714	\$ 255,878
Receivables - net	3,617,140	3,735,158	7,352,298	11,102,879
Inventories	181,514	241,540	423,054	-
Prepaid items	2,589	186,229	188,818	-
Restricted assets				
Cash and pooled investments	-	9,200	9,200	507,723
Investments	-	7,750	7,750	-
Deferred debt issuance costs	-	18,876	18,876	-
Capital assets				
Non-depreciable capital assets	749,013	143,401	892,414	9,252,615
Depreciable capital assets - net of accumulated depreciation	36,072,465	8,009,091	44,081,556	-
Other assets				
Investment in Shetek Medical Services	-	245,519	245,519	-
Total Assets	\$ 49,425,427	\$ 17,407,772	\$ 66,833,199	\$ 21,119,095
<u>Liabilities</u>				
Accounts payable and other current liabilities	\$ 608,931	\$ 1,525,729	\$ 2,134,660	\$ 1,770,798
Accrued interest payable	40,704	-	40,704	-
Unearned revenue	158,550	-	158,550	-
Payable from restricted assets				
Accounts payable	-	9,200	9,200	-
Long-term liabilities				
Due within one year	646,069	178,167	824,236	-
Due in more than one year	2,848,533	4,708,200	7,556,733	10,079,483
Total Liabilities	\$ 4,302,787	\$ 6,421,296	\$ 10,724,083	\$ 11,850,281
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 36,546,478	\$ 3,331,294	\$ 39,877,772	\$ -
Restricted for				
Debt service	-	-	-	507,723
Public safety	52,981	-	52,981	-
Highways and streets	454,896	-	454,896	-
Conservation of natural resources	30,968	-	30,968	-
Other purposes	166,642	-	166,642	-
Unrestricted	7,870,675	7,655,182	15,525,857	8,761,091
Total Net Assets	\$ 45,122,640	\$ 10,986,476	\$ 56,109,116	\$ 9,268,814

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Functions/Programs			
Primary government			
Governmental activities			
General government	\$ 1,869,987	\$ 364,354	\$ 224,556
Public safety	1,234,086	60,909	134,352
Highways and streets	3,145,561	109,364	3,254,486
Sanitation	419,601	310,689	49,079
Human services	968,702	-	-
Health	64,263	-	-
Culture and recreation	669,752	92,851	114,148
Conservation of natural resources	690,139	379,797	141,563
Economic development	125,827	-	19,997
Interest	115,035	-	-
Total governmental activities	\$ 9,302,953	\$ 1,317,964	\$ 3,938,181
Business-type activities			
Hospital	\$ 13,092,964	\$ 16,314,733	\$ -
Congregate Housing	262,717	250,995	-
Total business-type activities	\$ 13,355,681	\$ 16,565,728	\$ -
Total Primary Government	\$ 22,658,634	\$ 17,883,692	\$ 3,938,181
Component unit			
Shetek Area Water and Sewer Commission	\$ 887,730	\$ 356,672	\$ 69,056

General Revenues

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

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning, as restated (Note 7.A.6.)

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	
\$ -	\$ (1,281,077)	\$ -	\$ (1,281,077)	
50,000	(988,825)	-	(988,825)	
507,070	725,359	-	725,359	
-	(59,833)	-	(59,833)	
-	(968,702)	-	(968,702)	
-	(64,263)	-	(64,263)	
-	(462,753)	-	(462,753)	
-	(168,779)	-	(168,779)	
-	(105,830)	-	(105,830)	
-	(115,035)	-	(115,035)	
\$ 557,070	\$ (3,489,738)	\$ -	\$ (3,489,738)	
\$ -	\$ -	\$ 3,221,769	\$ 3,221,769	
-	-	(11,722)	(11,722)	
\$ -	\$ -	\$ 3,210,047	\$ 3,210,047	
\$ 557,070	\$ (3,489,738)	\$ 3,210,047	\$ (279,691)	
\$ 9,252,615				\$ 8,790,613
	\$ 4,056,256	\$ -	\$ 4,056,256	\$ -
	358,786	-	358,786	-
	27,684	-	27,684	-
	102,341	-	102,341	-
	1,292,399	-	1,292,399	-
	401,725	105,894	507,619	-
	(7,636)	7,636	-	-
	\$ 6,231,555	\$ 113,530	\$ 6,345,085	\$ -
	\$ 2,741,817	\$ 3,323,577	\$ 6,065,394	\$ 8,790,613
	42,380,823	7,662,899	50,043,722	478,201
	\$ 45,122,640	\$ 10,986,476	\$ 56,109,116	\$ 9,268,814

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 5,321,669	\$ 2,147,439	\$ 120,365	\$ 1,210,633	\$ 8,800,106
Petty cash and change funds	2,600	-	-	-	2,600
Taxes receivable					
Prior	31,653	6,387	9,560	-	47,600
Special assessments receivable					
Prior	11,126	-	-	71	11,197
Noncurrent	726,652	-	-	1,390,518	2,117,170
Accounts receivable	49,986	4,629	-	-	54,615
Accrued interest receivable	120,164	-	-	-	120,164
Loans receivable	151,861	-	-	-	151,861
Due from other governments	24,319	1,090,214	-	-	1,114,533
Inventories	7,883	173,631	-	-	181,514
Prepaid items	1,149	1,440	-	-	2,589
Total Assets	<u>\$ 6,449,062</u>	<u>\$ 3,423,740</u>	<u>\$ 129,925</u>	<u>\$ 2,601,222</u>	<u>\$ 12,603,949</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 86,704	\$ 48,273	\$ -	\$ 6,340	\$ 141,317
Salaries payable	209,808	35,951	-	162	245,921
Due to other governments	97,198	3,488	120,365	642	221,693
Deferred revenue - unavailable	850,209	614,068	9,560	1,390,589	2,864,426
Deferred revenue - unearned	-	158,550	-	-	158,550
Total Liabilities	\$ 1,243,919	\$ 860,330	\$ 129,925	\$ 1,397,733	\$ 3,631,907
Fund Balances					
Reserved for					
Encumbrances	\$ 25,151	\$ 81,866	\$ -	\$ -	\$ 107,017
Inventories	7,883	173,631	-	-	181,514
Loans receivable	151,861	-	-	-	151,861
Prepaid items	1,149	1,440	-	-	2,589
Missing heirs	100	-	-	-	100
Law library	8,057	-	-	-	8,057
Recorder's technology fund	63,044	-	-	-	63,044
Recorder's compliance fund	33,895	-	-	-	33,895
E-911	52,981	-	-	-	52,981
Highway allotments	-	9,288	-	-	9,288
Supervision fees	7,352	-	-	-	7,352
Septic/sewer loans	232,095	-	-	-	232,095
Election equipment	69,603	-	-	-	69,603
Unspent grant monies	30,968	-	-	-	30,968
Unreserved					
Designated for future expenditures	1,500,000	1,500,000	-	-	3,000,000
Designated for capital improvements	263,155	-	-	-	263,155
Designated for compensated absences	290,787	131,455	-	-	422,242
Designated for sanitation	305,765	-	-	-	305,765
Designated for capital equipment	270,519	-	-	-	270,519
Designated for County septic system loans	114,726	-	-	-	114,726
Designated for economic development	137,478	-	-	-	137,478
Designated for postemployment benefits	48,830	-	-	-	48,830
Designated for parks	94,199	-	-	-	94,199
Designated for employee benefit insurance	22,137	30	-	-	22,167
Designated for human services	243,300	-	-	-	243,300
Undesignated	1,230,108	665,700	-	1,203,489	3,099,297
Total Fund Balances	\$ 5,205,143	\$ 2,563,410	\$ -	\$ 1,203,489	\$ 8,972,042
Total Liabilities and Fund Balances	\$ 6,449,062	\$ 3,423,740	\$ 129,925	\$ 2,601,222	\$ 12,603,949

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	8,972,042
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.		36,821,478
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,864,426
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	\$ (1,995,000)	
Loans payable	(802,359)	
Capital equipment notes	(275,000)	
Compensated absences	(422,243)	
Accrued interest payable	(40,704)	
	(3,535,306)	(3,535,306)
Net assets of governmental activities (Exhibit 1)		\$ 45,122,640

