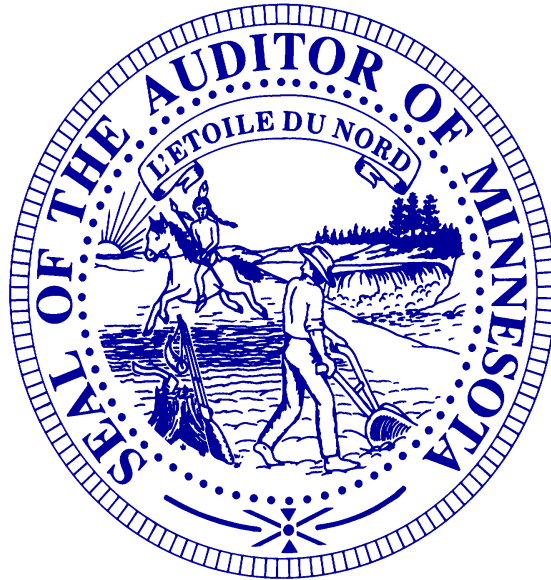


STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

Minnesota County Finances

2008 Revenues, Expenditures, and Debt

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

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

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

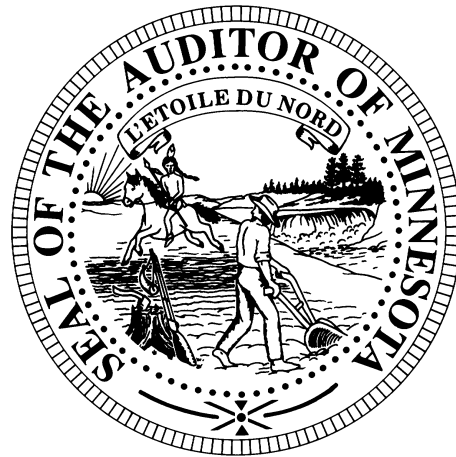
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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2008 Revenues, Expenditures, and Debt



April 27, 2010

Government Information Division Office of the State Auditor State of Minnesota

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Scope and Methodology

This publication is intended to help the public, local government officials, and other policy makers understand county financial operations. The report summarizes, through data tables and charts, the financial operations of Minnesota counties for calendar year 2008.

The data presented in this report is divided into governmental funds and proprietary funds. The governmental funds consist of the General, Special Revenue, Capital Projects, Permanent, and Debt Service Funds. The revenues, expenditures and debt of these funds are summarized in Table 1. Table 2 presents the data by each individual county.

The enterprise or proprietary funds of counties are presented separately from the governmental funds. Minnesota counties operate many types of public service enterprises. These enterprises furnish a variety of services that operate primarily from revenues derived from the sale of goods or services. The financial operations of the public service enterprises are presented in Table 3.

Table 4 lists by county the bonded and other long-term debt outstanding as of December 31, 2008. Other long-term debt refers to liabilities such as long-term lease agreements, installment purchase contracts, and notes.

Tables 5 and 6 present an analysis of the 2007 and 2008 unreserved fund balances in the General Fund and Special Revenue Funds of counties. The tables show the actual unreserved fund balances, the percentage change in unreserved fund balances from 2007 to 2008, and a comparison of 2008 unreserved fund balances to total current expenditures. Appendix A provides a more detailed discussion of fund balances.

In addition to this publication, the Office of the State Auditor maintains an interactive database containing several years of data. The database can be accessed through the Office of the State Auditor's website at: <http://www.auditor.state.mn.us>.¹

¹The direct link to the comparison tool is: <http://www.auditor.state.mn.us/default.aspx?page=ComparisonTools>.

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Executive Summary

Current Trends

- Minnesota county revenues totaled \$5.6 billion in 2008. This represents an increase of \$145.6 million or 2.7 percent over 2007. The rise in total revenues was primarily due to a \$161.7 million or 7.2 percent increase in tax revenues (pg. 5).
- Counties reported total expenditures of \$6.2 billion in 2008. This represents an increase of \$372.1 million, or 6.4 percent, over total expenditures in 2007 (pg. 9).
- In 2008, Minnesota counties reported outstanding long-term debt of \$3.2 billion.² This represents an increase of 12.2 percent over long-term debt reported in 2007. Hennepin County accounted for \$235.2 million, or 66.8 percent, of the overall increase. A significant portion of this amount (\$191.8 million) was issued on behalf of the Minnesota Ballpark Authority (pg. 13).
- The operating losses of Minnesota county enterprises totaled \$24.0 million in 2008. This represents an increase of 43.5 percent over the operating losses of \$16.7 million reported in 2007. The net income of county enterprises totaled \$26.8 million in 2008. This represents an increase of 51.6 percent over 2007 (pg. 14).
- In 2008, current expenditures grew at a faster rate (9.8 percent) than unreserved fund balances (2.8 percent). As a result, the average unreserved fund balances as a percent of current expenditures for counties declined from 43.8 percent in 2007 to 41.0 percent in 2008 (pg. 15).

Ten-Year Trends

- In actual dollars, total revenues rose 50.3 percent from 1999 to 2008. When converted to constant dollars, the increase totaled 1.8 percent.³ An examination of the trend in constant revenues shows that 2008 total revenues were less than in 2000 (pg. 6).
- Since 2002, the share of total revenues derived from taxes has increased from 35.7 percent to 43.3 percent, while the share of total revenues derived from state grants has decreased from 34.8 percent to 25.1 percent (pg. 7).
- When adjusted for inflation, total county expenditures increased 6.6 percent from 1999 to 2008. In actual dollars, the increase was 57.4 percent (pg. 10).
- When adjusted for inflation, outstanding long-term indebtedness grew 67.7 percent between 1999 and 2008. In actual dollars, long-term debt increased 147.5 percent over this period (pg. 13).

²Long-term debt includes bonded indebtedness and other long-term debt such as notes or long-term leases.

³Constant dollars will refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments (N.I.P.A. Table 1.1.9) setting 1999 as the base year.

