STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2011

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.

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MURRAY COUNTY
SLAYTON, MINNESOTA

For the Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

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SLAYTON, MINNESOTA

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MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
2011

Office	Name	Term Expires
Commissioners		
1st District	Kevin Vickerman	January 2013
2nd District	Robert Moline**	January 2013
3rd District	Gerald W. Magnus	January 2015
4th District	John M. Giese	January 2015
5th District	William J. Sauer*	January 2013
Officers		
Elected		
Attorney	Paul M. Malone	January 2015
Auditor/Treasurer	Heidi E. Winter	January 2015
County Judge	David Christensen, Sr. Judge	June 2013
County Recorder	James V. Johnson	January 2015
Registrar of Titles	James V. Johnson	January 2015
Sheriff	Steven Telkamp	January 2015
Appointed		
Assessor	Marcy Barritt	Indefinite
Highway Engineer	Randy Groves	Indefinite
Court Administrator	Steven Schulze	Indefinite
Veterans Service Officer	James Reinert	Indefinite
Coroner	Dr. Carol Lang	Indefinite

*Chair for 2011
**Chair for 2012

MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
SHETEK AREA WATER AND SEWER COMMISSION
2011

Name	Position	Term Expires
Commissioners		
Ted Haugen	President	December 2013
Dean Salmon	Vice President	December 2012
Jon Hoyme	Secretary	December 2014
Donna Kor	Member	December 2013
Jamie Thomazin	Member	December 2011
Advisory Commissioners		
Dave Marks	Member	December 2012
Jon Harback	Member	December 2013

Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

We have audited the accompanying 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Murray 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, a major fund (Hospital Enterprise Fund) and 95 percent, 100 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, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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, 2011, 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.

As discussed in Note 1.D.12 to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Murray County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 27, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MURRAY COUNTY
SLAYTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 $55,220,760 of which $46,110,996 is invested in capital assets and $1,589,337 is restricted to specific purposes. The $7,520,427 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

- The County's governmental activities' net assets increased by $1,702,049 for the year ended December 31, 2011. A large part of the increase is attributable to the County's investing in infrastructure assets without increasing long-term debt and an increase in receivables as well as continued wind production tax revenues.

- The net cost of governmental activities for the current fiscal year was $4,979,920. General revenues totaling $6,681,969 funded the net cost.

- The General Fund balance decreased by $392,006, the Road and Bridge Special Revenue Fund balance decreased by $67,522, Human Services Special Revenue Fund saw no change, the EDA Special Revenue Fund increased by $9,615, and the Ditch Special Revenue Fund balance decreased by $140,107.

- For the year ended December 31, 2011, the unrestricted fund balance of the General Fund was $3,419,528.

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 Financial Statements

Fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, EDA Special Revenue Fund, Debt Service Fund and Capital Projects 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 37 through 93 of this report.

Other Information

Other information is provided as supplementary information regarding Murray County's 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 $71,608,299 at the close of 2011. The largest portion of the net assets (70 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 2010 is presented.

Net Assets
(in thousands)

	Governmental Activities	Business-Type Activities	Total 2011	Total 2010
Assets				
Current and other assets	$ 13,785	$ 14,670	$ 28,455	$ 27,255
Capital assets	47,138	7,640	54,778	51,246
Total Assets	$ 60,923	$ 22,310	$ 83,233	$ 78,501
Liabilities				
Long-term liabilities	$ 3,926	$ 3,924	$ 7,850	$ 6,367
Other liabilities	1,776	1,999	3,775	3,236
Total Liabilities	$ 5,702	$ 5,923	$ 11,625	$ 9,603
Net Assets				
Invested in capital assets, net of related debt	$ 46,111	$ 3,687	$ 49,798	$ 47,090
Restricted	2,478	-	2,478	1,472
Unrestricted	6,632	12,700	19,332	20,336
Total Net Assets	$ 55,221	$ 16,387	$ 71,608	$ 68,898

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 percent of the net assets.

Governmental Activities

The County's governmental activities' net assets increased by 3.18 percent ($55,220,760 for 2011 compared to $53,518,711 for 2010). Key elements in this increase in net assets are as follows, with comparative data for 2010.

Governmental Activities
Changes in Net Assets
(in thousands)

	2011	2010
Revenues		
Program revenues		
Charges for services	$ 1,845	$ 1,306
Operating grants and contributions	5,758	5,339
Capital grants and contributions	234	763
General revenues		
Property taxes	4,768	4,309
Other	1,916	1,789
Total Revenues	$ 14,521	$ 13,506
Expenses		
General government	$ 2,463	$ 2,486
Public safety	1,908	2,992
Highways and streets	4,258	4,286
Sanitation	519	372
Human services	1,088	1,072
Health	53	53
Culture and recreation	755	737
Conservation of natural resources	870	692
Economic development	825	264
Interest	78	48
Total Expenses	$ 12,817	$ 13,002
Revenues Over Expenses	$ 1,704	$ 504
Transfers to business-type activities	(2)	(2)
Increase in Net Assets	$ 1,702	$ 502
Net Assets - January 1	53,519	53,017
Net Assets - December 31	$ 55,221	$ 53,519

The cost of all governmental activities for 2011 was $12,816,576 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 $4,767,894. The amount paid by those who directly benefited from the programs was $1,844,510 and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was $5,758,438. Capital grants and contributions were $233,708. The County paid for the remaining "public benefit" portion of governmental activities with $482,272 in grants and contributions not restricted to specific programs and $46,819 in interest and $949,695 in wind production tax.

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

2011
(in thousands)

	Total Cost of Services	Net Cost of Services
General government	$ 2,463	$ 2,164
Public safety	1,908	785
Highways and streets	4,258	186
Human services	1,088	1,088
All others	3,100	757
Total	$ 12,817	$ 4,980

Business Type Activities

The County's business-type activities include Congregate Housing (Sunrise Terrace) and the Hospital (Murray County Medical Center). The business-type activities net assets increased by 6.56 percent ($16,387,539 for 2011 compared to $15,379,103 for 2010). Key elements in this increase in net assets are as follows, with comparative data for 2010.

Business Type Activities
Changes in Net Assets
(in thousands)

	2011	2010
Revenues		
Program revenues		
Charges for services	$ 16,379	$ 13,319
Operating grants and contributions	-	-
Capital grants and contributions	-	-
General revenues		
Property taxes	-	-
Other	84	152
Total Revenues	$ 16,463	$ 13,471
Expenses		
Hospital	$ 15,161	$ 12,383
Congregate Housing	296	291
Total Expenses	$ 15,457	$ 12,674
Revenues Over Expenses	$ 1,006	$ 797
Transfers to business-type activities	2	2
Increase in Net Assets	$ 1,008	$ 799
Net Assets - January 1	15,379	14,580
Net Assets - December 31	$ 16,387	$ 15,378

The cost of all business-type activities for 2011 was $15,457,207 and, as shown on the Statement of Activities on Exhibit 2; none of this was financed by the taxpayers through County taxes. All costs for business type activities were paid by those who directly benefited from the programs and services. In 2011 this amount was $16,379,488.

The following table presents the cost of each of the County's business-type activities, as well as the profit made for each. This profit shows that no financial burden placed is placed on the County's taxpayers by each of these business type activities.

Business Type Activities

2011
(in thousands)

	Total Cost of Services	Net Profit for Services
Hospital	$ 15,161	$ 916
Congregate Housing	296	6
Total	$ 15,457	$ 922

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, unrestricted 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 $8,174,980, a decrease of $228,932 in comparison with the prior year. Of the combined ending fund balances, $476,111 is non-spendable, $1,935,792 is restricted, $3,937,204 is assigned and $1,825,873 is unassigned and available for spending at the County's discretion.

The General Fund is the main operating fund for the County. Of the combined ending fund balances $219,684 is non-spendable, $521,887 is restricted, $1,593,655 is assigned and $1,825,873 is unassigned. Overall fund balance in the General Fund decreased by $392,006 during 2011.

The Road and Bridge Special Revenue Fund had $255,069 in non-spendable funds, $149,972 in restricted funds and $2,097,281 in assigned funds. Overall fund balance in the Road and Bridge Special Revenue Fund decreased by $67,522 during 2011.

The Human Services Special Revenue Fund has no fund balance, as Southwest Health and Human Services performs human services functions and public health delivery for Murray County through a joint powers arrangement.