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Total</u>
Revenues					
Taxes	\$ 3,000,618	\$ 570,409	\$ 864,948	\$ -	\$ 4,435,975
Special assessments	234,890	-	-	278,051	512,941
Licenses and permits	21,266	-	-	-	21,266
Intergovernmental	1,912,036	3,848,287	103,754	-	5,864,077
Charges for services	437,678	36,651	-	-	474,329
Fines and forfeits	9	-	-	-	9
Gifts and contributions	30,420	-	-	-	30,420
Investment earnings	379,815	-	-	-	379,815
Miscellaneous	276,873	72,713	-	4,572	354,158
Total Revenues	\$ 6,293,605	\$ 4,528,060	\$ 968,702	\$ 282,623	\$ 12,072,990
Expenditures					
Current					
General government	\$ 2,032,026	\$ -	\$ -	\$ -	\$ 2,032,026
Public safety	1,275,978	-	-	-	1,275,978
Highways and streets	-	4,442,828	-	-	4,442,828
Sanitation	337,050	-	-	-	337,050
Health	8,261	-	-	-	8,261
Culture and recreation	618,287	-	-	-	618,287
Conservation of natural resources	553,080	-	-	128,144	681,224
Economic development	125,592	-	-	-	125,592
Intergovernmental	121,640	287,216	968,702	-	1,377,558
Debt service					
Principal	358,606	-	-	230,000	588,606
Interest	21,758	-	-	96,593	118,351
Administrative (fiscal) fees	431	-	-	1,362	1,793
Total Expenditures	\$ 5,452,709	\$ 4,730,044	\$ 968,702	\$ 456,099	\$ 11,607,554
Excess of Revenues Over (Under) Expenditures	\$ 840,896	\$ (201,984)	\$ -	\$ (173,476)	\$ 465,436
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 40,316	\$ 40,316
Transfers out	(47,952)	-	-	-	(47,952)
Loans issued	24,786	-	-	-	24,786
Proceeds from sale of assets	1,502	-	-	-	1,502
Total Other Financing Sources (Uses)	\$ (21,664)	\$ -	\$ -	\$ 40,316	\$ 18,652
Net Change in Fund Balances	\$ 819,232	\$ (201,984)	\$ -	\$ (133,160)	\$ 484,088
Fund Balances - January 1	4,387,811	2,820,004	-	1,336,649	8,544,464
Increase (decrease) in reserved for inventories	(1,900)	(54,610)	-	-	(56,510)
Fund Balances - December 31	\$ 5,205,143	\$ 2,563,410	\$ -	\$ 1,203,489	\$ 8,972,042

**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, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 484,088

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

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

Deferred revenue - December 31	\$ 2,864,426	
Deferred revenue - January 1	<u>(2,886,512)</u>	(22,086)

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	\$ 3,395,134	
Current year depreciation	<u>(1,593,167)</u>	1,801,967

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

The proceeds of new debt are:		
Loans issued		(24,786)

Septic/ISTS loans previously reported in the government-wide statements were adjusted to match audited liability balance.		(4,840)
---	--	---------

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

General obligation bonds	\$ 230,000	
Capital notes payable	270,000	
Loans payable	<u>88,606</u>	588,606

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 5,867	
Amortization of discounts and deferred issuance charges	(758)	
Change in compensated absences	(29,731)	
Change in inventories	<u>(56,510)</u>	<u>(81,132)</u>

Change in net assets of governmental activities (Exhibit 2) \$ 2,741,817

This page was left blank intentionally.

PROPRIETARY FUNDS

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Assets			
Current assets			
Cash and pooled investments	\$ 4,577,198	\$ 233,810	\$ 4,811,008
Accounts receivable - net	73,334	708	74,042
Patient receivables - net	3,661,116	-	3,661,116
Inventories	241,540	-	241,540
Prepaid items	186,229	-	186,229
Total current assets, unrestricted	\$ 8,739,417	\$ 234,518	\$ 8,973,935
Restricted assets			
Cash and pooled investments	\$ -	\$ 9,200	\$ 9,200
Assets designated for capital acquisitions	7,750	-	7,750
Total restricted assets	\$ 7,750	\$ 9,200	\$ 16,950
Total current assets	\$ 8,747,167	\$ 243,718	\$ 8,990,885
Noncurrent assets			
Deferred debt issuance costs	\$ -	\$ 18,876	\$ 18,876
Capital assets			
Nondepreciable	\$ 143,401	\$ -	\$ 143,401
Depreciable - net	6,986,672	1,022,419	8,009,091
Total capital assets - net	\$ 7,130,073	\$ 1,022,419	\$ 8,152,492
Total noncurrent assets	\$ 7,130,073	\$ 1,041,295	\$ 8,171,368
Other assets			
Deferred financing costs	\$ 58,556	\$ -	\$ 58,556
Investment in Shetek Medical Services	186,963	-	186,963
Total other assets	\$ 245,519	\$ -	\$ 245,519
Total Assets	\$ 16,122,759	\$ 1,285,013	\$ 17,407,772

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Liabilities			
Current liabilities			
Accounts payable	\$ 680,845	\$ 5,747	\$ 686,592
Salaries payable	221,418	4,968	226,386
Vacation and sick leave	528,826	-	528,826
Payroll taxes and other	83,763	-	83,763
Compensated absences payable - current	-	298	298
Due to other governments	-	162	162
Revenue bonds payable - current	112,869	-	112,869
General obligation bonds payable - current	-	65,000	65,000
Total current liabilities, payable from current assets	\$ 1,627,721	\$ 76,175	\$ 1,703,896
Current liabilities payable from restricted assets			
Accounts payable	-	9,200	9,200
Total current liabilities	\$ 1,627,721	\$ 85,375	\$ 1,713,096
Noncurrent liabilities			
Compensated absences payable - long-term	\$ -	\$ 6,315	\$ 6,315
General obligation bonds payable - long-term - net of unamortized discount and deferred amount on refunding	-	1,267,846	1,267,846
Long-term debt less current maturities	3,434,039	-	3,434,039
Total noncurrent liabilities	\$ 3,434,039	\$ 1,274,161	\$ 4,708,200
Total Liabilities	\$ 5,061,760	\$ 1,359,536	\$ 6,421,296
Net Assets			
Invested in capital assets - net of related debt	\$ 3,641,721	\$ (310,427)	\$ 3,331,294
Unrestricted	7,419,278	235,904	7,655,182
Total Net Assets	\$ 11,060,999	\$ (74,523)	\$ 10,986,476

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Total
Operating Revenues			
Charges for services	\$ -	\$ 245,767	\$ 245,767
Patient service revenues - net	16,062,950	-	16,062,950
Miscellaneous	205,446	5,228	210,674
Total Operating Revenues	\$ 16,268,396	\$ 250,995	\$ 16,519,391
Operating Expenses			
Personal services	\$ -	\$ 60,633	\$ 60,633
Employee benefits	1,216,725	-	1,216,725
Professional services	-	2,919	2,919
Contracted services	-	33,247	33,247
Other services and charges	-	13,093	13,093
Supplies	3,893,695	8,632	3,902,327
Payroll	4,514,441	-	4,514,441
Utilities	-	20,452	20,452
Insurance	-	4,101	4,101
Repairs and maintenance	-	726	726
Purchased services	2,563,540	-	2,563,540
Depreciation	716,878	51,122	768,000
Total Operating Expenses	\$ 12,905,279	\$ 194,925	\$ 13,100,204
Operating Income (Loss)	\$ 3,363,117	\$ 56,070	\$ 3,419,187
Nonoperating Revenues (Expenses)			
Investment income	\$ 105,894	\$ -	\$ 105,894
Grants	46,337	-	46,337
Interest expense	(119,312)	(66,534)	(185,846)
Gain (loss) on disposal of assets	(57,373)	-	(57,373)
Bond issuance costs	-	(1,258)	(1,258)
Loss on investment in Shetek Medical Services, LLC	(11,000)	-	(11,000)
Total Nonoperating Revenues (Expenses)	\$ (35,454)	\$ (67,792)	\$ (103,246)
Income (Loss) Before Transfers	\$ 3,327,663	\$ (11,722)	\$ 3,315,941
Transfers in	-	7,636	7,636
Change in net assets	\$ 3,327,663	\$ (4,086)	\$ 3,323,577
Net Assets - January 1	7,733,336	(70,437)	7,662,899
Net Assets - December 31	\$ 11,060,999	\$ (74,523)	\$ 10,986,476