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Comparison and Overview

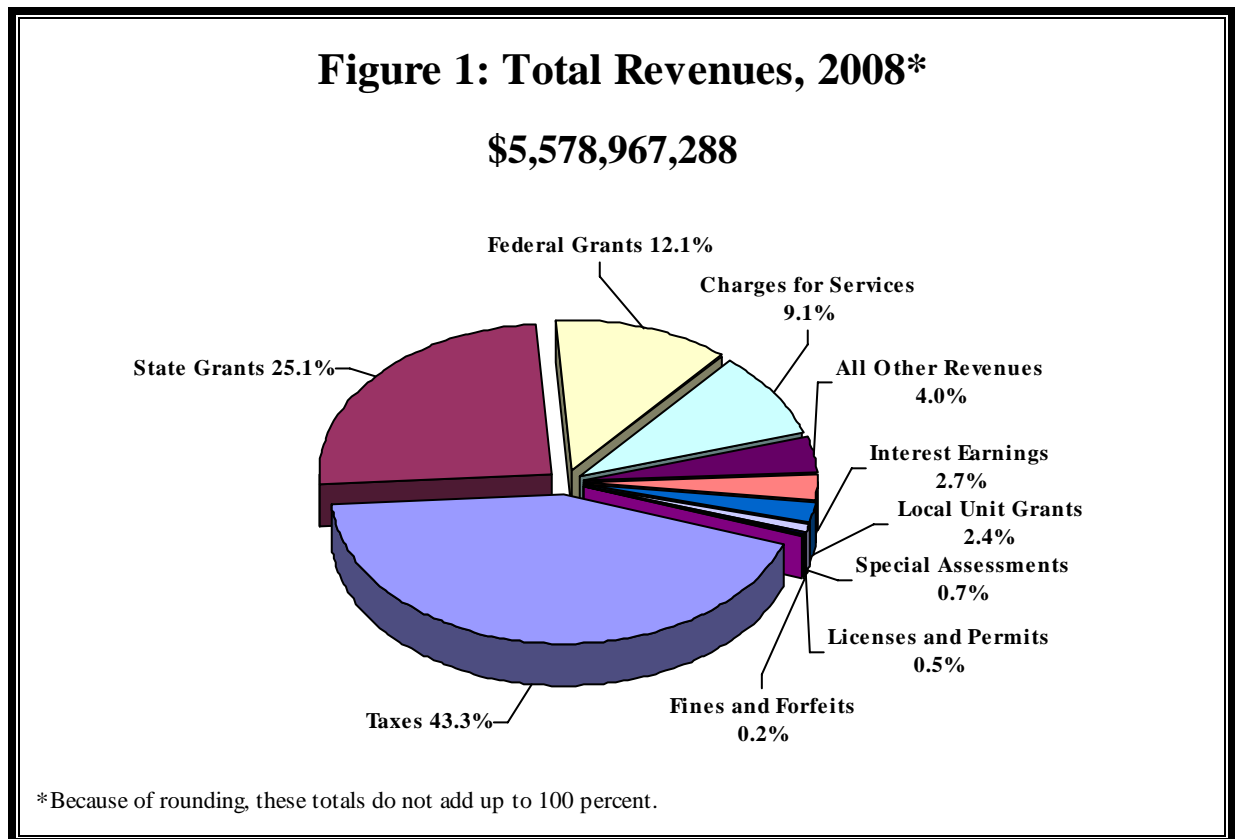
Governmental Fund Revenues

Current and Five-Year Trends

Minnesota county revenues totaled \$5.6 billion in 2008. This represents an increase of \$145.6 million or 2.7 percent over 2007. The rise in total revenues was primarily due to a \$161.7 million or 7.2 percent increase in tax revenues. Federal grants also showed a significant increase but most of the growth is attributable to a reclassification of certain state human service grants and reimbursements to federal grants. Decreases in other revenue categories, including charges for services, interest earnings, and state grants, moderated the overall growth in county revenues.

Taxes and state grants are the most significant sources of county revenues, accounting for 68.4 percent of total revenues in 2008. The next two largest sources of revenues for counties are federal grants and charges for services. In 2008, federal grants accounted for 12.1 percent of total revenues, compared to 9.0 percent in 2007. Charges for services accounted for 9.1 percent of total revenues in 2008, compared to 9.9 percent in 2007.

Figure 1 shows the relative shares of total governmental revenues by source.

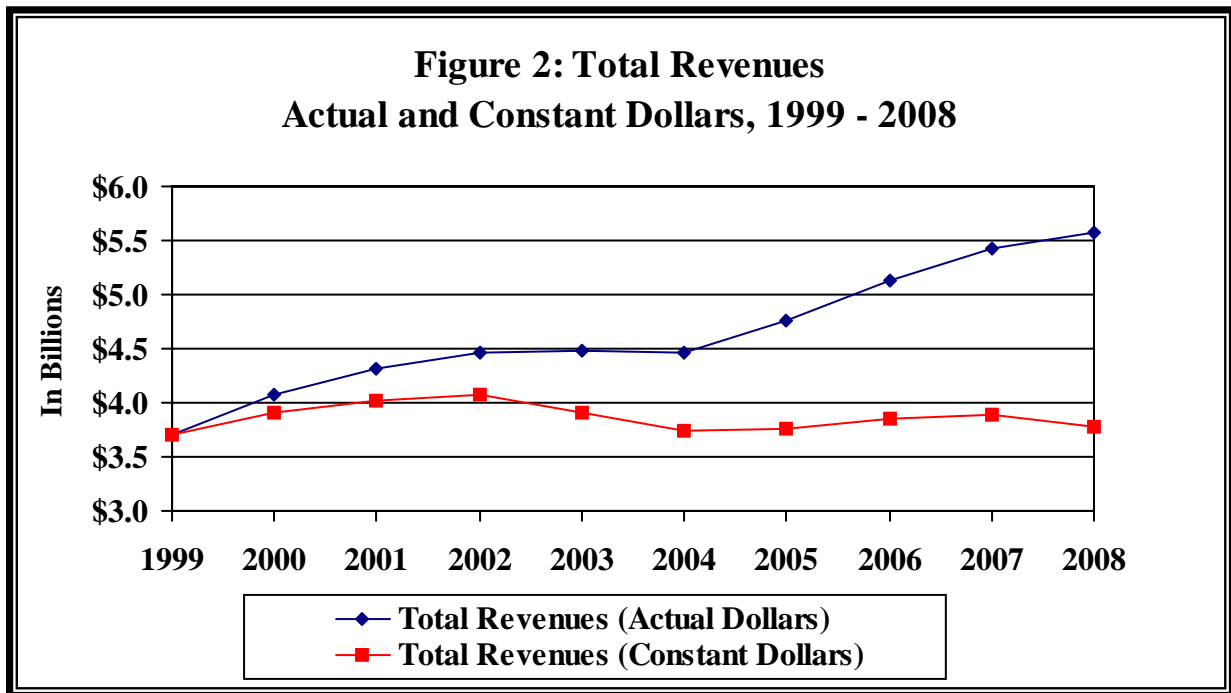


Between 2007 and 2008, two categories of revenues rose by double digits: local unit grants (49.7 percent) and federal grants (37.1 percent). The large increase in local unit grants primarily reflects transfers from the City of Minneapolis to Hennepin County as part of the city-county library systems merger agreement. The growth in federal grants principally reflects the reclassification of state human services grants and reimbursements to federal human services grants. Federal human services grants increased \$171.2 million, while state human services grants decreased \$98.1 million and reimbursements related to human service programs declined \$32.1 million.⁴ Other categories of revenues that rose over this period included special assessments (2.4 percent) and all other revenues (3.3 percent).