The Ditch Special Revenue Fund had a restricted fund balance of $887,989 and decrease of $140,107 during 2011.

The EDA Special Revenue Fund had non-spendable funds of $1,358, restricted funds of $14,856 and assigned funds of $246,268. The EDA Special Revenue Fund's balance increased by $9,615 during 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board revised the budgets for the General Fund, Ditch Special Revenue Fund, EDA Special Revenue Fund and Capital Projects Fund. The expenditures budget increased in the General Fund by $1,361,343. These budget amendments are due to an unbudgeted capital project for a new Sheriff's Office Addition which were funded by a Capital Improvement Plan Bond. The revenues and expenditures in the Ditch Special Revenue Fund increased $232,772 and $365,314, respectively. The expenditures in the EDA Special Revenue Fund increased $13,500 to account for the EDA appropriation made annually. There was also a Capital Projects fund added when the Board moved forward with the Sheriff's Office Additional/Renovation project, the expenditures for this fund will be covered with a Capital Improvement Plan Bond.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Government Activities

The County's capital assets for its governmental activities at December 31, 2011, totaled $47,138,401 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $3,178,755, or 7.23 percent from the previous year. The major capital asset events were: construction of highways and streets, a new Sheriff's Office Addition and Renovation and the purchase of highway and other miscellaneous equipment.

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

	2011	2010
Land, including right-of-way	$ 645	$ 645
Construction in progress	1,441	-
Infrastructure	38,607	37,927
Buildings	3,344	3,420
Improvements other than buildings	337	357
Machinery and equipment	2,764	1,611
Total	$ 47,138	$ 43,960

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

Business-Type Activities

The County's capital assets for its business-type activities at December 31, 2011, totaled $7,640,391 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $354,561, or 4.87 percent from the previous year. The major capital asset events were: renovation and construction of a new medical center facility, the purchase of new medical equipment and other miscellaneous non-medical equipment.

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

	2011	2010
Land, including right-of-way	$ 171	$ 154
Construction in progress	593	-
Land improvements	226	213
Buildings	4,678	5,059
Fixed Equipment	250	290
Major movable equipment	1,722	1,570
Total	$ 7,640	$ 7,286

Additional information about the County's capital assets for Business-type activities 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 $7,659,929, which was backed by the full faith and credit of the government.

Outstanding Debt
(in thousands)

	2011	2010
General obligation capital improvement plan bond	$ 1,949	$ -
General obligation ditch bonds	1,175	1,410
General obligation refunding bonds	1,019	1,086
Hospital revenue note	2,935	3,070
General obligation promissory notes	148	199
Loans payable	434	513
Total	$ 7,660	$ 6,278

The County's overall debt increased by $1,381,472 from 2010 to 2011 mainly due to a $1,965,000 Capital Improvement Plan Bond that financed the Sheriff's Office Renovation/Addition Project.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2011, the County's outstanding debt was 0.31 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 2012 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2011 was 5.4 percent. This is 0.3 percent lower than the state unemployment rate of 5.7 percent and 3.1 percent lower than the national unemployment rate of 8.5 percent. This is a decrease of 0.2 percent from the County's 5.6 percent rate of one year ago.

- Mortgage interest rates have remained relatively consistent with those of 2010 but refinancing of mortgages and/or financing of new construction, particularly in the agricultural sector, continues to occur at an increased rate.

- The County's net property tax levy for 2011 increased from $4,747,118 to $5,208,187. This is a net increase of $461,069 or 8.5 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Assets				
Current assets				
Cash and pooled investments	$ 8,710,607	$ 2,257,331	$ 10,967,938	$ 659,657
Petty cash and change funds	2,000	-	2,000	-
Taxes receivable				
Prior - net	58,142	-	58,142	-
Special assessments receivable				
Current	4,506	-	4,506	6,941
Prior	4,464	-	4,464	2,184
Noncurrent - net	1,311,774	-	1,311,774	8,999,112
Accounts receivable - net	85,564	15,580	101,144	24,756
Patient receivable - net	-	2,369,686	2,369,686	-
Accrued interest receivable	42,142	-	42,142	7,612
Due from other governments	1,654,816	-	1,654,816	-
Due from component unit	896	-	896	-
Loans receivable	1,325,800	-	1,325,800	-
Inventories	263,905	519,471	783,376	72,005
Prepaid items	4,503	169,070	173,573	-
Restricted assets				
Cash and pooled investments	-	8,800	8,800	283,956
Total current assets	**$ 13,469,119**	**$ 5,339,938**	**$ 18,809,057**	**$ 10,056,223**
Noncurrent assets				
Noncurrent cash and investments	$ -	$ 8,881,519	$ 8,881,519	$ -
Deferred debt issuance costs	40,606	12,586	53,192	81,297
Long-term receivable	275,000	-	275,000	-
Capital assets				
Non-depreciable	2,086,101	764,288	2,850,389	386,046
Depreciable - net of accumulated depreciation	45,052,300	6,876,103	51,928,403	14,119,474
Other assets	-	435,863	435,863	-
Total noncurrent assets	**$ 47,454,007**	**$ 16,970,359**	**$ 64,424,366**	**$ 14,586,817**
Total Assets	**$ 60,923,126**	**$ 22,310,297**	**$ 83,233,423**	**$ 24,643,040**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Liabilities				
Current liabilities				
Accounts payable	$ 176,519	$ 679,600	$ 856,119	$ 3,763
Salaries payable	255,620	1,053,996	1,309,616	469
Contracts payable	654,689	-	654,689	-
Due to other governments	151,086	109	151,195	965
Due to third party	-	10,000	10,000	-
Due to primary government	-	-	-	896
Accrued interest payable	36,743	24,438	61,181	94,284
Unearned revenue	87,131	-	87,131	-
Payable from restricted assets	-	8,800	8,800	-
Compensated absences payable - current	61,124	512	61,636	-
Loans payable - current	112,813	-	112,813	-
General obligation bonds payable - current	-	80,000	80,000	145,000
General obligation special assessment debt payable - current	190,000	-	190,000	-
Revenue notes payable - current	-	141,439	141,439	513,945
Promissory notes payable - current	50,742	-	50,742	-
Customer deposits - current	-	-	-	3,840
Total current liabilities	**$ 1,776,467**	**$ 1,998,894**	**$ 3,775,361**	**$ 763,162**
Noncurrent liabilities				
Compensated absences payable	$ 476,748	$ 9,366	$ 486,114	$ -
Loans payable	321,085	-	321,085	-
General obligation bonds payable - net	1,948,969	938,566	2,887,535	3,276,933
General obligation special assessment debt payable - net	985,879	-	985,879	-
Revenue notes payable	-	2,793,215	2,793,215	11,348,451
Promissory notes payable	97,221	-	97,221	-
Other postemployment benefits payable	95,997	182,717	278,714	-
Total noncurrent liabilities	**$ 3,925,899**	**$ 3,923,864**	**$ 7,849,763**	**$ 14,625,384**
Total Liabilities	**$ 5,702,366**	**$ 5,922,758**	**$ 11,625,124**	**$ 15,388,546**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Net Assets				
Invested in capital assets - net of related debt	$ 46,110,996	$ 3,687,169	$ 49,798,165	$ (766,876)
Restricted for				
General government	314,327	-	314,327	-
Public safety	207,460	-	207,460	-
Highways and streets	1,045,045	-	1,045,045	-
Conservation	887,989	-	887,989	-
Economic development	14,856	-	14,856	-
Debt service	7,549	-	7,549	245,794
Wastewater system replacement	-	-	-	38,162
Other purposes	100	-	100	-
Unrestricted	6,632,438	12,700,370	19,332,808	9,737,414
Total Net Assets	**$ 55,220,760**	**$ 16,387,539**	**$ 71,608,299**	**$ 9,254,494**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 2,462,792	$ 282,289	$ 16,637
Public safety	1,907,673	66,996	1,045,919
Highways and streets	4,257,752	73,005	3,775,567
Sanitation	519,344	423,425	64,950
Human services	1,088,481	-	-
Health	52,584	-	-
Culture and recreation	755,189	86,169	134,333
Conservation of natural resources	870,353	351,723	159,860
Economic development	825,024	560,903	561,172
Interest	77,384	-	-
Total governmental activities	**$ 12,816,576**	**$ 1,844,510**	**$ 5,758,438**
Business-type activities			
Hospital	$ 15,160,855	$ 16,077,149	$ -
Congregate Housing	296,352	302,339	-
Total business-type activities	**$ 15,457,207**	**$ 16,379,488**	**$ -**
Total Primary Government	**$ 28,273,783**	**$ 18,223,998**	**$ 5,758,438**
Component unit			
Shetek Area Water and Sewer Commission	**$ 834,429**	**$ 307,287**	**$ -**