**MURRAY COUNTY
SLAYTON, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
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	\$ 15,730,243	\$ 251,968	\$ 15,982,211
Other revenues received	264,483	-	264,483
Payments to employees	(4,769,170)	(59,345)	(4,828,515)
Payments to suppliers	(7,803,651)	(83,321)	(7,886,972)
Net cash provided by (used in) operating activities	\$ 3,421,905	\$ 109,302	\$ 3,531,207
Cash Flows from Noncapital Financing Activities			
Grants	\$ 46,337	\$ -	\$ 46,337
Transfers in	-	7,636	7,636
Net cash provided by (used in) noncapital financing activities	\$ 46,337	\$ 7,636	\$ 53,973
Cash Flows from Capital and Related Financing Activities			
Proceeds from issuance of long-term debt	\$ 3,600,000	\$ -	\$ 3,600,000
Principal paid on long-term debt	(1,643,092)	(65,000)	(1,708,092)
Interest paid on long-term debt	(130,995)	(59,390)	(190,385)
Payment of deferred financing costs	(60,057)	-	(60,057)
Purchases of capital assets	(1,492,730)	-	(1,492,730)
Net cash provided by (used in) capital and related financing activities	\$ 273,126	\$ (124,390)	\$ 148,736
Cash Flows from Investing Activities			
Investment income	\$ 105,894	\$ -	\$ 105,894
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,847,262	\$ (7,452)	\$ 3,839,810
Cash and Cash Equivalents - January 1	729,936	250,462	980,398
Cash and Cash Equivalents - December 31	\$ 4,577,198	\$ 243,010	\$ 4,820,208
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets - Exhibit 7			
Cash and pooled investments	\$ 4,577,198	\$ 233,810	\$ 4,811,008
Restricted cash and pooled investments	-	9,200	9,200
Total Cash and Cash Equivalents	\$ 4,577,198	\$ 243,010	\$ 4,820,208

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006
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)	\$ 3,363,117	\$ 56,070	\$ 3,419,187
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	\$ 716,878	\$ 51,122	\$ 768,000
(Increase) decrease in accounts receivable	646,330	(315)	646,015
(Increase) decrease in inventories	(7,766)	-	(7,766)
(Increase) decrease in prepaid items	(59,087)	-	(59,087)
Increase (decrease) in accounts payable	(1,492,296)	751	(1,491,545)
Increase (decrease) in salaries payable	48,394	(65)	48,329
Increase (decrease) in vacation and sick leave	184,826	-	184,826
Increase (decrease) in payroll taxes and other	21,509	-	21,509
Increase (decrease) in due to other governments	-	78	78
Increase (decrease) in compensated absences	-	1,661	1,661
Total adjustments	\$ 58,788	\$ 53,232	\$ 112,020
Net Cash Provided by (Used in) Operating Activities	\$ 3,421,905	\$ 109,302	\$ 3,531,207
Noncash Investing, Capital, and Financing Activities			
Capitalization of interest	\$ 32,915	\$ -	\$ 32,915

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006

Assets

Cash and pooled investments	<u>\$ 150,807</u>
-----------------------------	-------------------

Liabilities

Due to other governments	<u>\$ 150,807</u>
--------------------------	-------------------

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies, established in GAAP and used by the County, are discussed below.

A. Financial Reporting Entity

Murray County was established May 23, 1857, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Murray County and its component units. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Units

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

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

Discretely Presented Component Unit

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

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Shetek Area Water and Sewer Commission is responsible for constructing and operating a sanitary water and sewer district within Murray County.	The County appoints Commission members and must approve any debt.	Separate financial statements can be obtained at: 2500 - 28th Street Slayton, Minnesota 56172

Joint Ventures

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Murray County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

2. Fund Financial Statements

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

The County reports the following major governmental funds:

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

The County reports the following major enterprise funds:

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments of governmental and fiduciary funds are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$426,732.

The Hospital's investment income for the year ended December 31, 2006, was \$105,894 and is included in nonoperating revenues.

Murray County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

3. Receivables and Payables

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

All receivables are shown net of an allowance for uncollectibles.

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

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

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

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

6. Capital Assets

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the Hospital Enterprise Fund capitalized interest of \$32,915.

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

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

7. Investment in Shetek Medical Services, LLC

The Hospital is a 40 percent owner in Shetek Medical Services, LLC. This venture provides various healthcare-related services to the surrounding area. The Hospital's investment in the clinic is reported on the equity method of accounting. The net loss on the investment, totaling \$11,000 for the year ended December 31, 2006, is included in nonoperating expenses.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

10. Long-Term Obligations

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

E. Hospital Net Patient Service Revenue

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

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

Medicare--The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2003.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1 Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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

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

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

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

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, at least a reasonable possibility exists that recorded estimates will change by a material amount in the near term. Occasionally, final settled costs reports are reopened when necessary to appeal specific items. Net patient service revenue for the year ended 2006 increased approximately \$104,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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

Total patient and resident service revenue	\$	<u>23,769,955</u>
Contractual adjustments and provision for bad debts		
Medicare	\$	(5,763,408)
Medicaid		(573,304)
Blue Cross		(777,102)
Other		(559,306)
Provisions for bad debts		<u>(33,885)</u>
Total contractual adjustments and provisions for bad debts	\$	<u>(7,707,005)</u>
Net Patient and Resident Service Revenue	\$	<u><u>16,062,950</u></u>

2. Stewardship, Compliance, and Accountability

A. Deficit Net Assets

The Congregate Housing Enterprise Fund had deficit net assets for the year ended December 31, 2006, of \$74,523. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

B. Excess of Expenditures Over Budget

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 4,730,044	\$ 4,016,476	\$ 713,568
Ditch Special Revenue Fund	456,099	359,209	96,890

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 8,802,706
Business-type activities	
Cash and pooled investments	4,811,008
Restricted assets - cash and pooled investments	9,200
Restricted assets - assets designated for capital acquisitions	7,750
Component unit - Shetek Area Water and Sewer Commission	
Cash and pooled investments	255,878
Restricted assets	507,723
Agency funds	
Cash and pooled investments	150,807
Total Cash and Investments	\$ 14,545,072
Deposits	
Checking	\$ 318,279
Certificates of deposit	5,436,381
Invested in MAGIC Fund	5,830,962
Invested in U.S. government agency securities	384,000
Invested in negotiable certificates of deposit	2,570,000
Petty cash and change funds	5,450
Total Deposits, Cash on Hand, and Investments	\$ 14,545,072

a. Deposits

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2006, \$157,318 of U.S. government agency securities and \$189,682 of negotiable certificates of deposit held by brokers were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Farm Credit Bank Bond	AAA	S&P	<5%	05/19/2010	<u>\$ 169,000</u>
Federal Home Loan Bank Bond	AAA	S&P	<5%	07/14/2010	<u>\$ 215,000</u>
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	<u>\$ 5,830,962</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Negotiable certificates of deposit					
Atlanta Business Bank, GA	N/A	N/A		06/07/2007	\$ 90,000
Community Bank Pickens, GA	N/A	N/A		06/08/2007	90,000
First Citizens National Bank, TN	N/A	N/A		06/07/2007	90,000
R G Premier Bank, Puerto Rico	N/A	N/A		05/30/2007	95,000
Tifton Banking Co., GA	N/A	N/A		03/28/2007	98,000
Alliance Bank, CA	N/A	N/A		05/31/2007	96,000
Appalachian Comm. Bank, GA	N/A	N/A		05/29/2007	96,000
Chevy Chase Bank, MD	N/A	N/A		05/29/2007	96,000
Citizens Bank of Penn., PA	N/A	N/A		02/20/2007	95,000
Citizens National Bank, TX	N/A	N/A		05/29/2007	96,000
Colorado Federal Svgs. Bank	N/A	N/A		05/29/2007	96,000
Commerce National Bank, OH	N/A	N/A		05/31/2007	96,000
Fidelity Bank, TX	N/A	N/A		05/29/2007	96,000
First Bank of Miami, FL	N/A	N/A		02/20/2007	95,000
First Regional Bank, CA	N/A	N/A		05/29/2007	96,000
First City Bank, GA	N/A	N/A		05/29/2007	96,000
Flagstar Bank, MI	N/A	N/A		02/20/2007	95,000
Hemisphere National Bank, FL	N/A	N/A		05/31/2007	96,000
Imperial Capital Bank, CA	N/A	N/A		05/29/2007	96,000
Indy Mac Bank, CA	N/A	N/A		05/29/2007	96,000
Mercantile Trust & Savings Bank, IL	N/A	N/A		05/31/2007	96,000
Midtown and Trust, GA	N/A	N/A		02/20/2007	95,000
PanAmerican Bank, FL	N/A	N/A		08/20/2007	96,000
Perpetual Federal Savings Bank, OH	N/A	N/A		08/27/2007	96,000
Providian National Bank, NH	N/A	N/A		05/31/2007	96,000
Security Bank of N. Metro, GA	N/A	N/A		02/20/2007	95,000
West Point Bank, WI	N/A	N/A		05/29/2007	96,000
Total negotiable certificates of deposit			29.3%		\$ 2,570,000
Total investments					\$ 8,784,962
Checking					318,279
Certificates of deposit					5,436,381
Petty cash					5,450
Total Cash and Investments					\$ 14,545,072