Several sources of county revenues declined between 2007 and 2008, including interest earnings (-25.6 percent), state grants (-10.6 percent), charges for services (-5.7 percent), and licenses and permits (-3.6 percent). The decrease in interest earnings was the result of poor market conditions in 2008. The decline in state grants reflects the reclassification of the human services grants as well as a \$42.0 million unallotment of county program aid and \$41.7 million decrease in state transportation grants. Charges for services declined primarily because of the reclassification of human services reimbursements to federal human services grants.

Ten-Year Trends

Figure 2 below shows trends for total county revenues in actual and constant dollars for the years 1999 to 2008. In actual dollars, total revenues rose 50.3 percent from 1999 to 2008. When converted to constant dollars, the increase totaled 1.8 percent.⁵ An examination of the trend in constant revenues shows that 2008 total revenues were less than in 2000.



⁴These reimbursements had previously been classified as charges for services.

⁵Constant dollars will refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments (N.I.P.A. Table 1.1.9) setting 1999 as the base year.

Primary Sources of Revenues

Over the past ten years, the primary sources of revenues for counties have been taxes, state grants, federal grants, and charges for services. Figure 3 below shows how the composition of primary sources of revenue for counties changed from 1999 to 2008.

This analysis illustrates some of the structural changes within county revenues in recent years. Since 2002, the share of total revenues derived from taxes has increased from 35.7 percent to 43.3 percent, while the share of total revenues derived from state grants has decreased from 34.8 percent to 25.1 percent. The recent reclassification of certain state human services grants to federal human services grants has increased the percent of total revenues derived from federal grants to 12.1 percent.

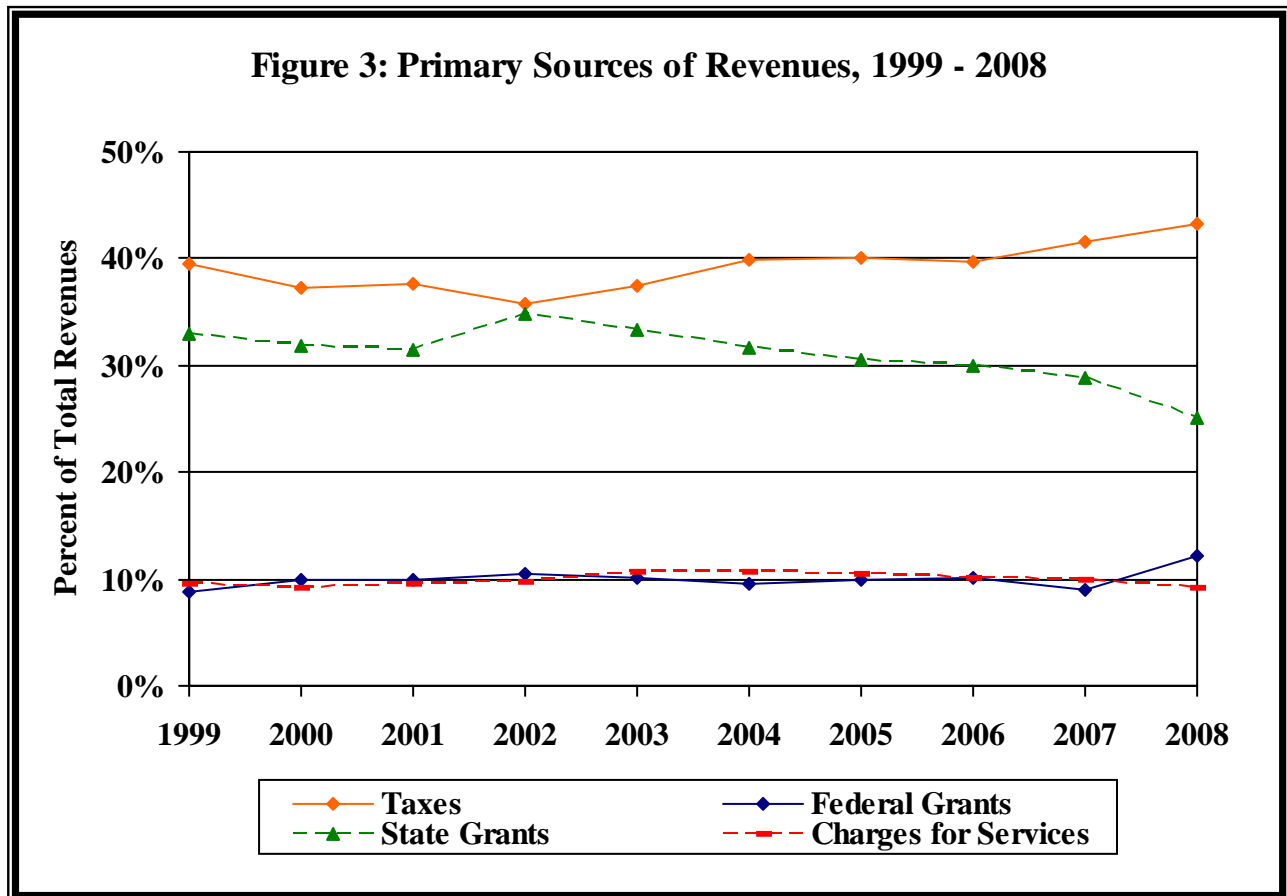


Table 1a below shows the ten-year trend in revenues in constant dollars. The table breaks down the trend into two five-year segments as well as the overall ten-year trend.