General Revenues
Property taxes
Mortgage registry and deed tax
Wind production tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment income
Miscellaneous
Gain on sale of capital assets
Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Business-Type Activities	Total	Shetek Area Water and Sewer Component Unit
$ -	$ (2,163,866)	$ -	$ (2,163,866)	
9,478	(785,280)	-	(785,280)	
223,480	(185,700)	-	(185,700)	
-	(30,969)	-	(30,969)	
-	(1,088,481)	-	(1,088,481)	
-	(52,584)	-	(52,584)	
750	(533,937)	-	(533,937)	
-	(358,770)	-	(358,770)	
-	297,051	-	297,051	
-	(77,384)	-	(77,384)	
$ 233,708	**$ (4,979,920)**	**$ -**	**$ (4,979,920)**	
$ -	$ -	$ 916,294	$ 916,294	
-	-	5,987	5,987	
$ -	**$ -**	**$ 922,281**	**$ 922,281**	
$ 233,708	**$ (4,979,920)**	**$ 922,281**	**$ (4,057,639)**	
$ 312,453				**$ (214,689)**
	$ 4,767,894	$ -	$ 4,767,894	$ -
	7,223	-	7,223	-
	949,695	-	949,695	-
	211,171	-	211,171	-
	482,272	52,533	534,805	-
	46,819	29,112	75,931	6,365
	218,464	-	218,464	1,326
	-	2,941	2,941	-
	(1,569)	1,569	-	-
	$ 6,681,969	**$ 86,155**	**$ 6,768,124**	**$ 7,691**
	$ 1,702,049	**$ 1,008,436**	**$ 2,710,485**	**$ (206,998)**
	53,518,711	**15,379,103**	**68,897,814**	**9,461,492**
	$ 55,220,760	**$ 16,387,539**	**$ 71,608,299**	**$ 9,254,494**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Road and Bridge	Human Services
Assets			
Cash and pooled investments	$ 4,473,501	$ 2,287,310	$ -
Undistributed cash in agency fund	63,534	15,165	17,007
Petty cash and change funds	2,000	-	-
Taxes receivable			
Delinquent	37,296	9,349	11,497
Special assessments receivable			
Current	4,232	-	-
Delinquent	4,459	-	-
Noncurrent	711,262	-	-
Accounts receivable	42,378	42,485	-
Accrued interest receivable	42,142	-	-
Due from other funds	332,150	508	-
Due from other governments	192,316	1,333,544	256
Due from component unit	896	-	-
Loans receivable	-	-	-
Advances to other funds	78,100	-	-
Inventories	10,995	252,910	-
Prepaid items	986	2,159	-
Total Assets	**$ 5,996,247**	**$ 3,943,430**	**$ 28,760**

EXHIBIT 3

Ditch	EDA	Debt Service	Capital Projects	Total
$ 891,060	$ 264,591	$ -	$ 693,238	$ 8,609,700
5,201	-	-	-	100,907
-	-	-	-	2,000
-	-	-	-	58,142
274	-	-	-	4,506
5	-	-	-	4,464
600,512	-	-	-	1,311,774
-	701	-	-	85,564
-	-	-	-	42,142
-	-	7,549	-	340,207
-	50,600	-	-	1,576,716
-	-	-	-	896
-	1,325,800	-	-	1,325,800
-	-	-	-	78,100
-	-	-	-	263,905
-	1,358	-	-	4,503
$ 1,497,052	**$ 1,643,050**	**$ 7,549**	**$ 693,238**	**$ 13,809,326**

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Road and Bridge	Human Services
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 117,439	$ 7,108	$ -
Salaries payable	200,361	51,861	-
Contracts payable	442,939	211,750	-
Due to other funds	508	-	-
Due to other governments	120,330	5,823	17,263
Deferred revenue - unavailable	866,440	1,164,566	11,497
Deferred revenue - unearned	87,131	-	-
Total Liabilities	**$ 1,835,148**	**$ 1,441,108**	**$ 28,760**
Liabilities and Fund Balances			
Fund Balances			
Nonspendable			
Inventories	$ 10,995	$ 252,910	$ -
Prepaid items	986	2,159	-
Septic/sewer loans	207,703	-	-
Restricted			
Debt service	-	-	-
EDA revolving loans	-	-	-
Recorder's compliance	100,956	-	-
Recorder's technology	162,326	-	-
Missing heirs	100	-	-
Supervision fees	13,380	-	-
Sheriff's contingency	1,038	-	-
Permits to carry	8,438	-	-
E-911	184,604	-	-
Election equipment	51,045	-	-
Capital projects	-	-	-
Ditch maintenance and construction	-	-	-
Highway allotments	-	149,972	-
Assigned			
Road and bridge	-	1,923,930	-
Economic development	-	-	-
Sanitation	417,025	-	-
Compensated absences	360,472	173,351	-
Parks	70,163	-	-
County septic system loans	44,192	-	-
ARMER equipment	620,098	-	-
Chevy impala	18,214	-	-
Sheriff's office furniture	37,600	-	-
Flexible spending	211	-	-
Ambulance replacement	25,680	-	-
Unassigned	1,825,873	-	-
Total Fund Balances	**$ 4,161,099**	**$ 2,502,322**	**$ -**
Total Liabilities and Fund Balances	**$ 5,996,247**	**$ 3,943,430**	**$ 28,760**

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

EXHIBIT 3
(Continued)

Ditch	EDA	Debt Service	Capital Projects	Total
$ 361	$ 51,611	$ -	$ -	$ 176,519
241	3,157	-	-	255,620
-	-	-	-	654,689
-	-	-	339,699	340,207
7,670	-	-	-	151,086
600,791	1,325,800	-	-	3,969,094
-	-	-	-	87,131
$ 609,063	**$ 1,380,568**	**$ -**	**$ 339,699**	**$ 5,634,346**
$ -	$ -	$ -	$ -	$ 263,905
-	1,358	-	-	4,503
-	-	-	-	207,703
-	-	7,549	-	7,549
-	14,856	-	-	14,856
-	-	-	-	100,956
-	-	-	-	162,326
-	-	-	-	100
-	-	-	-	13,380
-	-	-	-	1,038
-	-	-	-	8,438
-	-	-	-	184,604
-	-	-	-	51,045
-	-	-	353,539	353,539
887,989	-	-	-	887,989
-	-	-	-	149,972
-	-	-	-	1,923,930
-	242,219	-	-	242,219
-	-	-	-	417,025
-	4,049	-	-	537,872
-	-	-	-	70,163
-	-	-	-	44,192
-	-	-	-	620,098
-	-	-	-	18,214
-	-	-	-	37,600
-	-	-	-	211
-	-	-	-	25,680
-	-	-	-	1,825,873
$ 887,989	**$ 262,482**	**$ 7,549**	**$ 353,539**	**$ 8,174,980**
$ 1,497,052	**$ 1,643,050**	**$ 7,549**	**$ 693,238**	**$ 13,809,326**