N/A - Not Applicable

N/R - Not Rated

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

S&P - Standard & Poor's

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities and business-type activities, net of applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 47,600	\$ -
Special assessments	2,128,367	1,682,572
Accounts	54,615	-
Interest	120,164	-
Loans receivable	151,861	125,865
Due from other governments	1,114,533	-
Total Governmental Activities	\$ 3,617,140	\$ 1,808,437
Business-Type Activities		
Accounts	\$ 74,042	\$ -
Patients	3,661,116	-
Total Business-Type Activities	\$ 3,735,158	\$ -

Loans Receivable

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

Loan Agreements		
Beginning balance		\$ 189,402
Loan repayments		(28,285)
Loan write-offs		(9,256)
Ending Balance		\$ 151,861

**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, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 242,598	\$ 2	\$ -	\$ 242,600
Right-of-way	338,662	-	-	338,662
Work in progress	119,303	167,751	119,303	167,751
Total capital assets not depreciated	\$ 700,563	\$ 167,753	\$ 119,303	\$ 749,013
Capital assets depreciated				
Land improvements	\$ 193,095	\$ 36,933	\$ -	\$ 230,028
Buildings	3,795,375	31,972	-	3,827,347
Machinery and equipment	3,656,985	576,079	215,206	4,017,858
Infrastructure	42,021,534	2,701,700	-	44,723,234
Total capital assets depreciated	\$ 49,666,989	\$ 3,346,684	\$ 215,206	\$ 52,798,467
Less: accumulated depreciation for				
Land improvements	\$ 40,909	\$ 9,026	\$ -	\$ 49,935
Buildings	1,566,268	124,676	-	1,690,944
Machinery and equipment	2,391,003	304,558	215,206	2,480,355
Infrastructure	11,349,861	1,154,907	-	12,504,768
Total accumulated depreciation	\$ 15,348,041	\$ 1,593,167	\$ 215,206	\$ 16,726,002
Total capital assets depreciated, net	\$ 34,318,948	\$ 1,753,517	\$ -	\$ 36,072,465
Governmental Activities Capital Assets, Net	\$ 35,019,511	\$ 1,921,270	\$ 119,303	\$ 36,821,478

**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	820,079	-	820,079	-
Total capital assets not depreciated	\$ 963,480	\$ -	\$ 820,079	\$ 143,401
Capital assets depreciated				
Land improvements	\$ 110,214	\$ 257,503	\$ -	\$ 367,717
Buildings	6,399,706	1,191,276	-	7,590,982
Fixed equipment	1,157,435	-	4,997	1,152,438
Major movable equipment	2,628,559	331,333	208,980	2,750,912
Total capital assets depreciated	\$ 10,295,914	\$ 1,780,112	\$ 213,977	\$ 11,862,049
Less: accumulated depreciation for				
Land improvements	\$ 63,719	\$ 11,231	\$ -	\$ 74,950
Buildings	1,506,812	361,272	228,181	1,639,903
Fixed equipment	683,774	42,139	-	725,913
Major movable equipment	1,274,183	351,856	213,847	1,412,192
Total accumulated depreciation	\$ 3,528,488	\$ 766,498	\$ 442,028	\$ 3,852,958
Total capital assets depreciated, net	\$ 6,767,426	\$ 1,013,614	\$ (228,051)	\$ 8,009,091
Business-Type Activities Capital Assets, Net	\$ 7,730,906	\$ 1,013,614	\$ 592,028	\$ 8,152,492

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	91,941
Public safety		61,291
Highways and streets, including depreciation of infrastructure assets		1,359,912
Sanitation		17,781
Culture and recreation, including depreciation of infrastructure assets		61,211
Conservation of natural resources		<u>1,031</u>
Total Depreciation Expense - Governmental Activities	\$	<u>1,593,167</u>
Business-Type Activities		
Hospital	\$	715,377
Congregate Housing		<u>51,121</u>
Total Depreciation Expense - Business-Type Activities	\$	<u>766,498</u>

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfer to Ditch Fund from General Fund	\$	40,316	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund		<u>7,636</u>	Provide funding
Total Interfund Transfers	\$	<u>47,952</u>	

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 141,317	\$ 686,592
Salaries	245,921	226,386
Payroll taxes and other	-	83,763
Due to other governments	221,693	162
Vacation and sick leave	-	528,826
	<hr/>	<hr/>
Total Payables	\$ 608,931	\$ 1,525,729
	<hr/>	<hr/>

2. Construction Commitments

The County has active construction projects as of December 31, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Vehicle purchase	\$ -	\$ 25,151
Gravel crushing	-	81,866
	<hr/>	<hr/>
Total Construction Commitments	\$ -	\$ 107,017
	<hr/>	<hr/>

3. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2006, was \$161,750.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Short-Term Debt - Line of Credit Note Payable

At the end of 2005, the Hospital had \$1,590,000 outstanding on a line of credit to fund a portion of the construction. A total of \$450,000 of this was borrowed during the year. During 2006, tax-exempt revenue bonds were issued in the amount of \$3,600,000 to pay off this line of credit and refund a portion of the cash used for construction.

5. Long-Term Debt

Governmental Activities--Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation notes					
2003 G.O. capital notes	2007	\$275,000	1.40 - 2.10	<u>\$ 810,000</u>	<u>\$ 275,000</u>
Special assessment bonds with government commitment					
1999 G.O. ditch bonds	2014	\$15,000 - \$20,000	4.75 - 5.60	\$ 300,000	\$ 160,000
2001 G.O. ditch bonds	2017	\$80,000 - \$160,000	4.25 - 5.00	2,355,000	1,635,000
2002 G.O. ditch bonds	2011	\$40,000 - \$45,000	2.10 - 3.80	<u>335,000</u>	<u>200,000</u>
Total Special Assessment Bonds				<u>\$ 2,990,000</u>	<u>\$ 1,995,000</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Business-Type Activities--Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
2004 G.O. refunding bonds	2022	\$65,000 - \$130,000	1.75 to 5.00	<u>\$ 1,580,000</u>	\$ 1,440,000
Less: deferred amounts for					
Issuance discount					(13,166)
On refunding					<u>(93,988)</u>
Total General Obligation Refunding Bonds, Net					<u>\$ 1,332,846</u>
Revenue note					
2006 Hospital Revenue Note	2026	\$112,869 - \$270,153	4.69	<u>\$ 3,600,000</u>	<u>\$ 3,546,908</u>

Governmental Activities--Loans Payable

In 1998, the County agreed to act as loan and project sponsor for a loan agreement made under the Clean Water Partnership (CWP) Law with the State of Minnesota through its Pollution Control Agency. The County makes loans to residents to be used for the control and abatement of water pollution. The loans are to be repaid at interest rates of 3.0 to 3.5 percent, with repayment terms from 5 to 20 years, and are secured by special assessments placed on the individual parcels.

In 1998, 2000, and 2001, the County entered into the Lake Shetek Clean Water Partnership Project, the Cottonwood River Restoration Clean Water Partnership Project, and the Beaver Creek Clean Water Partnership Project, respectively. The County is financing the loans to residents with loans from the Minnesota Pollution Control Agency, payable annually with interest at 2.0 percent. Loan payments are reported in the General Fund. In 2004, the Board authorized the transfer of \$100,000 to the Clean Water Partnership Loan Fund for the County septic loan program.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities--Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
Cottonwood River CWP Project	2016	\$ 1,696	2.00	\$ 147,139	\$ 138,590
Beaver Creek CWP Project	2014	9,944	2.00	250,780	217,690
Lake Shetek CWP Project	2013	39,474	2.00	712,332	446,079
Total Loans Payable				<u>\$ 1,110,251</u>	<u>\$ 802,359</u>

6. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Notes		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 275,000	\$ 2,888	\$ 225,000	\$ 87,079
2008	-	-	220,000	77,389
2009	-	-	215,000	67,813
2010	-	-	215,000	58,318
2011	-	-	215,000	48,734
2012 - 2016	-	-	825,000	117,656
2017	-	-	80,000	2,000
Total	<u>\$ 275,000</u>	<u>\$ 2,888</u>	<u>\$ 1,995,000</u>	<u>\$ 458,989</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 101,025	\$ 14,118
2008	103,056	12,087
2009	105,127	10,016
2010	88,493	7,996
2011	90,272	6,217
2012 - 2016	243,044	8,570
Total	<u>\$ 731,017</u>	<u>\$ 59,004</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements

Governmental Activities (Continued)

The loans payable to the Minnesota Pollution Control Agency of \$71,342 do not have fixed amortization schedules at December 31, 2006, and are not included in the previous table.