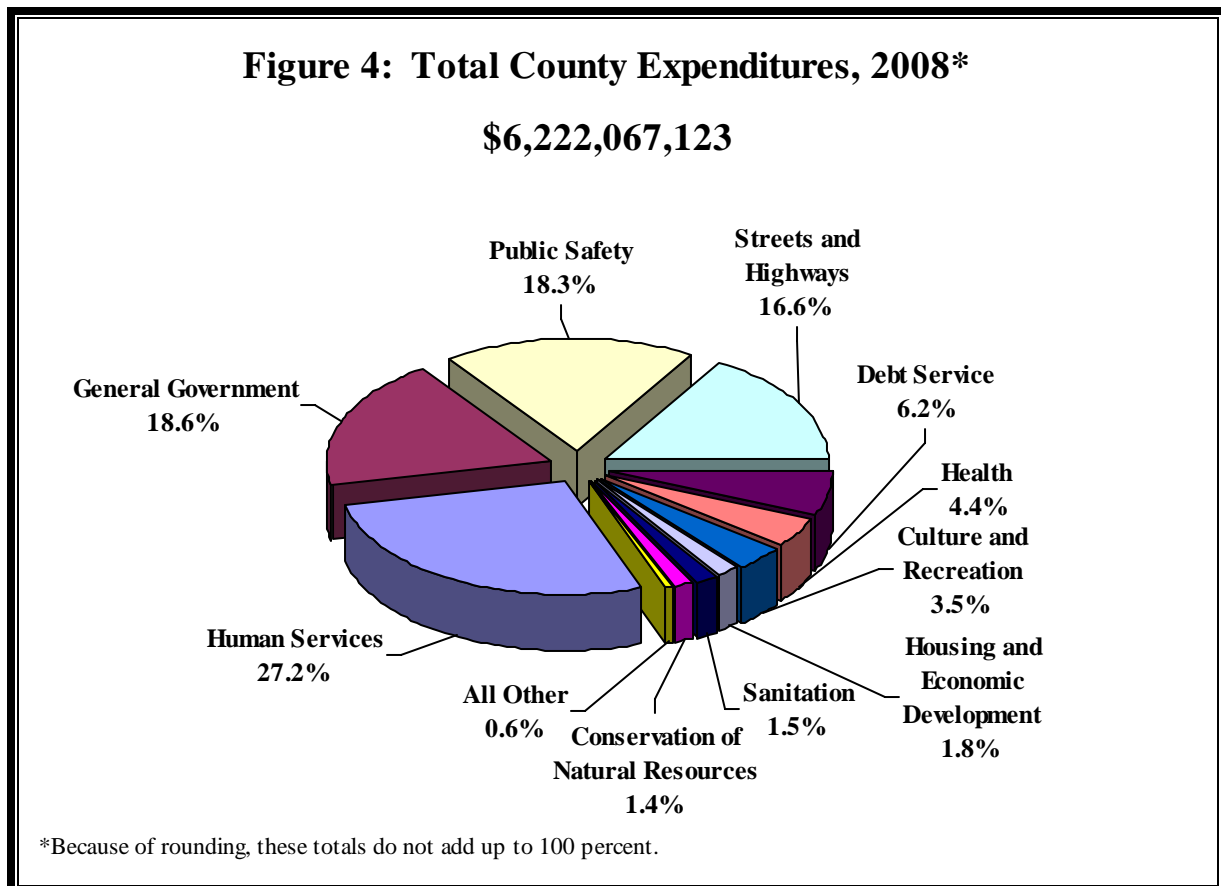
| Revenues | 1999 | 2003 | 2004 | 2008 | 1999 - 03 5-Year Change | 2004 - 08 5-Year Change | 10-Year Change |
|-----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--|--|---------------------------|
| Taxes | \$1,468,569,966 | \$1,465,504,010 | \$1,491,257,994 | \$1,636,457,971 | -0.2% | 9.7% | 11.4% |
| Special Assessments | 25,113,461 | 31,431,056 | 29,945,992 | 27,250,254 | 25.2% | -9.0% | 8.5% |
| Licenses and Permits | 18,016,649 | 21,865,580 | 22,918,165 | 17,706,686 | 21.4% | -22.7% | -1.7% |
| Total Federal Grants | 327,101,660 | 399,464,968 | 355,472,300 | 456,105,670 | 22.1% | 28.3% | 39.4% |
| Total State Grants | 1,220,604,436 | 1,303,228,786 | 1,187,430,477 | 949,075,503 | 6.8% | -20.1% | -22.2% |
| Local Unit Grants | 36,324,133 | 45,153,055 | 35,467,912 | 89,401,709 | 24.3% | 152.1% | 146.1% |
| Charges for Services | 354,659,618 | 416,699,920 | 397,746,584 | 345,265,475 | 17.5% | -13.2% | -2.6% |
| Fines and Forfeits | 27,057,529 | 16,954,985 | 12,570,560 | 5,826,595 | -37.3% | -53.6% | -78.5% |
| Interest Earnings | 65,144,053 | 45,578,092 | 50,628,001 | 101,360,040 | -30.0% | 100.2% | 55.6% |
| All Other Revenues | 169,816,585 | 165,761,290 | 165,634,319 | 151,828,716 | -2.4% | -8.3% | -10.6% |
| Total Revenues | <u>\$3,712,408,090</u> | <u>\$3,911,641,742</u> | <u>\$3,749,072,305</u> | <u>\$3,780,278,618</u> | 5.4% | 0.8% | 1.8% |

Governmental Fund Expenditures

Current Trends and Five-Year Trends

Counties reported total expenditures of \$6.2 billion in 2008. This represents an increase of \$372.1 million, or 6.4 percent, over total expenditures in 2007. Total county expenditures include current expenditures (day-to-day operations); capital outlays (expenditures on large fixed assets such as buildings and equipment); and total debt service (principal paid on bonds, other long-term debt, and interest and fiscal charges). Between 2007 and 2008, current expenditures increased 9.8 percent to \$4.8 billion; capital outlays decreased 14.4 percent to \$1.0 billion; and debt service increased 45.2 percent to \$383.4 million.

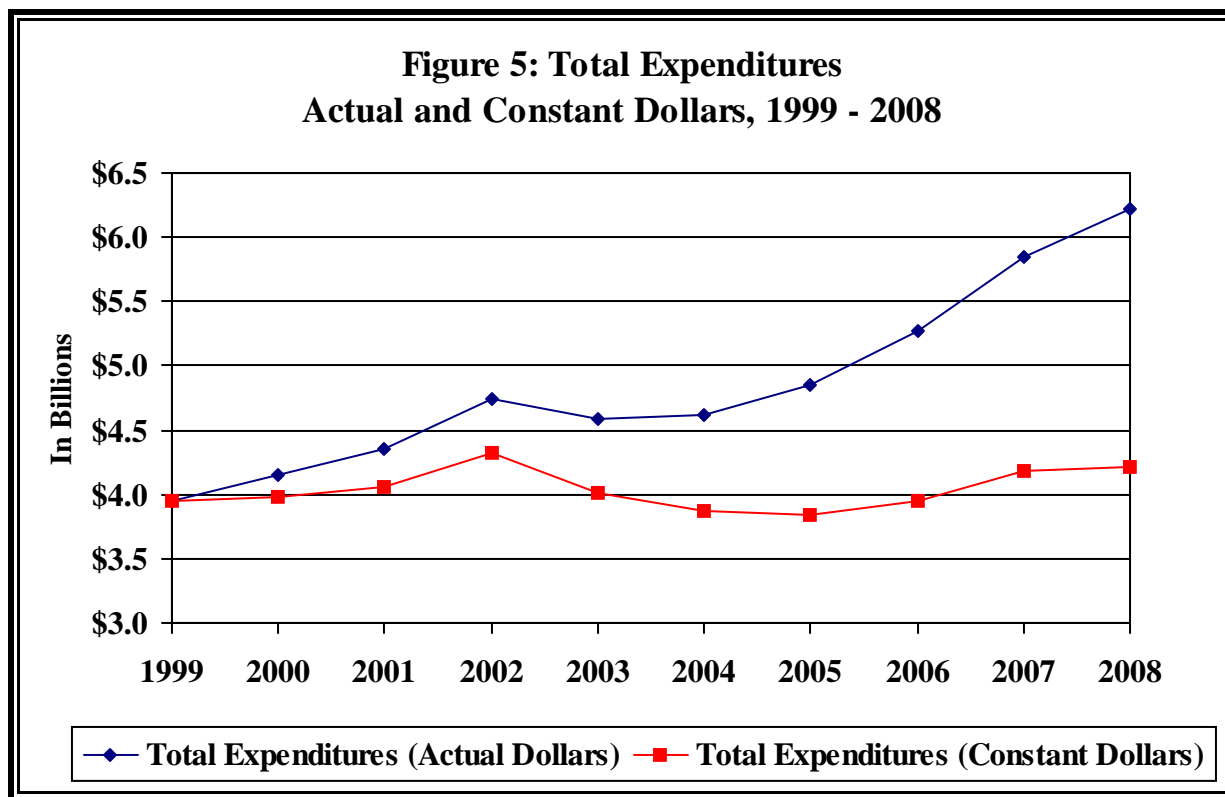
Figure 4 provides a breakdown of total county expenditures in 2008. Expenditures on human services, which represent 27.2 percent of total county expenditures, is the largest category of county expenditures. General government and public safety follow as the next two largest categories of total expenditures for counties, accounting for 18.6 and 18.3 percent, respectively, of total county expenditures in 2008. The category of expenditure whose share of total expenditures increased the most was debt service, which increased from 4.5 percent in 2007 to 6.2 percent in 2008.