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2011

Fund balance - total governmental funds (Exhibit 3)			**$ 8,174,980**
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.			47,138,401
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,969,094
Long-term receivable is not due in the current period and, therefore, is not reported in the governmental funds.			275,000
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	$	(1,175,879)	
General obligation bonds		(1,948,969)	
Deferred debt issuance costs		40,606	
Promissory notes payable		(147,963)	
Loans payable		(433,898)	
Compensated absences		(537,872)	
Net OPEB obligation		(95,997)	
Accrued interest payable		(36,743)	(4,336,715)
Net Assets of Governmental Activities (Exhibit 1)			**$ 55,220,760**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Road and Bridge	Human Services
Revenues			
Taxes	$ 3,846,146	$ 883,327	$ 989,995
Special assessments	316,113	-	-
Licenses and permits	30,268	13,125	-
Intergovernmental	2,059,900	4,055,523	98,486
Charges for services	403,775	5,959	-
Fines and forfeits	2,518	-	-
Gifts and contributions	39,536	-	-
Investment earnings	12,674	-	-
Miscellaneous	415,493	127,706	-
Total Revenues	**$ 7,126,423**	**$ 5,085,640**	**$ 1,088,481**
Expenditures			
Current			
General government	$ 3,891,285	$ -	$ -
Public safety	2,766,834	-	-
Highways and streets	-	4,777,488	-
Sanitation	521,070	-	-
Culture and recreation	723,515	-	-
Conservation of natural resources	760,089	-	-
Economic development	174,608	-	-
Intergovernmental	52,584	367,603	1,088,481
Debt service			
Principal	110,590	-	-
Interest	9,908	-	-
Bond issuance costs	-	-	-
Administrative charges	-	-	-
Total Expenditures	**$ 9,010,483**	**$ 5,145,091**	**$ 1,088,481**
Excess of Revenues Over (Under) Expenditures	**$ (1,884,060)**	**$ (59,451)**	**$ -**
Other Financing Sources (Uses)			
Transfers in	$ 1,560,404	$ -	$ -
Transfers out	(116,822)	-	-
Sale of capital assets	20,515	-	-
Loans issued	30,695	-	-
Bonds issued	-	-	-
Discount on bonds issued	-	-	-
Total Other Financing Sources (Uses)	**$ 1,494,792**	**$ -**	**$ -**
Net Change in Fund Balance	**$ (389,268)**	**$ (59,451)**	**$ -**
Fund Balance - January 1	**4,553,105**	**2,569,844**	**-**
Increase (decrease) in inventories	**(2,738)**	**(8,071)**	**-**
Fund Balance - December 31	**$ 4,161,099**	**$ 2,502,322**	**$ -**

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

EXHIBIT 5

Ditch		EDA		Debt Service		Capital Projects		Total	
$	-	$	-	$	-	$	-	$	5,719,468
	229,976		-		-		-		546,089
	-		-		-		-		43,393
	-		390,143		-		-		6,604,052
	-		-		-		-		409,734
	-		-		-		-		2,518
	-		-		-		-		39,536
	-		30,566		-		-		43,240
	7,820		180,938		-		-		731,957
$	**237,796**	**$**	**601,647**	**$**	**-**	**$**	**-**	**$**	**14,139,987**
$	-	$	-	$	-	$	-	$	3,891,285
	-		-		-		-		2,766,834
	-		-		-		-		4,777,488
	-		-		-		-		521,070
	-		-		-		-		723,515
	96,313		-		-		-		856,402
	-		649,798		-		-		824,406
	-		-		-		-		1,508,668
	235,000		50,742		-		-		396,332
	52,438		-		-		-		62,346
	-		-		-		27,977		27,977
	397		-		-		-		397
$	**384,148**	**$**	**700,540**	**$**	**-**	**$**	**27,977**	**$**	**16,356,720**
$	**(146,352)**	**$**	**(98,893)**	**$**	**-**	**$**	**(27,977)**	**$**	**(2,216,733)**
$	6,245	$	108,508	$	-	$	500	$	1,675,657
	-		-		-		(1,560,404)		(1,677,226)
	-		-		-		-		20,515
	-		-		-		-		30,695
	-		-		7,549		1,957,451		1,965,000
	-		-		-		(16,031)		(16,031)
$	**6,245**	**$**	**108,508**	**$**	**7,549**	**$**	**381,516**	**$**	**1,998,610**
$	**(140,107)**	**$**	**9,615**	**$**	**7,549**	**$**	**353,539**	**$**	**(218,123)**
	1,028,096		**252,867**		**-**		**-**		**8,403,912**
	-		-		-		-		**(10,809)**
$	**887,989**	**$**	**262,482**	**$**	**7,549**	**$**	**353,539**	**$**	**8,174,980**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (218,123)**
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 or decrease in revenues deferred as unavailable.		
Deferred revenue - December 31	$ 3,969,094	
Deferred revenue - January 1	(3,603,402)	365,692
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	$ 5,290,031	
Net book value of assets disposed of	(43,031)	
Current year depreciation	(2,068,245)	3,178,755
Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.		
General obligation bonds issued	$ (1,965,000)	
Issuance costs on bonds issued	27,977	
Discount on bonds issued	16,031	
Loans issued	(31,165)	(1,952,157)
Principal payments		
Special assessment general obligation bonds	$ 235,000	
Loans payable	110,590	
Promissory notes	50,742	396,332
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 the funds.		
Change in accrued interest payable	$ (12,964)	
Change in compensated absences	61	
Change in long-term receivable	(15,000)	
Discount and bond issuance costs amortization	(1,207)	
Change in OPEB obligation	(28,531)	
Change in inventories	(10,809)	(68,450)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 1,702,049**