Business-Type Activities

Year Ending December 31	Revenue Note		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 112,869	\$ 171,565	\$ 65,000	\$ 58,009
2008	118,060	166,374	70,000	56,402
2009	124,466	159,968	70,000	54,565
2010	130,716	153,718	70,000	52,553
2011	137,280	147,154	75,000	50,284
2012 - 2016	796,185	625,984	415,000	206,935
2017 - 2021	1,017,796	404,373	545,000	102,038
2022 - 2026	1,109,536	124,434	130,000	3,250
Total	\$ 3,546,908	\$ 1,953,570	\$ 1,440,000	\$ 584,036

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation notes	\$ 545,000	\$ -	\$ 270,000	\$ 275,000	\$ 275,000
Special assessment debt with government commitment	2,225,000	-	230,000	1,995,000	225,000
Total bonds payable	\$ 2,770,000	\$ -	\$ 500,000	\$ 2,270,000	\$ 500,000
Less: deferred amounts for issuance discounts	(758)	-	(758)	-	-
Net bonds and notes payable	\$ 2,769,242	\$ -	\$ 499,242	\$ 2,270,000	\$ 500,000
Loans payable	861,339	29,626	88,606	802,359	101,025
Compensated absences	392,512	29,731	-	422,243	45,044
Governmental Activities Long-Term Liabilities	\$ 4,023,093	\$ 59,357	\$ 587,848	\$ 3,494,602	\$ 646,069

**MURRAY COUNTY
SLAYTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 1,505,000	\$ -	\$ 65,000	\$ 1,440,000	\$ 65,000
Line of credit notes	1,590,000	-	1,590,000	-	-
Revenue note of 2006	-	3,600,000	53,092	3,546,908	112,869
Compensated absences	4,952	1,661	-	6,613	298
Total long-term liabilities	\$ 3,099,952	\$ 3,601,661	\$ 1,708,092	\$ 4,993,521	\$ 178,167
Less: deferred amounts	(114,298)	-	(7,144)	(107,154)	-
Business-Type Activities Long-Term Liabilities	<u>\$ 2,985,654</u>	<u>\$ 3,601,661</u>	<u>\$ 1,700,948</u>	<u>\$ 4,886,367</u>	<u>\$ 178,167</u>

8. Prior Years' Debt Defeasance - Business-Type Activities

In prior years, the County has defeased for the City of Slayton Economic Development Authority the General Obligation Housing Development Bonds, Series 1996, which were accounted for in the Congregate Housing Enterprise Fund as a capital lease, by creating a separate irrevocable trust fund. New debt has been issued, and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the capital lease, which was backed by the General Obligation Housing Development Bonds, Series 1996, has been considered defeased and, therefore, removed as a liability from the County's financial statements. As of December 31, 2006, the amount of defeased debt outstanding but removed from financial statements amounted to \$1,330,000.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70

**MURRAY COUNTY
SLAYTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>
2006	\$ 148,266	\$ 39,422
2005	130,723	27,834
2004	126,882	21,642

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

B. Defined Contribution Plan

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

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

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

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$6,104, \$5,407, and \$4,209, respectively, equal to the contractually required contributions for each year as set by state statute.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

5. Risk Management

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

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

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000 with a substantial umbrella providing excess coverage.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

Refunding of Debt

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

Crossover Refund

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

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

Current Refund

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

Debt Issued

In 2007, Murray County issued two bond issues for the Shetek Area Water and Sewer Commission. See Note 7.D.2.

B. Contingent Liabilities

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

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

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

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 2006 was \$968,702.

At December 31, 2006, Lincoln, Lyon, & Murray Human Services reported a total fund balance of \$3,727,407. In addition, governmental activities of Lincoln, Lyon, & Murray Human Services reported total net assets of \$3,374,957. Lincoln, Lyon, & Murray Human Services' long-term debt at December 31, 2006, is composed of \$464,084 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.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 2006 was \$52,584.

At December 31, 2005, the Health Services had net assets of \$905,772 and long-term liabilities of \$99,767.

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

Lincoln-Pipestone Rural Water System

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

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

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

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

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

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

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

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, 2005 (the most recent information available), were \$6,490,000, and notes payable were \$263,397. Fund balance was \$17,443,501.

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Minnesota River Board

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

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$3,078 of the County levy to the RCRCA.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Heron Lake Watershed District

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

E. Agricultural Best Management Loan Program

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

F. Functional Expenses - Hospital Enterprise Fund

The Hospital provides general healthcare services to patients within its geographic location. Expenses related to providing these services by functional class for the year ended December 31, 2006, are:

Patient healthcare services	\$ 10,971,676
General and administrative	<u>1,933,603</u>
Total	<u>\$ 12,905,279</u>

G. Concentrations of Credit Risk - Hospital Enterprise Fund

The Hospital grants credit, without collateral, to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2006, follows:

Medicare	34%
Medicaid	4
Other third-party payors	<u>62</u>
Total	<u>100%</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

The accounting policies of the Shetek Area Water and Sewer Commission conform to generally accepted accounting principles.

1. Financial Reporting Entity

The Shetek Area Water and Sewer Commission was formed May 8, 2001, pursuant to Minn. Stat. §§ 115.18 to 115.37. The Commission was created for the purpose of promoting the public health and welfare by providing an adequate and efficient means of collecting, conveying, pumping, treating, and disposing of domestic sewage and industrial waste within the Shetek area. The Commission is governed by a five-member Board appointed by the Murray County Board of Commissioners. Each member of the Board must be a voter residing in the area.

The Shetek Area Water and Sewer Commission has no component units for which it is financially accountable.

2. Basis of Presentation

The accounts of the Shetek Area Water and Sewer Commission are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commission's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues. Operating revenues result from exchange transactions associated with providing water and sewer services, the Commission's principal activity. Nonexchange revenues, including contributions from Murray County, are reported as nonoperating revenues.

3. Basis of Accounting

The Commission uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Pursuant to GASB Statement 20, the Commission has elected to not apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

4. Assets and Liabilities

Deposits and Investments

The Commission's cash balance is combined with Murray County as part of its pooled cash and investments account. Investments are reported at fair value, based on market prices.

Cash and Cash Equivalents

The Commission has defined cash and cash equivalents to include restricted and unrestricted cash held by Murray County as part of its pooled cash and investments account. The Murray County pooled investment account is treated as a cash equivalent because the Commission can deposit or effectively withdraw cash at any time without prior notice or penalty.

Due From Other Governments

The amount reported as due from other governments at December 31, 2006, is receivable from the Minnesota Public Facilities Authority and represents draw-downs requested on the revenue notes.

Restricted Assets

Certain funds of the Commission are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, applicable laws and regulations limit their use. When the Commission has both restricted and unrestricted assets available to finance a particular program, it is the Commission's policy to use restricted assets before unrestricted assets.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities (Continued)

Special Assessments Receivable and Revenue

Special assessments were levied to pay debt associated with the sewer system construction and are reported as capital contributions in an amount equal to the capital asset. In Minnesota, counties act as collection agents for special assessments levied with property taxes. Tax settlements, including special assessment collections, are received four times a year--in January, June, July, and December. The special assessments levy is recognized as capital contributions in the year of the levy.

Capital Assets

Capital assets are stated at cost. Depreciation will be determined using the straight-line method for the estimated useful lives of the assets. Since there were no depreciable capital assets at the end of 2006, no determination has been made for estimated useful lives.

5. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

6. Prior Period Adjustment

Net assets of the Shetek Area Water and Sewer Commission at January 1, 2006, have been restated. Previously, the Commission did not capitalize engineering costs related to the sewer system being installed. These costs are part of the total

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

6. Prior Period Adjustment (Continued)

construction costs capitalized as construction-in-progress, and will be depreciated when the project is completed. The restatement capitalizes engineering costs as construction-in-progress at December 31, 2005. The restatement is as follows:

Net assets, as previously reported	\$ (3,430)
Correction of error in recording construction-in-progress	<u>481,631</u>
Net assets, as restated	<u>\$ 478,201</u>

7. Change in Accounting

In 2006, due to construction of a new sewer system, the Commission now reports on the accrual basis; formerly, it reported its fund transactions on the modified accrual basis and its government-wide financial statements on the accrual basis of accounting.

B. Detailed Notes

1. Deposits

Cash transactions are administered by the Murray County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Commission's Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement which Murray County was in compliance with at December 31, 2006. As of December 31, 2006, the Commission had \$763,601 on deposit with Murray County.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2006, follows:

	Balance January 1, 2006 (Restated)	Additions	Deletions	Balance December 31, 2006
Capital assets not depreciated				
Land	\$ -	\$ 326,000	\$ -	\$ 326,000
Construction in progress	481,631	8,444,984	-	8,926,615
Total Capital Assets, Net	<u>\$ 481,631</u>	<u>\$ 8,770,984</u>	<u>\$ -</u>	<u>\$ 9,252,615</u>

3. Construction Funding Sources

Cumulative construction and debt-related costs and funding sources as of December 31, 2006, follow:

Construction costs	
Engineering and design	\$ 1,044,871
Construction	7,881,744
Total Construction Costs	<u>\$ 8,926,615</u>
Funding sources	
Minnesota Public Facilities Water Pollution Control Revolving Fund loan	\$ 6,873,004
Wastewater Infrastructure Fund loan	3,206,479
Total Funding Sources	<u>\$ 10,079,483</u>

4. Long-Term Obligations

The following is a summary of the Commission's long-term debt activity for the year ended December 31, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Public Facilities Authority General Obligation Notes	<u>\$ -</u>	<u>\$ 10,079,483</u>	<u>\$ -</u>	<u>\$ 10,079,483</u>	<u>\$ -</u>

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

4. Long-Term Obligations (Continued)

Long-term debt is composed of the following:

\$15,144,000 General Obligation Notes issued to the Minnesota Public Facilities Authority: \$11,554,549 from the Water Pollution Control Revolving Fund and \$3,589,451 from the Wastewater Infrastructure Fund. Amounts drawn or receivable on this note as of December 31, 2006, were \$10,079,483: \$6,873,004 from the Water Pollution Control Revolving Fund and \$3,206,479 from the Wastewater Infrastructure Fund. Note payments for the Water Pollution Control Revolving Fund are due semi-annually for interest and annually for principal on February 20 and August 20, 2008 through 2026, at an interest rate of 1.01 percent. The Wastewater Infrastructure Fund note payments do not begin until the Revolving Fund loans are repaid. The principal payments are due semi-annually beginning on February 20, 2027 through 2032, and are interest-free.

Debt service requirements at December 31, 2006, are as follows:

Year Ended December 31	Minnesota Public Facilities Authority Loans		
	Water Pollution Control Revolving Fund		Wastewater Infrastructure Fund
	Principal	Interest	Principal
2008	\$ 329,268	\$ 62,249	\$ -
2009	333,106	66,092	-
2010	336,675	62,727	-
2011	340,243	59,327	-
2012	343,812	55,891	-
2013 - 2017	1,769,622	226,704	-
2018 - 2022	1,861,821	135,500	-
2023 - 2027	1,558,457	39,549	300,151
2028 - 2032	-	-	2,906,328
Total	\$ 6,873,004	\$ 708,039	\$ 3,206,479

The general obligation revenue notes will be retired with income from operations, special assessments, and unused construction funding and are exempt from the limitations on net debt imposed by Minnesota Law.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes (Continued)

5. Construction Commitment

As of December 31, 2006, the Commission had the following commitment with respect to the unfinished construction project.

<u>Contractor</u>	<u>Project</u>	<u>Remaining Construction Commitment</u>
Duininck Bros., Inc.	Wastewater Collection System	\$ 4,818,338

C. Risk Management

The Shetek Area Water and Sewer Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Commission has purchased commercial insurance to insure these risks. There are no employees of the Shetek Area Water and Sewer Commission as the Commission has hired independent contractors to operate the plant and perform its accounting functions. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance during the audit period.

D. Summary of Significant Contingencies and Other Items

1. Contingent Liability

Murray County has paid for certain engineering and other expenses on behalf of the Shetek Area Water and Sewer Commission for the period of 1997 to 2006, with the understanding that if funding becomes available to the Commission, these expenses would be reimbursed to Murray County. According to Murray County records, the amount owed from the Shetek Area Water and Sewer Commission to Murray County at December 31, 2006, is \$112,143. This is not reported as a liability on the Shetek Area Water and Sewer Commission's financial statements.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

7. Component Unit Disclosures

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

2. Subsequent Events

On August 1, 2007, the County issued \$1,715,000 in General Obligation Water Revenue Bonds, Series 2007, for the Shetek Area Water and Sewer Commission to pay for activities not covered by the loans received through the Minnesota Public Facilities Authority.

On December 1, 2007, the County issued \$2,080,000 in General Obligation Sewer Revenue Bonds, Series 2007B, for the Shetek Area Water and Sewer Commission to pay for activities not covered by the loans received through the Minnesota Public Facilities Authority.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,265,248	\$ 3,285,248	\$ 3,000,618	\$ (284,630)
Special assessments	248,513	222,403	234,890	12,487
Licenses and permits	14,230	14,230	21,266	7,036
Intergovernmental	1,324,673	1,529,396	1,912,036	382,640
Charges for services	311,200	311,200	437,678	126,478
Fines and forfeits	-	-	9	9
Gifts and contributions	15,650	15,650	30,420	14,770
Investment earnings	227,000	227,000	379,815	152,815
Miscellaneous	208,898	208,898	276,873	67,975
Total Revenues	\$ 5,615,412	\$ 5,814,025	\$ 6,293,605	\$ 479,580
Expenditures				
Current				
General government				
Commissioners	\$ 211,883	\$ 217,611	\$ 184,328	\$ 33,283
Courts	12,400	12,400	7,280	5,120
Law library	14,000	14,000	11,810	2,190
Auditor/Treasurer	336,465	336,465	333,166	3,299
License center	91,934	91,934	78,922	13,012
Assessor	182,210	182,210	150,506	31,704
Elections	18,550	223,273	167,219	56,054
Accounting and auditing	30,000	30,000	5,758	24,242
Data processing	62,700	62,700	79,384	(16,684)
Attorney	110,262	110,262	103,466	6,796
Recorder	122,341	122,341	147,667	(25,326)
Planning and zoning	102,813	102,813	81,773	21,040
Buildings and plant	265,886	545,671	514,973	30,698
Veterans service officer	32,436	32,436	33,487	(1,051)
Motor pool	8,931	8,931	9,531	(600)
Machine room	29,600	38,887	46,077	(7,190)
Human resources	51,619	51,619	47,579	4,040
Computer networking	33,627	35,336	25,823	9,513
Safety officer	2,085	2,085	1,043	1,042
Other general government	48,205	48,205	2,234	45,971
Total general government	\$ 1,767,947	\$ 2,269,179	\$ 2,032,026	\$ 237,153