Counties decreased spending in four categories of expenditures with two showing double-digit decreases between 2007 and 2008. The two categories with the largest decreases were all other expenditures and housing and economic development, which declined 45.3 percent and 44.2 percent, respectively. These two categories of expenditures account for 2.4 percent of total county expenditures. Three categories of expenditures grew at double-digit rates, including debt service (45.2 percent), health (34.6 percent), and culture and recreation (25.4 percent). These three categories account for 14.0 percent of total county expenditures.

Ten-Year Trends

When adjusted for inflation, total county expenditures increased 6.6 percent from 1999 to 2008. In actual dollars, the increase was 57.4 percent. Over the ten-year period, inflation-adjusted expenditures were at their highest point in 2002, declined to their lowest point in 2005, and started rising again in 2006. Figure 5 illustrates trends in total county expenditures using actual and constant dollars from 1999 to 2008.



Primary Categories of Expenditures

The primary categories of expenditures for counties over the ten-year period were human services, streets and highways, public safety, and general governmental expenditures. Although spending for human services is still the most significant category of county expenditures, its contribution to total expenditures has gradually declined over the longer term. In recent years, human services expenditures have grown slower than other categories of expenditures resulting in human services accounting for a smaller share of total county expenditures. Higher rates of growth in the general government and public safety categories between 2004 and 2008 increased their share of total expenditures while decreasing that of the human services category.

Figure 6 illustrates the changing composition of county expenditures. Table 2a provides a ten-year analysis of total county expenditures in constant dollars.