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

PROPRIETARY FUND

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Totals
Assets			
Current assets			
Cash and pooled investments	$ 2,016,071	$ 241,260	$ 2,257,331
Accounts receivable - net	15,142	438	15,580
Patient receivables - net	2,369,686	-	2,369,686
Inventories	519,471	-	519,471
Prepaid items	169,070	-	169,070
Total current assets, unrestricted	**$ 5,089,440**	**$ 241,698**	**$ 5,331,138**
Restricted assets			
Cash and pooled investments	-	8,800	8,800
Total current assets	**$ 5,089,440**	**$ 250,498**	**$ 5,339,938**
Noncurrent assets			
Noncurrent cash and investments	$ 8,881,519	$ -	$ 8,881,519
Deferred charges	-	12,586	12,586
Capital assets			
Nondepreciable	764,288	-	764,288
Depreciable - net	6,109,288	766,815	6,876,103
Total noncurrent assets	**$ 15,755,095**	**$ 779,401**	**$ 16,534,496**
Other assets			
Deferred financing costs	$ 43,542	$ -	$ 43,542
Investment in Shetek Medical Services	311,888	-	311,888
Investment in Southwest Minnesota Radiation	(58,689)	-	(58,689)
Investment in Minnesota Rural Health	7,750	-	7,750
Physician receivables	131,372	-	131,372
Total other assets	**$ 435,863**	**$ -**	**$ 435,863**
Total Assets	**$ 21,280,398**	**$ 1,029,899**	**$ 22,310,297**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Liabilities			
Current liabilities payable from current assets			
Accounts payable	$ 675,860	$ 3,740	$ 679,600
Salaries payable	1,048,920	5,076	1,053,996
Compensated absences payable - current	-	512	512
Due to other governments	-	109	109
Due to third party	10,000	-	10,000
Accrued interest payable	3,994	20,444	24,438
General obligation bonds payable - current	-	80,000	80,000
Revenue notes payable - current	141,439	-	141,439
Total current liabilities payable from current assets	**$ 1,880,213**	**$ 109,881**	**$ 1,990,094**
Current liabilities payable from restricted assets			
Accounts payable	-	8,800	8,800
Total current liabilities	**$ 1,880,213**	**$ 118,681**	**$ 1,998,894**
Noncurrent liabilities			
Compensated absences payable - long-term	$ -	$ 9,366	$ 9,366
General obligation bonds payable - long-term	-	938,566	938,566
Revenue notes payable - long-term	2,793,215	-	2,793,215
Other postemployment benefits payable	181,250	1,467	182,717
Total noncurrent liabilities	**$ 2,974,465**	**$ 949,399**	**$ 3,923,864**
Total Liabilities	**$ 4,854,678**	**$ 1,068,080**	**$ 5,922,758**
Net Assets			
Invested in capital assets - net of related debt	$ 3,938,922	$ (251,753)	$ 3,687,169
Unrestricted	12,486,798	213,572	12,700,370
Total Net Assets	**$ 16,425,720**	**$ (38,181)**	**$ 16,387,539**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities - Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Operating Revenues			
Charges for services	$ -	$ 294,917	$ 294,917
Patient services revenues	15,838,082	-	15,838,082
Miscellaneous	239,067	7,422	246,489
Total Operating Revenues	**$ 16,077,149**	**$ 302,339**	**$ 16,379,488**
Operating Expenses			
Personal services	$ -	$ 94,463	$ 94,463
Professional services	3,703,721	5,390	3,709,111
Nursing services	2,843,416	-	2,843,416
Contracted services	-	36,474	36,474
Repairs and maintenance	864,779	4,019	868,798
Administration and fiscal services	4,068,838	425	4,069,263
Other services and charges	-	6,702	6,702
Supplies	-	10,687	10,687
Utilities	-	24,778	24,778
Insurance	-	4,623	4,623
Wellness center	30,277	-	30,277
Downtown building	2,214	-	2,214
Surgery clinic	693,772	-	693,772
Clinic	1,533,631	-	1,533,631
Fulda clinic	180,701	-	180,701
Interest expense	149,269	-	149,269
Depreciation	1,090,237	51,121	1,141,358
Total Operating Expenses	**$ 15,160,855**	**$ 238,682**	**$ 15,399,537**
Operating Income (Loss)	**$ 916,294**	**$ 63,657**	**$ 979,951**
Nonoperating Revenues (Expenses)			
Investment income	$ 86,531	$ -	$ 86,531
Grants	52,533	-	52,533
Gain on sale/disposal of capital assets	2,941	-	2,941
Gain/loss on investments in equity	(57,419)	-	(57,419)
Interest expense	-	(56,412)	(56,412)
Amortization of deferred charges	-	(1,258)	(1,258)
Total Nonoperating Revenues (Expenses)	**$ 84,586**	**$ (57,670)**	**$ 26,916**
Income (Loss) Before Transfers	**$ 1,000,880**	**$ 5,987**	**$ 1,006,867**
Transfers in	-	1,569	1,569
Change in net assets	**$ 1,000,880**	**$ 7,556**	**$ 1,008,436**
Net Assets - January 1	**15,424,840**	**(45,737)**	**15,379,103**
Net Assets - December 31	**$ 16,425,720**	**$ (38,181)**	**$ 16,387,539**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Cash Flows from Operating Activities			
Receipts from customers and users	$ 14,612,807	$ 302,884	$ 14,915,691
Other receipts and payments, net	239,067	-	239,067
Payments to suppliers and contractors	(5,270,342)	(91,700)	(5,362,042)
Payments to employees	(8,132,608)	(95,761)	(8,228,369)
Net cash provided by (used in) operating activities	**$ 1,448,924**	**$ 115,423**	**$ 1,564,347**
Cash Flows from Noncapital Financing Activities			
Noncapital grants	$ 52,533	$ -	$ 52,533
Transfers in	-	1,569	1,569
Net cash provided by (used in) noncapital financing activities	**$ 52,533**	**$ 1,569**	**$ 54,102**
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	$ (134,980)	$ (75,000)	$ (209,980)
Interest paid on long-term debt	(149,453)	(50,284)	(199,737)
Proceeds from the sale of capital assets	2,941	-	2,941
Purchases of capital assets	(1,492,916)	-	(1,492,916)
Net cash provided by (used in) capital and related financing activities	**$ (1,774,408)**	**$ (125,284)**	**$ (1,899,692)**
Cash Flows from Investing Activities			
Increase in noncurrent cash and investments	$ (1,318,545)	$ -	$ (1,318,545)
Decrease in investment in Shetek Medical Services, LLC	(20,992)	-	(20,992)
Increase in investment in Southwest Minnesota Radiation	78,410	-	78,410
Investment earnings received	86,531	-	86,531
Loss on investments	(57,419)	-	(57,419)
Decrease in physician receivable	21,243	-	21,243
Net cash provided by (used in) investing activities	**$ (1,210,772)**	**$ -**	**$ (1,210,772)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (1,483,723)**	**$ (8,292)**	**$ (1,492,015)**
Cash and Cash Equivalents at January 1	**3,499,794**	**258,352**	**3,758,146**
Cash and Cash Equivalents at December 31	**$ 2,016,071**	**$ 250,060**	**$ 2,266,131**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital	Congregate Housing	Totals
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	$ 2,016,071	$ 241,260	$ 2,257,331
Restricted cash and pooled investments	-	8,800	8,800
Total Cash and Cash Equivalents	**$ 2,016,071**	**$ 250,060**	**$ 2,266,131**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 916,294**	**$ 63,657**	**$ 979,951**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 1,087,234	$ 51,121	$ 1,138,355
Amortization expense	3,003	-	3,003
Interest expense	149,269	-	149,269
Provision for bad debt expense	193,083	-	193,083
(Increase) decrease in accounts receivable	(1,331,011)	(155)	(1,331,166)
(Increase) decrease in inventories	(107,204)	-	(107,204)
(Increase) decrease in prepaid items	(101,470)	-	(101,470)
Increase (decrease) in accounts payable	403,551	(1,916)	401,635
Increase (decrease) in salaries payable	189,428	1,079	190,507
Increase (decrease) in compensated absences payable	-	1,101	1,101
Increase (decrease) in due to other governments	-	(46)	(46)
Increase (decrease) in OPEB	46,747	582	47,329
Total adjustments	**$ 532,630**	**$ 51,766**	**$ 584,396**
Net Cash Provided by (Used in) Operating Activities	**$ 1,448,924**	**$ 115,423**	**$ 1,564,347**

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

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2011

Assets		
Cash and pooled investments	$	149,538
Accounts receivable		78,100
Total Assets	**$**	**227,638**
Liabilities		
Accounts payable	$	87
Advance from other funds		78,100
Due to other governments		149,451
Total Liabilities	**$**	**227,638**

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

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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, 2011. 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 only 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.

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
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:

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
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 are not issued for the Shetek Area Water and Sewer Commission.

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.

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,

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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, both the governmental and business-type activities 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 governmental and proprietary funds as major funds.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 accounted for in another fund.

- The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

- The Ditch Special Revenue Fund accounts for restricted special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

- The EDA Special Revenue Fund accounts for restricted revenue resources from the state and an appropriation from the General Fund for the costs relating to activity of the Economic Development Authority.

- The Debt Service Fund is used to account for the financial resources to be used for the payment of long-term debt, principal, interest, and related costs.

- The Capital Projects Fund is used to account for financial resources committed for capital acquisition, construction, or improvement of capital facilities.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

- 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. 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.

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 taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent 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.

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, 2011, 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 2011 were $104,431.

The Hospital's investment income for the year ended December 31, 2011, was $86,531 and is included in nonoperating revenues.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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).

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 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Patient receivables are uncollateralized patient and third-party payer obligations.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Unpaid patient receivables, excluding amounts due from third-party payors, with private pay dates over 30 days old have interest assessed at 1.5 percent per month. Due to the uncertainty of collecting private pay accounts, these interest charges are recognized as income when received. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from parties due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out 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.

1. Summary of Significant Accounting Policies

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

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.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 and the Congregate Housing Enterprise Fund had no capitalized interest.

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

Assets	Years
Improvements other than buildings	20 - 35
Buildings	25 - 40
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

1. Summary of Significant Accounting Policies

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

7. Hospital's Investments in Equity

a. Investment in Shetek Medical Services, LLC

The Hospital is a 40-percent owner in Shetek Medical Services, LLC. This venture provides various health care-related services to the surrounding area. The Hospital's investment in the clinic is reported on the equity method of accounting. The net gain on the investment, $20,992 for the year ended December 31, 2011, is included in nonoperating income.

b. Investment in Southwest Minnesota Radiation, LLC

The Hospital is a 14-percent owner in Southwest Minnesota Radiation. The Hospital made initial capital contributions in 2007 and 2008 totaling $100,000 each year. This venture provides advanced radiation treatment to the people of southwest Minnesota. The Hospital's investment is reported on the equity method of accounting. The net loss on the investment, $78,410 for the year ended December 31, 2011, is included in nonoperating income.

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.

1. Summary of Significant Accounting Policies

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

9. Deferred Revenue

All County funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Special assessments receivable	$ 1,320,745
Highway allotments that do not provide current financial resources	1,155,217
Loans receivable	1,325,800
Delinquent property taxes	58,142
Deferred revenue from accrued interest	24,168
Grants receivable	85,022
Total Deferred Revenue for All Governmental Funds	$ 3,969,094

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.

1. Summary of Significant Accounting Policies

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

11. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt – the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net assets – the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

12. Classification of Fund Balances

In 2011, the County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not is spendable for” criterion includes items that are not expected to be converted to cash.

Restricted – amounts for which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or it imposed by law through constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

12. Classification of Fund Balances (Continued)

Committed – amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned – amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer who has been delegated that authority by Board resolution.

Unassigned – spendable amounts not contained in the other fund balance classifications for the General Fund. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

1. Summary of Significant Accounting Policies

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

13. Minimum Fund Balance

Murray County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined they need to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) within a range of 35 to 50 percent of the General Fund operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2011, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. 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.

15. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement No. 63 may restate portions of these financial statements.

1. Summary of Significant Accounting Policies (Continued)

F. Hospital Net Patient Service Revenue

The Hospital has agreements with third-party payers 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated $135,185 in 2011 and $136,596 in 2010.

Revenue from the Medicare and Medicaid programs accounted for approximately 42 and 8 percent and 32 and 5 percent of the Hospital's net patient revenue for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider 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.

1. Summary of Significant Accounting Policies

F. Hospital Net Patient Service Revenue (Continued)

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare--The Hospital has elected Critical Access Hospital (CAH) designation for Medicare. As a CAH, the Hospital is reimbursed for inpatient, swing bed, and outpatient services to Medicare patients on a reasonable cost basis. Medicare reimburses the Hospital for these services using interim rates, with a final settlement determined based on the annual cost report that is filed by the Hospital. This cost report is subject to audits by the Medicare fiscal intermediary through December 31, 2010.

Medicaid--Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance/Net Assets

The Congregate Housing Enterprise Fund had deficit fund net assets for the year ended December 31, 2011, of $38,181. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

B. Excess of Expenditures Over Budget

	Expenditures	Final Budget	Excess
General Revenue Fund	$ 9,010,483	$ 7,680,270	$ 1,330,213
Road and Bridge Fund	5,145,091	4,927,787	217,304
Ditch Special Revenue Fund	384,148	365,314	18,834
EDA Special Revenue Fund	700,540	180,530	520,010
Capital Projects Fund	27,977	14,777	13,200

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	$	8,710,607
Petty cash and change funds		2,000
Business-type activities		
Cash and pooled investments		2,257,331
Restricted assets - cash and pooled investments		8,800
Noncurrent cash and investments		8,881,519
Component unit - Shetek Area Water and Sewer Commission		
Cash and pooled investments		659,657
Restricted assets		283,956
Agency fund		
Cash and pooled investments		149,538
Total Cash and Investments	$	20,953,408

Deposits		
Checking	$	629,619
Certificates of deposit		2,020,000
Invested in MAGIC Fund		10,620,789
Invested in negotiable certificates of deposit		7,681,000
Petty cash and change funds		2,000
Total Deposits, Cash on Hand, and Investments	$	20,953,408

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

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, 2011, $524,769 of the County's deposits were exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

(1) securities that are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers’ acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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.

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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A		N/A	$ 10,620,789
Negotiable certificates of deposit					
Harris National Associaiton, IL	N/A	N/A		01/06/2012	$ 247,000
Onb Bank & Trust Company, OK	N/A	N/A		05/31/2012	248,000
Investorsbank, WI	N/A	N/A		05/31/2012	248,000
Israel Discount Bank of New York, NE	N/A	N/A		05/31/2012	248,000
Asian Pacific National Bank, CA	N/A	N/A		05/31/2012	248,000
National Republic Bank of Chicago, IL	N/A	N/A		05/31/2012	248,000
Orrstown Bank, PA	N/A	N/A		05/31/2012	248,000
Onewest Bank, Fsb, CA	N/A	N/A		05/31/2012	248,000
Security Bank and Trust of Miami, OK	N/A	N/A		05/31/2012	248,000
Bank of the West, CA	N/A	N/A		09/18/2012	248,000
Private Bank & Trust Co., Bloomfield	N/A	N/A		09/18/2012	248,000
Gbc International Bank, CA	N/A	N/A		09/18/2012	248,000
First Place Bank, OH	N/A	N/A		09/18/2012	248,000
Gateway Community Bank, IL	N/A	N/A		11/30/2012	248,000
Virginia Heritage Bank, VA	N/A	N/A		11/30/2012	248,000
Fifth Third Bank, OH	N/A	N/A		11/30/2012	248,000
The First, N.A., ME	N/A	N/A		11/30/2012	248,000
Northstar Bank, FL	N/A	N/A		11/30/2012	248,000
Southside Bank, TX	N/A	N/A		11/30/2012	248,000
First State Bank, Barboursville, WV	N/A	N/A		11/30/2012	248,000
Liberty Bank, CT	N/A	N/A		11/30/2012	248,000
Washington Trust Co. of Westerly, RI	N/A	N/A		12/03/2012	245,000
Citizens Trust Bank, GA	N/A	N/A		12/03/2012	245,000
First Credit Bank, CA	N/A	N/A		12/03/2012	245,000
Amerasia Bank, NY	N/A	N/A		12/03/2012	245,000
Commonwealth Business Bank, CA	N/A	N/A		12/05/2012	245,000
Commerce State Bank, WI	N/A	N/A		12/05/2012	245,000
First Federal Savings & Ln Assn, SC	N/A	N/A		12/06/2012	245,000
Ge Capital Financial Inc, UT	N/A	N/A		12/06/2012	245,000
Tristate Capital Bank, PA	N/A	N/A		02/25/2013	232,000
Sonabank, VA	N/A	N/A		02/23/2015	94,000
Farmers & Merchants Union Bank, WI	N/A	N/A		02/23/2015	94,000
First Chatham Bank, GA	N/A	N/A		02/23/2015	94,000
Total negotiable certificates of deposit					$ 7,681,000

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Total investments					$ 18,301,789
Checking					629,619
Certificates of deposit					2,020,000
Petty cash					2,000
Total Cash and Investments					$ 20,953,408

N/A - Not Applicable
N/R - Not Rated
<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as December 31, 2011, for the County's governmental activities, not scheduled for collection during the subsequent year are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	$ 58,142	$ -
Special assessments	1,320,744	947,703
Accounts	85,564	-
Accrued interest	42,142	-
Due from other governments	1,654,816	-
Loans	1,325,800	1,110,341
Long-term	275,000	265,000
Total Receivables	$ 4,762,208	$ 2,323,044

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

In 2001, the Murray County Board transferred responsibility for managing and operating the Murray County Economic Development Revolving Loan Fund to the newly formed Economic Development Authority, which is accounted for in the EDA Special Revenue 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 deferred revenue. Changes in loans receivable are as follows:

Loan Agreements	
Beginning balance	$ 945,759
Loans issued	564,843
Loan repayments	(184,802)
Ending Balance	$ 1,325,800

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 291,259	$ -	$ -	$ 291,259
Right-of-way	353,964	-	-	353,964
Construction in progress	-	1,440,878	-	1,440,878
Total capital assets not depreciated	$ 645,223	$ 1,440,878	$ -	$ 2,086,101
Capital assets depreciated				
Land improvements	$ 474,799	$ -	$ -	$ 474,799
Buildings	5,622,420	88,348	-	5,710,768
Machinery and equipment	4,841,964	1,540,186	266,803	6,115,347
Infrastructure	55,757,335	2,220,619	-	57,977,954
Total capital assets depreciated	$ 66,696,518	$ 3,849,153	$ 266,803	$ 70,278,868

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	$ 117,625	$ 21,085	$ -	$ 138,710
Buildings	2,202,447	163,864	-	2,366,311
Machinery and equipment	3,231,489	343,206	223,772	3,350,923
Infrastructure	17,830,534	1,540,090	-	19,370,624
Total accumulated depreciation	$ 23,382,095	$ 2,068,245	$ 223,772	$ 25,226,568
Total capital assets depreciated, net	$ 43,314,423	$ 1,780,908	$ 43,031	$ 45,052,300
Governmental Activities Capital Assets, Net	$ 43,959,646	$ 3,221,786	$ 43,031	$ 47,138,401

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 153,683	$ 17,564	$ -	$ 171,247
Construction in Progress	-	593,041	-	593,041
Total capital assets not depreciated	$ 153,683	$ 610,605	$ -	$ 764,288
Capital assets depreciated				
Land improvements	$ 382,819	$ 37,788	$ -	$ 420,607
Buildings	8,403,741	68,917	-	8,472,658
Fixed equipment	1,177,291	-	-	1,177,291
Major movable equipment	4,867,808	775,606	-	5,643,414
Total capital assets depreciated	$ 14,831,659	$ 882,311	$ -	$ 15,713,970
Less: accumulated depreciation for				
Land improvements	$ 170,200	$ 24,104	$ -	$ 194,304
Buildings	3,344,843	449,644	-	3,794,487
Fixed equipment	886,671	40,769	-	927,440
Major movable equipment	3,297,798	623,838	-	3,921,636
Total accumulated depreciation	$ 7,699,512	$ 1,138,355	$ -	$ 8,837,867
Total capital assets depreciated, net	$ 7,132,147	$ (256,044)	$ -	$ 6,876,103
Business-Type Activities Capital Assets, Net	$ 7,285,830	$ 354,561	$ -	$ 7,640,391