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 870,148	\$ 905,148	\$ 955,324	\$ (50,176)
Drug dog	5,500	5,500	6,905	(1,405)
Boat and water safety	16,081	16,081	17,842	(1,761)
Coroner	10,100	10,100	4,779	5,321
Jail services	83,000	83,000	94,680	(11,680)
E-911 system	59,630	84,630	96,617	(11,987)
Probation	46,343	46,343	49,028	(2,685)
Civil defense	46,560	46,560	48,303	(1,743)
Other public safety	11,800	11,800	2,500	9,300
Total public safety	\$ 1,149,162	\$ 1,209,162	\$ 1,275,978	\$ (66,816)
Sanitation				
Solid waste	\$ 86,484	\$ 100,984	\$ 114,250	\$ (13,266)
Recycling	235,011	235,011	222,800	12,211
Total sanitation	\$ 321,495	\$ 335,995	\$ 337,050	\$ (1,055)
Health				
Nursing service	\$ 7,820	\$ 7,820	\$ 8,261	\$ (441)
Culture and recreation				
Historical society	\$ 57,231	\$ 57,231	\$ 44,798	\$ 12,433
Minnesota trails	-	-	24,001	(24,001)
Transportation	147,950	147,950	153,067	(5,117)
Parks	273,186	273,186	317,251	(44,065)
Senior citizens	11,663	11,663	11,275	388
Regional library	64,074	64,074	63,545	529
Other	4,350	4,350	4,350	-
Total culture and recreation	\$ 558,454	\$ 558,454	\$ 618,287	\$ (59,833)
Conservation of natural resources				
Extension	\$ 150,516	\$ 150,516	\$ 143,536	\$ 6,980
Soil and water conservation	141,445	141,445	134,833	6,612
Agricultural inspection	39,175	39,175	33,426	5,749
Agricultural society	27,800	27,800	27,062	738
RCRCA	4,028	4,028	4,078	(50)
Flood control	4,515	4,515	3,950	565
Water quality loan program	110,000	110,000	123,193	(13,193)
Water planning	30,700	30,700	74,897	(44,197)
Other	8,265	8,265	8,105	160
Total conservation of natural resources	\$ 516,444	\$ 516,444	\$ 553,080	\$ (36,636)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 106,967	\$ 112,467	\$ 112,963	\$ (496)
Other	2,215	2,215	12,629	(10,414)
Total economic development	\$ 109,182	\$ 114,682	\$ 125,592	\$ (10,910)
Intergovernmental				
Sanitation	\$ 27,450	\$ 96,743	\$ 69,056	\$ 27,687
Health	\$ 52,584	\$ 52,584	\$ 52,584	\$ -
Debt service				
Principal	\$ 358,606	\$ 358,606	\$ 358,606	\$ -
Interest	21,759	21,759	21,758	1
Administrative (fiscal) charges	-	-	431	(431)
Total debt service	\$ 380,365	\$ 380,365	\$ 380,795	\$ (430)
Total Expenditures	\$ 4,890,903	\$ 5,541,428	\$ 5,452,709	\$ 88,719
Excess of Revenues Over (Under) Expenditures	\$ 724,509	\$ 272,597	\$ 840,896	\$ 568,299
Other Financing Sources (Uses)				
Transfers in	\$ 60,000	\$ 60,000	\$ -	\$ (60,000)
Transfers out	(236,200)	(236,200)	(47,952)	188,248
Loans issued	-	-	24,786	24,786
Proceeds from sale of assets	-	-	1,502	1,502
Total Other Financing Sources (Uses)	\$ (176,200)	\$ (176,200)	\$ (21,664)	\$ 154,536
Net Change in Fund Balance	\$ 548,309	\$ 96,397	\$ 819,232	\$ 722,835
Fund Balance - January 1	4,387,811	4,387,811	4,387,811	-
Increase (decrease) in reserved for inventories	-	-	(1,900)	(1,900)
Fund Balance - December 31	\$ 4,936,120	\$ 4,484,208	\$ 5,205,143	\$ 720,935

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 585,000	\$ 585,000	\$ 570,409	\$ (14,591)
Intergovernmental	3,236,351	3,236,351	3,848,287	611,936
Charges for services	21,100	21,100	36,651	15,551
Miscellaneous	52,300	52,300	72,713	20,413
Total Revenues	\$ 3,894,751	\$ 3,894,751	\$ 4,528,060	\$ 633,309
Expenditures				
Current				
Highways and streets				
Administration	\$ 264,957	\$ 264,957	\$ 266,762	\$ (1,805)
Engineering	201,733	201,733	123,322	78,411
Maintenance	1,083,858	1,083,858	1,024,158	59,700
Construction	1,740,000	1,740,000	2,612,236	(872,236)
Equipment and maintenance shops	425,928	425,928	416,350	9,578
Total highways and streets	\$ 3,716,476	\$ 3,716,476	\$ 4,442,828	\$ (726,352)
Intergovernmental				
Highways and streets	300,000	300,000	287,216	12,784
Total Expenditures	\$ 4,016,476	\$ 4,016,476	\$ 4,730,044	\$ (713,568)
Excess of Revenues Over (Under) Expenditures	\$ (121,725)	\$ (121,725)	\$ (201,984)	\$ (80,259)
Other Financing Sources (Uses)				
Transfers in	151,000	151,000	-	(151,000)
Net Change in Fund Balance	\$ 29,275	\$ 29,275	\$ (201,984)	\$ (231,259)
Fund Balance - January 1	2,820,004	2,820,004	2,820,004	-
Increase (decrease) in reserved for inventories	-	-	(54,610)	(54,610)
Fund Balance - December 31	\$ 2,849,279	\$ 2,849,279	\$ 2,563,410	\$ (285,869)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 847,754	\$ 847,754	\$ 864,948	\$ 17,194
Intergovernmental	122,554	122,554	103,754	(18,800)
Total Revenues	\$ 970,308	\$ 970,308	\$ 968,702	\$ (1,606)
Expenditures				
Intergovernmental				
Human services	970,308	970,308	968,702	1,606
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 269,947	\$ 269,947	\$ 278,051	\$ 8,104
Miscellaneous	-	-	4,572	4,572
Total Revenues	\$ 269,947	\$ 269,947	\$ 282,623	\$ 12,676
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 31,365	\$ 31,365	\$ 128,144	\$ (96,779)
Debt service				
Principal	230,001	230,001	230,000	1
Interest	96,593	96,593	96,593	-
Administrative (fiscal) fees	1,250	1,250	1,362	(112)
Total Expenditures	\$ 359,209	\$ 359,209	\$ 456,099	\$ (96,890)
Excess of Revenues Over (Under) Expenditures	\$ (89,262)	\$ (89,262)	\$ (173,476)	\$ (84,214)
Other Financing Sources (Uses)				
Transfers in	-	-	40,316	40,316
Net Change in Fund Balance	\$ (89,262)	\$ (89,262)	\$ (133,160)	\$ (43,898)
Fund Balance - January 1	1,336,649	1,336,649	1,336,649	-
Fund Balance - December 31	\$ 1,247,387	\$ 1,247,387	\$ 1,203,489	\$ (43,898)

**MURRAY COUNTY
SLAYTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

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. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 4,890,903	\$ 650,525	\$ 5,541,428

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

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
Road and Bridge Special Revenue	\$ 4,730,044	\$ 4,016,476	\$ 713,568
Ditch Special Revenue	456,099	359,209	96,890

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Statement 1

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 71,025	\$ 9,714,883	\$ 9,666,806	\$ 119,102
<u>Liabilities</u>				
Due to other governments	\$ 71,025	\$ 9,714,883	\$ 9,666,806	\$ 119,102
 <u>SOUTHWEST MINNESOTA OPPORTUNITY COUNCIL</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,742	\$ 31,385	\$ 35,422	\$ 31,705
<u>Liabilities</u>				
Due to other governments	\$ 35,742	\$ 31,385	\$ 35,422	\$ 31,705
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 106,767	\$ 9,746,268	\$ 9,702,228	\$ 150,807
<u>Liabilities</u>				
Due to other governments	\$ 106,767	\$ 9,746,268	\$ 9,702,228	\$ 150,807

This page was left blank intentionally.

OTHER SCHEDULE

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Primary Government	Component Unit
Shared Revenue		
State		
Highway users tax	\$ 3,768,592	\$ -
County program aid	797,907	-
PERA rate reimbursement	11,609	-
Disparity reduction aid	26,057	-
Police aid	27,834	-
Enhanced 911	80,977	-
Market value credit	456,826	-
	\$ 5,169,802	\$ -
Payments		
Local		
Payments in lieu of taxes	\$ 102,341	\$ -
Local grants	-	69,056
Local share of highway projects	5,166	-
	\$ 107,507	\$ 69,056
Grants		
State		
Minnesota Department of Corrections	\$ 9,537	\$ -
Natural Resources	37,247	-
Transportation	46,569	-
Veterans Affairs	1,400	-
Water and Soil Resources Board	119,877	-
Peace Officer Standards and Training Board	1,447	-
Pollution Control Agency	77,935	-
	\$ 294,012	\$ -
Federal		
Department of Housing and Urban Development	\$ 10,501	\$ -
Transportation	18,361	-
Homeland Security	59,172	-
Election Assistance Commission	204,722	-
	\$ 292,756	\$ -
Total state and federal grants	\$ 586,768	\$ -
Total Intergovernmental Revenue	\$ 5,864,077	\$ 69,056

This page was left blank intentionally.