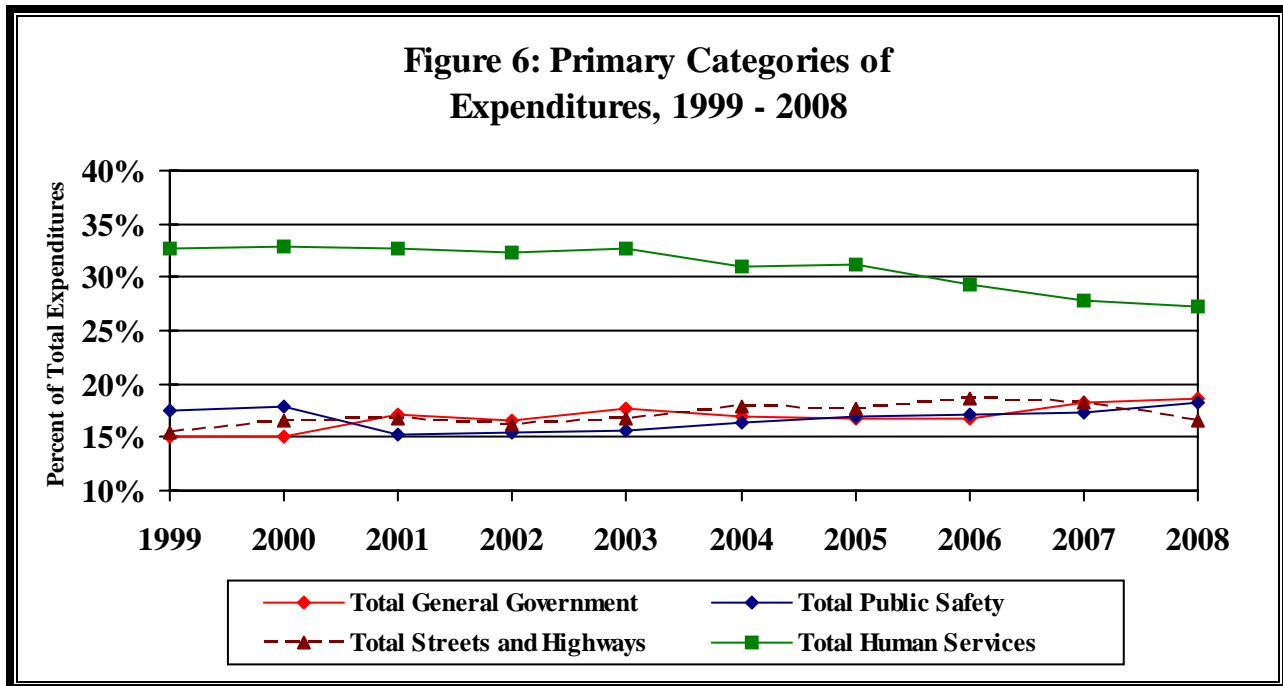


Table 2a: County Expenditures Summary (Constant Dollars), 1999 - 2008

| Expenditures | 1999 | 2003 | 2004 | 2008 | 1999 - 03 | 2004 - 08 | 10-Year |
|----------------------------|------------------------|------------------------|------------------------|------------------------|---------------|---------------|-------------|
| | | | | | 5-Year Change | 5-Year Change | |
| General Government | \$593,187,246 | \$704,273,145 | \$653,645,497 | \$785,090,899 | 18.7% | 20.1% | 32.4% |
| Public Safety | 693,466,318 | 628,658,851 | 635,349,496 | 771,313,152 | -9.3% | 21.4% | 11.2% |
| Streets and Highways | 609,289,852 | 670,714,948 | 695,610,097 | 698,544,667 | 10.1% | 0.4% | 14.6% |
| Sanitation | 75,312,989 | 65,415,561 | 66,036,787 | 63,550,573 | -13.1% | -3.8% | -15.6% |
| Human Services | 1,290,724,531 | 1,308,524,278 | 1,203,894,639 | 1,147,014,579 | 1.4% | -4.7% | -11.1% |
| Health | 161,847,786 | 177,387,359 | 171,026,680 | 184,254,588 | 9.6% | 7.7% | 13.8% |
| Culture and Recreation | 127,454,282 | 126,872,464 | 119,827,973 | 147,658,884 | -0.5% | 23.2% | 15.9% |
| Cons. of Natural Resources | 71,832,791 | 62,965,783 | 55,713,846 | 58,671,527 | -12.3% | 5.3% | -18.3% |
| Housing and Econ. Dev. | 44,469,422 | 88,180,445 | 91,966,397 | 75,440,848 | 98.3% | -18.0% | 69.6% |
| All Other | 48,398,014 | 14,788,125 | 5,874,242 | 24,724,067 | -69.4% | 320.9% | -48.9% |
| Total Debt Service | 238,147,550 | 161,855,018 | 178,422,446 | 259,775,869 | -32.0% | 45.6% | 9.1% |
| Total Expenditures | \$3,954,130,781 | \$4,009,635,979 | \$3,877,368,101 | \$4,216,039,652 | 1.4% | 8.7% | 6.6% |
| Total Current Expenditures | \$3,147,024,249 | \$3,270,900,425 | \$3,129,823,167 | \$3,247,869,372 | 3.9% | 3.8% | 3.2% |
| Total Capital Outlay | 568,958,982 | 576,880,535 | 569,122,488 | 708,394,411 | 1.4% | 24.5% | 24.5% |
| Total Debt Service | 238,147,550 | 161,855,018 | 178,422,446 | 259,775,869 | -32.0% | 45.6% | 9.1% |
| Total Expenditures | \$3,954,130,781 | \$4,009,635,979 | \$3,877,368,101 | \$4,216,039,652 | 1.4% | 8.7% | 6.6% |

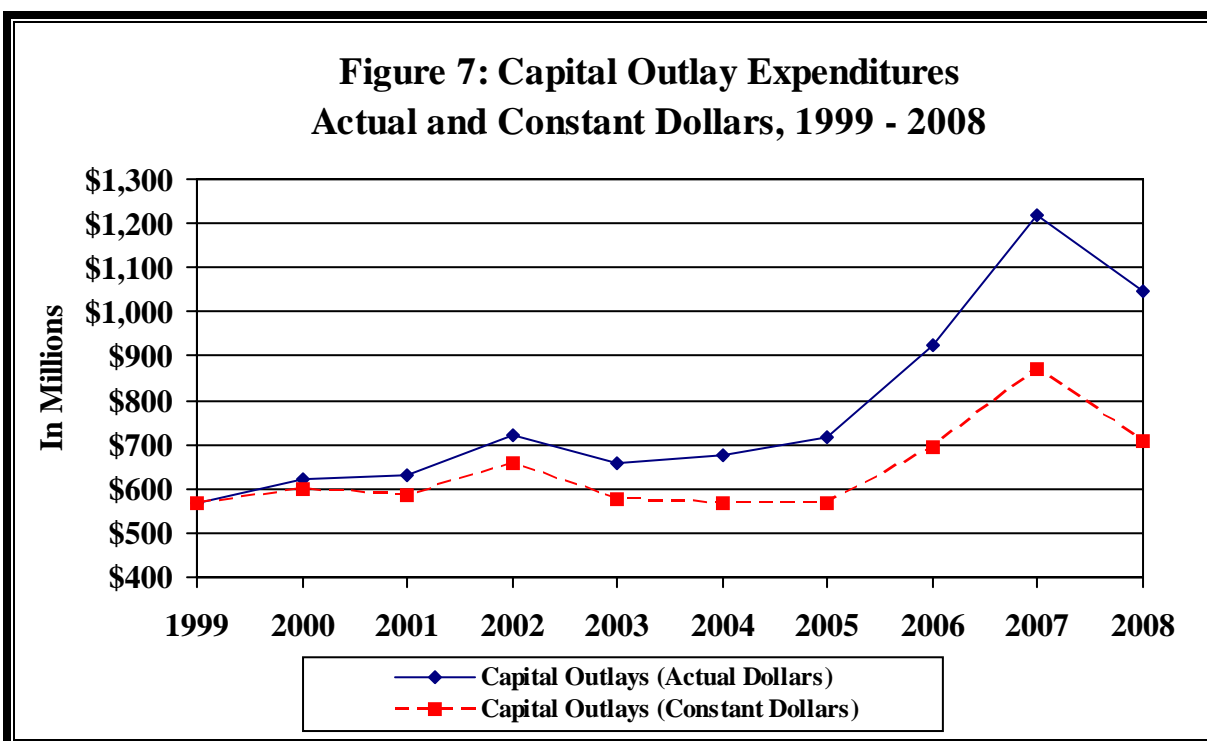
Capital Outlay Expenditures

Capital outlay expenditures include the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land. Capital outlays decreased 14.4 percent from 2007 to 2008 to total \$1.0 billion. The primary reason for the large decrease in capital outlays was a reclassification of the contribution to the Minnesota Ballpark Authority from Hennepin County. In 2007, the contribution was shown as a general government capital outlay expenditure, and the 2008 contribution is shown as a general government current expenditure. As a result of this change, Hennepin County's general government capital outlay decreased by \$150.7 million. The statewide decrease in capital outlays totaled \$175.3 million.

The largest category of capital spending in 2008 was streets and highways, which represented 64.4 percent of the total. Several categories of capital outlays showed significant growth between 2007 and 2008 including: health (2742.7 percent), human services (134.8 percent), and public safety (64.7 percent). The large percentage increase in the health category is principally attributable to several projects in Hennepin County. The largest dollar increase was for public safety, which increased \$56.4 million.

Several categories of capital outlay expenditures showed double-digit decreases including: housing and economic development (-91.8 percent), conservation of natural resources (-84.5 percent), sanitation (-80.4 percent), all other (-64.1 percent), general government (-44.1 percent), and parks and recreation (-22.9 percent). The largest dollar decrease was \$103.8 million for general government capital outlays.

In actual dollars, capital expenditures increased 83.7 percent from 1999 to 2008. Capital expenditures in constant dollars increased 24.5 percent over this period. Figure 7 shows capital outlays in actual and constant dollars from 1999 to 2008.