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	$	150,613
Public safety		84,199
Highways and streets, including depreciation of infrastructure assets		1,758,428
Sanitation		17,937
Culture and recreation, including depreciation of infrastructure assets		56,381
Conservation of natural resources		687
Total Depreciation Expense - Governmental Activities	$	2,068,245
Business-Type Activities		
Hospital	$	1,087,234
Congregate Housing		51,121
Total Depreciation Expense — Business-Type Activities	$	1,138,355

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund		Amount
General	Capital Projects	$	332,150
Road and Bridge	General		508
Debt Service	Capital Projects		7,549
Total Due To/From Other Funds		$	340,207

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

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Lime Creek Subordinate Service District Agency Fund	$ 78,100

The advance is to provide working capital to the agency fund for project costs for updated septic systems within the unincorporated area of the Village of Lime Creek. This balance will be paid from future collections of grant and loan monies from other governmental entities and from future special assessments on the ten residential and one commercial properties within the Lime Creek Subordinate Service District.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer to General Fund from Capital Projects Fund	$ 1,560,404	Provide funding
Transfer to Ditch Special Revenue Fund from General Fund	6,245	Provide funding
Transfer to EDA Special Revenue Fund from General Fund	108,508	Provide funding
Transfer to Capital Projects Fund from General Fund	500	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund	1,569	Provide funding
Total Interfund Transfers	$ 1,677,226	

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-date	Remaining Commitments
General Government	$ 1,206,774	$ 455,150
Highways and Streets	4,015,507	211,750

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2011, was $77,232.

3. Long-Term Debt

Governmental Activities - Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2011A G O Capital Improvement Plan Bond	2022	$180,000 - $220,000	0.60 - 2.75	$ 1,965,000	$ -
Total G O Capital Improvement Plan Bonds				$ 1,965,000	$ 1,965,000
Less: unamortized discount					(16,031)
Net G O Capital Improvement Plan Bonds					$ 1,948,969
Special assessment bonds with government commitment					
2002 G.O. Ditch Bonds	2021	$40,000 - $45,000	2.10 - 3.80	$ 335,000	$ -
2007A G.O. Refunding Bonds	2029	$25,000 - $195,000	4.00 - 4.25	1,625,000	1,185,000
Total G.O. Special Assessment Bonds				$ 1,960,000	$ 1,185,000
Less: unamortized discount					(9,121)
Net G.O. Special Assessment Bonds					$ 1,175,879

The 2007A General Obligation Refunding Bonds include an amount to refund the 1999A G.O. Water Revenue Bonds of Red Rock Rural Water System (RRRWS). RRRWS is levying special assessments to pay for these bonds. The County has

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities - Bonds Payable (Continued)

pledged its full faith and credit for the repayment of principal and interest on these refunding bonds should RRRWS special assessment revenue be insufficient. The County has recognized a long-term receivable in the governmental activities for the total principal amount, $275,000, due from RRRWS, which will decrease as principal payments are made starting 2010.

Murray County issued 2011A General Obligation Capital Improvement Plan Bonds to provide funds for the construction of Law Enforcement Center Addition. These bonds are reported in the capital projects fund as they are expected to be repaid from tax revenues through the debt service fund. The County has pledged its full faith and credit for the repayment of principal and interest on these bonds. These bonds are issued as 10 year serial bonds.

Business-Type Activities - Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2004 G.O. Refunding Bonds	2022	$65,000 - $130,000	1.75 - 5.00	$ 1,580,000	$ 1,090,000
Less: deferred amounts for					
Issuance discount					(8,776)
Refunding charges					(62,658)
Total General Obligation Refunding Bonds, Net					$ 1,018,566
Revenue note					
2006 Hospital Revenue Note	2026	$112,869 - $270,153	4.9	$ 3,600,000	$ 2,934,654

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

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 two percent. Loan payments are reported in the General Fund. In 2004, the Board authorized $700,000 of transfers, which will be made in installments of $100,000, to the Clean Water Partnership Loan Fund for the County septic loan program.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Cottonwood River CWP Project	2020	$ 19,395	2.00	$ 174,996	$ 93,096
Beaver Creek CWP Project	2018	40,627	2.00	366,567	192,474
Lake Shetek CWP Project	2013	60,295	2.00	712,332	117,633
Total Loans Payable				$ 1,253,895	$ 403,203

The loans payable to the Minnesota Pollution Control Agency of $ 30,695 do not have fixed amortization schedules at December 31, 2011, and are not included in the previous table.

Governmental Activities—G.O. Promissory Note Payable

The County has a noninterest-bearing G.O. Promissory Note with the Minnesota Department of Employment and Economic Development (DEED). The original issue amount was $400,000, which was distributed to Monogram Meat Snacks and

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities—G.O. Promissory Note Payable (Continued)

was recognized as a loan receivable in the County's EDA Special Revenue Fund. Monogram Meat Snacks is to repay the County the full amount with three percent interest. The County is to repay DEED $359,903 with installment amounts of $785 to $4,229. As of December 31, 2011, the County had $147,963 outstanding.

4. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Governmental Activities

Year Ending December 31	G.O. Capital Improvement Plan Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	$ -	$ 37,546	$ 190,000	$ 43,950
2013	180,000	34,118	185,000	36,450
2014	185,000	32,884	180,000	29,150
2015	185,000	31,219	165,000	22,250
2016	190,000	28,917	165,000	15,650
2017 - 2021	1,005,000	89,803	155,000	40,762
2022 - 2026	220,000	3,025	85,000	22,318
2027 - 2029	-	-	60,000	3,825
Total	$ 1,965,000	$ 257,512	$ 1,185,000	$ 214,355

Year Ending December 31	G.O. Promissory Notes		Loans Payable	
	Principal	Interest	Principal	Interest
2012	$ 50,742	$ -	$ 112,813	$ 7,503
2013	50,742	-	115,081	5,235
2014	46,479	-	53,390	3,241
2015	-	-	34,476	2,267
2016	-	-	35,169	1,574
2017 - 2020	-	-	52,274	1,554
Total	$ 147,963	$ -	$ 403,203	$ 21,374

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	Revenue Note Principal	Revenue Note Interest	General Obligation Bonds Principal	General Obligation Bonds Interest
2012	$ 141,439	$ 142,995	$ 80,000	$ 47,665
2013	149,039	135,395	80,000	44,765
2014	156,615	127,819	80,000	41,665
2015	164,575	119,859	85,000	38,280
2016	172,615	111,818	90,000	34,560
2017 - 2021	1,005,531	416,616	545,000	102,038
2022 - 2026	1,144,840	135,138	130,000	3,250
Total	$ 2,934,654	$ 1,189,640	$ 1,090,000	$ 312,223

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation capital improvement plan bonds	$ -	$ 1,965,000	$ -	$ 1,965,000	$ -
Special assessment debt with government commitment	1,420,000	-	235,000	1,185,000	190,000
Less: deferred amounts for issuance discounts	(9,627)	(16,031)	(506)	(25,152)	-
Net bonds payable	$ 1,410,373	$ 1,948,969	$ 234,494	$ 3,124,848	$ 190,000
G.O. promissory notes payable	198,705	-	50,742	147,963	50,742
Loans payable	513,323	31,165	110,590	433,898	112,813
Compensated absences	537,933	-	61	537,872	61,124
Net OPEB obligation	67,466	28,531	-	95,997	-
Governmental Activities Long-Term Liabilities	$ 2,727,800	$ 2,008,665	$ 395,887	$ 4,340,578	$ 414,679

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 1,165,000	$ -	$ 75,000	$ 1,090,000	$ 80,000
Revenue note of 2006	3,069,634	-	134,980	2,934,654	141,439
Compensated absences	8,777	1,101		9,878	512
Net OPEB obligation	135,388	47,329	-	182,717	-
Total long-term liabilities	$ 4,378,799	$ 48,430	$ 209,980	$ 4,217,249	$ 221,951
Less: deferred amounts	(78,578)	-	(7,144)	(71,434)	-
Business-Type Activities Long-Term Liabilities	$ 4,300,221	$ 48,430	$ 202,836	$ 4,145,815	$ 221,951

6. 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, 2011, the amount of defeased debt outstanding but removed from financial statements amounted to $1,045,000.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Bond Refundings

Crossover Refundings

In 2007, the County issued $1,625,000 General Obligation Refunding Bonds, Series 2007A. Of this amount, $1,485,000 was issued to refund the 2001 General Obligation Drainage Bonds and the 1999A General Obligation Water Revenue Bonds. These are crossover refunding with the proceeds deposited with an escrow agent. The 2001 and the 1999A series were called on February 1, 2009, and redeemed with proceeds of the escrow account. On February 1, 2010, the County did a "crossover" and began making payments on the 2007A General Obligation Refunding Bonds.