This page was left blank intentionally.

**MURRAY COUNTY
SLAYTON, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of personnel within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Murray County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Client's Response:

Murray County is aware that because of the size of the accounting staff it is impossible to achieve proper segregation of duties. The County continues to find ways to implement internal controls and oversight procedures.

05-1 Financial Reporting

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over recording, processing, and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation of financial statements in accordance with GAAP.

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments. During our audit, we noted several deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

Although Murray County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and the related notes to the financial statements. Also, this process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

Client's Response:

Murray County will continue to obtain training and expertise in financial reporting.

ITEMS ARISING THIS YEAR

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets, liabilities, and fund balance did not detect a number of errors, which resulted in the client's modified accrual records overstating assets, fund balance, revenues, and other financing sources, and understating liabilities and expenditures; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by an individual qualified to identify potential misstatements.

Client's Response:

Murray County will continue to review and implement internal controls to detect misstatements in the financial statements, including a review of the balances and supporting documentation by the County Auditor and Audit Committee.

06-2 Capital Assets Policies and Procedures

The County's current capital assets policy defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods; however, the policy does not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital asset will take place. Also, it is not clear how the costs of replaced infrastructure assets are being deleted, if at all.

The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board address these issues in the capital assets policy. The policy should establish procedures to address the point when useful lives of current capital assets should be reconsidered.

Client's Response:

Murray County will update its capital assets policy, reviewing the useful lives of assets.

06-3 Computer Risk Management

The County has internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage risks associated with its computer system, tested its disaster recovery plan, required strong passwords, or limited the number of computers a user can be logged onto concurrently.

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored. Because computer systems are ever-changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls and policies are still effective.

We recommend the County Board direct management to develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. These controls over the computer system are necessary to maintain proper controls over financial reporting. The controls implemented should include requiring strong passwords and setting a limit to the number of computers a user can be logged onto at any time. We also recommend the County update and test its disaster recovery plan.

Client's Response:

Murray County has implemented a stronger policy on management of internal controls over passwords and users and has begun working on a Continuity of Operations Plan.

06-4 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

Murray County is working on a comprehensive Accounting Policies and Procedures Manual as well as working on training with departments on the need for internal control procedures.

06-5 Antifraud Programs and Controls

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission's Internal Control – Integrated Framework specifies five components of an effective antifraud program: (1) performing fraud risk assessments, (2) creating a control environment, (3) designing and implementing antifraud control activities, (4) sharing information and communication, and (5) monitoring activities.

The County should communicate its philosophy on antifraud programs and controls throughout the organization. This should help ensure that employees understand the antifraud activities in place, know what is expected of them, and realize the organization takes fraud risks and prevention very seriously. All levels of the organization should have involvement in these communications and, if appropriate, communications should also be made to external parties (including clients, suppliers, and agents).

We recommend the County improve internal controls over antifraud programs and controls. The controls should address all five components of an effective antifraud program according to the COSO framework. We encourage Murray County to not only obtain the training and expertise to implement a program that prevents, deters, and detects fraud, but also to monitor and test the controls in place to evaluate whether the controls are operating effectively and in the intended manner.

Client's Response:

Murray County will conduct anti-fraud training with management and departments and implement means by which anti-fraud measures can be tested.

06-6 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detailed estimated revenue source by fund and the budgeted expenditure by fund, function, and departments, are not always clearly documented. In addition, the Board has not developed and adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved revenue budgets did not agree with the recorded budget in the County's general ledger for the General Fund and Road and Bridge Special Revenue Fund. The budget information published in the official newspaper also did not agree with the Board-approved budgets for either revenues or expenditures.

We recommend the County Board adopt and record in its minutes, fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policy and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

Murray County will adopt a new budget policy that implements the recommendations of the Office of the State Auditor.

06-7 Payroll-Related Matters

Access to the County's payroll system is not sufficiently restricted. We found three individuals have the ability to access, change, add, and delete information from the payroll system. Also, no controls exist to verify the correct pay rates were in the system for all employees, that pay rates were updated for authorized reasons, or that any payroll information changes were reviewed by other County personnel. We also found the total salary paid to one employee from 2001 through 2007 exceeded the Board-approved salary for that employee by \$2,085 for that period. These conditions represent a serious

weakness to the County's internal controls. Any changes required to an employee's payroll information should be performed by the centralized payroll staff. Without improved controls, employees could be receiving the incorrect pay or employees could be added or deleted from the system without being noticed.

We recommend that County management implement oversight procedures to ensure any changes made to an employee's payroll information are correct, are made for authorized purposes, and are reviewed by someone other than the person making the change. We also recommend the County Board determine a course of action for the employee that was overpaid.

Client's Response:

Murray County has purchased a Human Resources Module that will interface directly to payroll, limiting the number of individuals with access to make changes. The changes made by the Human Resources Director will be overseen by the County Auditor.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

06-8 Depository Pledge Agreement

The depository pledge agreement between the County and Minnwest Bank South states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the custodian so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states, "The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged."

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

Murray County has secured an agreement with Minnwest Bank South that contains the default language of Minn. Stat. § 118A.03, subd. 4.

06-9

Broker's Statement

The County did not obtain a broker's statement from Multi-Bank Securities, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, or United Securities Alliance, Inc., before transacting business with those organizations during 2006.

According to Minn. Stat. § 118A.04, subd. 9(c), "A broker must acknowledge annually receipt of the statement of investment restrictions in writing and agree to handle the government entity's account in accordance with these restrictions. A government entity may not enter into a transaction with a broker until the broker has provided this written agreement to the government entity." Since the aforementioned organizations makes investment decisions for the County by procuring investments for them, a broker's statement should have been obtained.

We recommend that the County comply with Minn. Stat. § 118A.04, subd. 9(c).

Client's Response:

We will comply with Minn. Stat. § 118A.04, subd. 9(c).

PREVIOUSLY REPORTED ITEMS RESOLVED

Safekeeping of Collateral (02-4)

The First National Bank of Fulda stated that the collateral pledged to Murray County was held in safekeeping at the Federal Reserve Bank in Minneapolis. The safekeeping agreement between the First National Bank of Fulda and the County was 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 was pledged in the County's name and was indeed being kept at the Federal Reserve.

Resolution

The County obtains a monthly report directly from the Federal Reserve that shows the collateral held on behalf of Murray County.

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

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

Resolution

All monies of the Component Unit are now included under the County's tax identification number and were fully protected as required by Minn. Stat. § 118A.03 for the 2006 audit.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

06-10 Compliance with Agreement with Minnesota Public Facilities Authority

Murray County pledged net revenues and special assessments on debt financed through the Minnesota Public Facilities Authority (PFA) as part of a Bond Purchase and Project Loan Agreement for the construction of a centralized sewer system in the Shetek Area Water and Sewer Commission area. As part of the agreement, if the County receives prepaid special assessments and/or connection charges, the County is required to immediately notify the PFA. The PFA will then direct the County to either use the funds to pay eligible construction costs or to make a payment to the PFA in addition to the regularly scheduled debt service payments.

The County received \$507,723 of prepaid special assessments in 2006 but, as of January 15, 2008, had not informed the PFA.

We recommend the County follow the terms and requirements of all executed agreements.

Client's Response:

Murray County received word [in an email dated January 22, 2008] from the financial advisor of the Shetek Area Water and Sewer District that PFA will not require Murray County to forward any of the prepaid special assessments until the project had reached substantial completion. This is due to the fact that the County is doing a second supplemental assessment for the project (making adjustments to the original) so the final assessments and prepaids will not be known until the supplemental assessment is complete.

PREVIOUSLY REPORTED ITEM RESOLVED

Contracting and Board Minutes (05-3)

The Board minutes stated the Sheriff could purchase two vehicles off the state contract. The Sheriff purchased the vehicles from a different vendor without bringing any information back to the County Board.

Resolution

The items approved by the County Board were the items purchased during 2006.

C. **OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

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

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, the County Board will have to determine whether the establishment of a trust is desirable in order to fund the OPEB; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

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



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

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2006, and have issued our report thereon dated April 18, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 99-1, 05-1, and 06-1 through 06-7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Murray County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-1 to be 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 Recommendations as items 06-8 and 06-9.

Also included in the Schedule of Findings and Recommendations are a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to Murray County, and they are reported for that purpose.

Murray County's written responses to the significant deficiencies, material weakness, and legal compliance and management practice findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 18, 2008