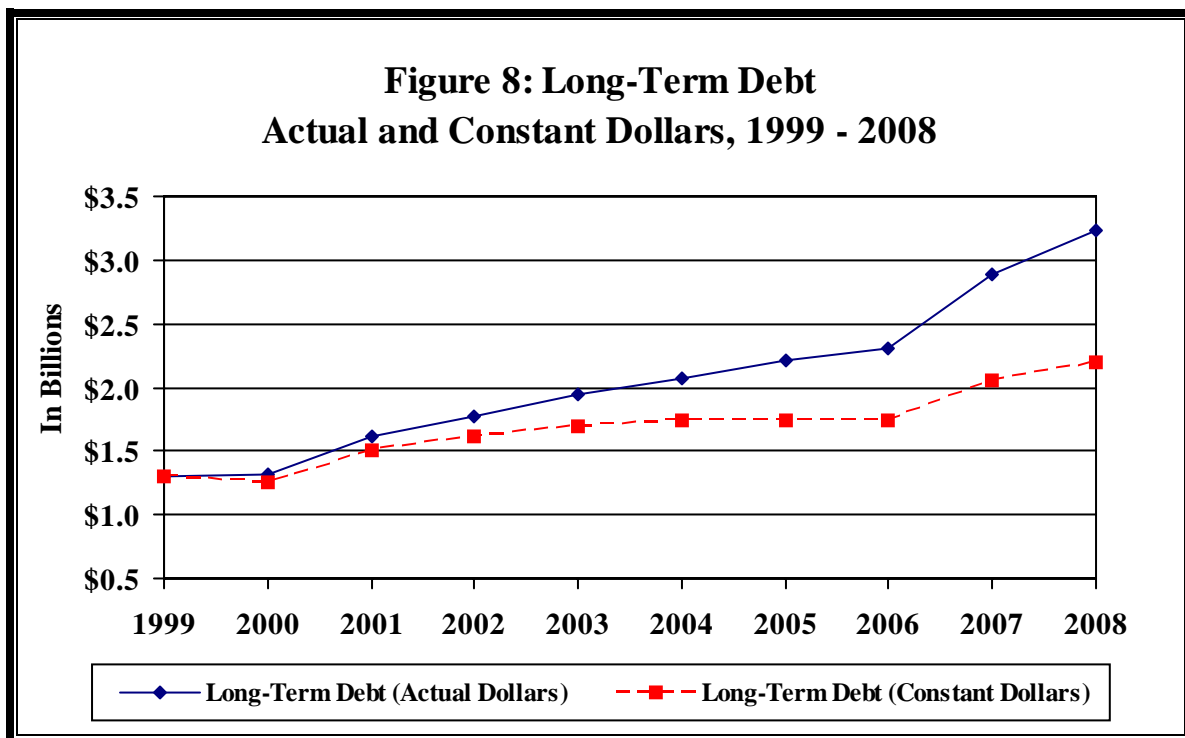
Outstanding Long-Term Indebtedness

Current and Five-Year Trends

Counties incur long-term debt through the financing of capital projects such as the construction of government buildings, bridges, and other infrastructure improvements. In 2008, Minnesota counties reported outstanding long-term debt of \$3.2 billion.⁶ This represents an increase of 12.2 percent over long-term debt reported in 2007. Hennepin County accounted for \$235.2 million, or 66.8 percent, of the overall increase. A significant portion of this amount (\$191.8 million) was issued on behalf of the Minnesota Ballpark Authority. Of the \$3.2 billion in long-term debt, \$2.9 billion was outstanding bonded debt, and \$288.6 million was other long-term debt.

Ten-Year Trends

An analysis of outstanding long-term debt since 1999 reveals that counties have been incurring debt at a faster pace in recent years. When adjusted for inflation, outstanding long-term indebtedness grew 67.7 percent between 1999 and 2008. In actual dollars, long-term debt increased 147.5 percent over this period. When compared to the 1.8 percent growth in constant total revenues during this period, the trend suggests that counties are now more frequently issuing bonds to finance capital expenditures.⁷ Also, because counties are generally restricted from borrowing for expenditures other than capital outlays, it is likely that counties are relying more on borrowing to finance these projects than in the past.



⁶Long-term debt includes bonded indebtedness and other long-term debt such as notes or long-term leases.

⁷Counties primarily issue bonds to fund capital projects and purchases. Counties may issue tax anticipation certificates for current operations, but they must be repaid within 15 months of the certification of the property tax levy.

Public Service Enterprises

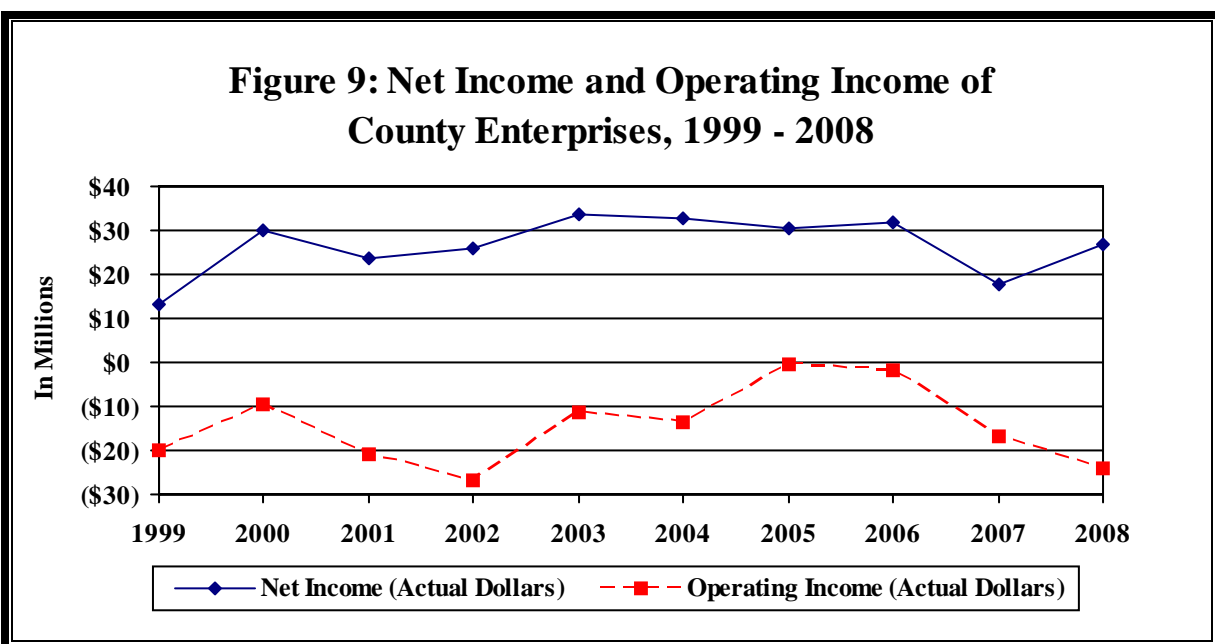
Some counties utilize public service enterprises, which are financed and operated in a manner similar to private business enterprises. The financial condition of public service enterprises is reflected in enterprise funds, which are a set of financial information separate from governmental funds. Enterprise funds are tracked using accounting principles that provide more detailed financial information than governmental funds. Enterprise funds are generally intended to be self-sustaining operations maintained through fees for services and user charges. Many public enterprises, however, do not generate sufficient income to cover operating costs. In these cases, counties supplement operating revenues with transfers from other funds and non-operating revenues, such as taxes and grants. The most common types of enterprises maintained by counties are hospitals, nursing homes, and solid waste facilities.

Current Trends

The operating losses of Minnesota county enterprises totaled \$24.0 million in 2008. This represents an increase of 43.5 percent over the operating losses of \$16.7 million reported in 2007. The net income of county enterprises totaled \$26.8 million in 2008. This represents an increase of 51.6 percent over 2007. A primary factor affecting overall net income trends in 2008 was the Hennepin County Medical Center (HCMC). The net losses for the HCMC decreased from \$18.1 million in 2007 to \$2.4 million in 2008.

Ten-Year Trends

Figure 9 shows net income and operating income in actual dollars from 1999 to 2008. The gap between the operating income line and the net income line is the amount counties used to supplement operating revenues with non-operating revenues such as taxes and grants. Counties may also make transfers from other funds to cover net losses.



Unreserved Fund Balances of the General Fund and Special Revenue Funds

Counties maintain unreserved fund balances for several reasons. Counties need unreserved fund balances at the end of the fiscal year to meet expenditures occurring in the first five months of the next fiscal year, before the property taxes and state grant and aid payments are received. In addition, counties keep contingency funds for unforeseen fiscal needs and emergencies. Some counties put aside funds for future capital improvements and purchases to limit or avoid incurring debt through the issuance of bonds to finance capital improvement projects.

Current and Five-Year Trends

In 2008, Minnesota counties' unreserved fund balances of General Fund and Special Revenue Funds totaled \$2.0 billion. This represents an increase of 2.8 percent over 2007 unreserved fund balances. Comparing fund balance levels to total current expenditures helps to put fund balances in perspective and provides insight on the relative financial health of Minnesota counties. In 2008, current expenditures grew at a faster rate (9.8 percent) than unreserved fund balances (2.8 percent). As a result, the average unreserved fund balances as a percent of current expenditures for counties declined from 43.8 percent in 2007 to 41.0 percent in 2008. Among individual counties, unreserved fund balances as a percent of total current expenditures ranged from -0.9 percent (Pine County) to 122.3 percent (Mower County).

The Office of the State Auditor recommends that counties maintain an unreserved fund balance in their General Fund and Special Revenue Funds of between 35 and 50 percent of operating revenues, or no less than five months of operating expenditures (similar to current expenditures).⁸ Counties must rely on their fund balances to meet expenditures during the first five months of the next fiscal year, until they receive the first property tax payments (May) and aid payments from the state (July). Maintaining adequate fund balances can also help counties better manage a financial crisis or emergency. Because fund balances are an indicator of financial health, a very low fund balance is generally a greater concern than a high fund balance. Counties should have policies regarding fund balance levels to guide financial decisions, as well as to provide a way for officials and the public to evaluate fund balances.⁹

Ten-Year Trends

As shown in Figure 10 on the following page, unreserved fund balances increased steadily from 1999 to 2008. During years when county unreserved fund balances grew at a faster rate than current expenditures, the unreserved fund balances as a percent of current expenditures average increased. During years when current expenditures grew at a faster pace than unreserved fund balances, the percentage decreased. Figure 11 on the next page shows the trend in unreserved fund balances as a percent of current expenditures between 1999 and 2008.

⁸ Due to data limitations, this analysis uses current expenditures when examining unreserved fund balance levels as a proxy for operating revenues.

⁹ The Office of the State Auditor issued a Statement of Position (SOP) on Local Government Fund Balances. See: http://www.osa.state.mn.us/other/columns/mncounties_0709_column.pdf.

Figure 10: Unreserved Fund Balances and Total Current Expenditures, 1999 - 2008

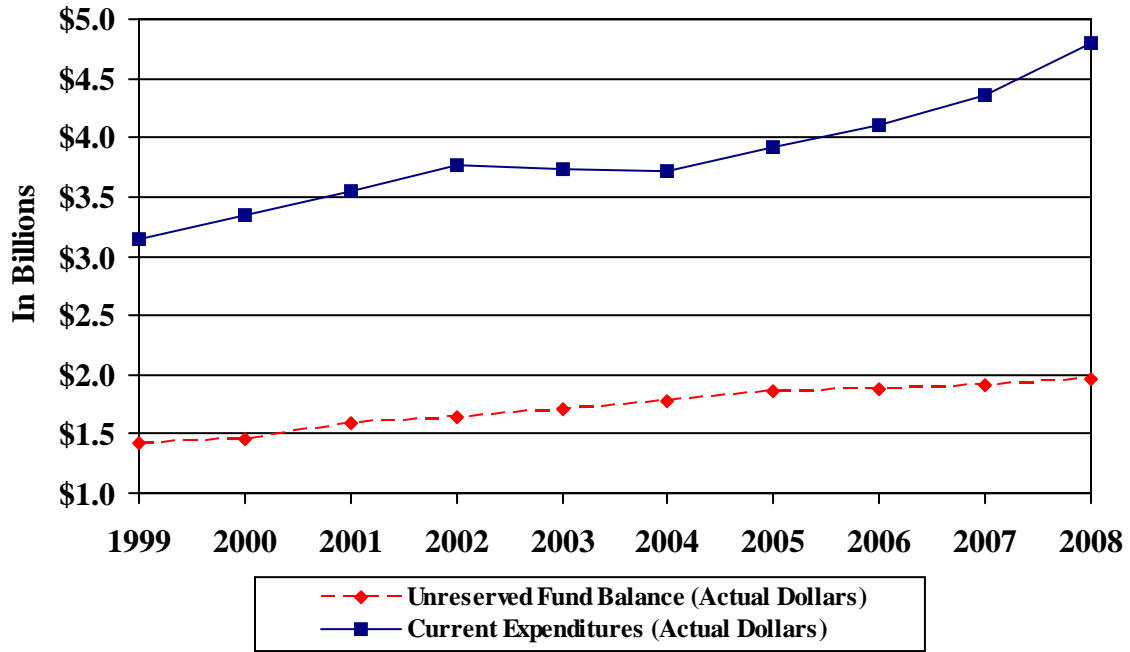


Figure 11: Unreserved Fund Balances as a Percent of Total Current Expenditures (TCE), 1999 - 2008