In 2007, the County issued the remaining $140,000 General Obligation Refunding Bonds, Series 2007A, for a current refunding of $300,000 General Obligation Drainage Ditch Bonds of 1999. This current refunding was undertaken to reduce total debt service payments over the next seven years by $5,703 and resulted in an economic gain of $2,168. The refunded bonds were retired in February 2007.

4. Pension Plans and Other Postemployment Benefits

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). PERA administers the General 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.

General 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.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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 defined 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 General 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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General 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.

4. Pension Plans and Other Postemployment Benefits

   A. Defined Benefit Plans (Continued)

      Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. Ch. 353. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

The County is required to contribute the following percentages of annual covered payroll in 2011:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 219,233	$ 207,922	$ 196,954
Public Employees Police and Fire Fund	78,696	73,174	72,926

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

   B. Defined Contribution Plan

Seven employees of Murray County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. Ch. 353D, which may be amended by the State Legislature. 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.

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	Employee	Employer
Contribution amount	$ 5,757	$ 5,757
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities

Plan Description

Murray County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Murray County Board of Commissioners. Retirees are required to pay 100 percent of the premium costs.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities

Funding Policy (Continued)

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2009, there were approximately 78 participants in the plan, including 0 retirees. The implicit rate subsidy amount was determined by an actuarial study to be $12,060 for 2011.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	$	42,237
Interest on net OPEB obligation		3,076
Adjustment to ARC		(4,140)
Annual OPEB cost (expense)	$	41,173
Contributions made		(12,060)
Increase in net OPEB obligation	$	29,113
Net OPEB Obligation — Beginning of Year		68,351
Net OPEB Obligation — End of Year	$	97,464

Of the $29,113, $28,531 represents governmental activities and $582 represents business-type activities for the Congregate Housing Enterprise Fund.

4. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB)

      1. Governmental Activities

         Annual OPEB Cost and Net OPEB Obligation (Continued)

         The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2009, 2010 and 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 42,237	$ 6,307	14.93%	$ 35,930
December 31, 2010	41,695	9,274	22.24	68,351
December 31, 2011	41,173	12,060	29.29	97,464

         Funded Status and Funding Progress

         As of January 1, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was $257,659, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $257,659. The covered payroll (annual payroll of active employees covered by the plan) was $3,126,758, and the ratio of the UAAL to the covered payroll was 8.2 percent.

         Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

         Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress — Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Murray County's implicit rate of return on the General Fund.

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 27 years.

2. Business-Type Activities

Certain employees of Murray County Memorial Hospital participate in a health insurance plan provided by Murray County. In 2009, the Hospital implemented the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Hospital provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55 and have 15 years of services with the Hospital. The Hospital provides benefits for retirees as required by state statutes. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of January 1, 2011, there were no retirees receiving health benefits from the Organization's health plan.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

2. Business-Type Activities (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Hospital's annual OPEB cost of 2011, the amount actually contributed to the plan, and changes in the Hospital's net OPEB obligation:

ARC	$	93,954
Interest on net OPEB obligation		6,053
Adjustment to ARC		(8,153)
Annual OPEB cost (expense)	$	91,854
Contributions made		(45,107)
Increase in net OPEB obligation	$	46,747
Net OPEB Obligation - Beginning of Year		134,503
Net OPEB Obligation - End of Year	$	181,250

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 93,954	$ 18,811	20.00%	$ 75,143
December 31, 2010	93,954	33,462	35.60	60,492
December 31, 2011	93,954	45,107	48.00	48,847

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

2. Business-Type Activities (Continued)

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the Hospital's UAAL was $558,803. The annual payroll of active employees covered by the plan in the actuarial valuation was $4,327,814, for a ratio of the UAAL to covered payroll of 12.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress — Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

2. Business-Type Activities

Actuarial Methods and Assumptions (Continued)

own investments calculated based on the funded level of the plan at the valuation date. The initial health care trend rate was 9.0 percent, reduced by decrements to an ultimate rate of 5.0 percent after 8 years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental 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 $450,000 per claim in 2011. 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.

6. Summary of Significant Contingencies and Other Items

   A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2011, Lincoln-Pipestone Rural Water System had $36,595,000 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

In 2012, Lincoln County issued a General Obligation Water System Refunding Bond for $1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

B. Subsequent Event

On February 29, 2012, Murray County issued General Obligation Water Revenue Bonds in the amount of $489,000 for construction, improvement, and extension of the Red Rock Rural Water System. The Red Rock Rural Water System and Cottonwood County entered into a joint powers agreement with Murray County on June 7, 2011, for the issuance of the bonds. In the 2011 agreement, the Red Rock Rural Water System accepted primary responsibility to make any and all payments on the bond from its revenues and assignments against petitioners’ real estate.

C. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWMHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray and Pipestone Counties. SWMHHS began official operation on January 1, 2011, and performs human service and public health delivery formerly performed by Lincoln, Lyon & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray and Pipestone Public Health Services (LLMPPHS). The new joint powers agreement became effective January 1, 2011.

In 2011, funding was based on the percentages used in prior years for LLMHS and LLMPPHS. For 2012 and beyond, funding for SWMHHS will be based upon consideration of: 1) population based on the most recent national census; 2) tax capacity; and 3) the most recent three (3) year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

SWMHHS is governed by the:

- Joint Health and Human Services Board ("Joint Board") - responsible for financial, personnel, budget and general administration of the agency and is made up of one County Commissioner (or alternate) from each County serving on the Community Health Board; and one County Commissioner (or alternate) serving on the Human Services Board.

- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.

- Community Health Board - responsible for all duties as set forth in Minn. Stat. ch. 145A and made up on one County Commissioner and one alternate from each member county unless such County shall have a population in excess of twice that of any other member County, in which case it shall have two Commissioners and two alternates.

Financing is provided by state and federal grants and appropriations from member counties. Murray County's contribution in 2011 was $1,091,062.

At December 31, 2011, SWMHHS reported a total fund balance of $4,947,853. In addition, SWMHHS reported total net assets of $4,247,697. SWMHHS's long-term debt at December 31, 2011 is $954,659 and includes the net OPEB obligation and compensated absences. The debt will be funded by intergovernmental revenue and revenue from computer services.

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

Murray County, along with Lac qui Parle, Lincoln, Lyon, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges.

The Lincoln-Pipestone Rural Water System is governed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System.

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2011, are $36,595,000.

The Lincoln-Pipestone Rural Water System's 2011 financial report shows total net assets of $48,544,818, including unrestricted net assets of $19,843,138. The increase in net assets for the year ended December 31, 2011, was $6,120,627.

Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, 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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

Each county is responsible for levying and collecting the special assessments from the benefited properties within that county. A bond issue and notes payable are shown as long term debt on the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2010 (the latest information available), were $11,595,000. The Water System's net assets increased by $2,442,689 in 2010.

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

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 $500.

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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Murray County, the City of Marshall, the City of Worthington, and 12 other counties under authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement. The members representing counties and cities are appointed by their respective governing bodies for the membership of that governing body. In addition, voting members of the Board include a member of the Southwest Minnesota Regional Advisory Committee, a member of the Southwest Minnesota Regional Radio System User Committee, and a member of the Southwest Minnesota Owners and Operators Committee

The County paid $2,599 in membership dues in 2011.

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 $2,920 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 $625 in membership dues in 2011.

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 $3,240 of the County levy to the RCRCA.

Heron Lake Watershed District

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

E. Agricultural Best Management Loan Program

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

F. Functional Expenses — Hospital Enterprise Fund

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the year ended December 31, 2011, are:

Health care services	$ 6,519,105
General and administrative	8,641,750
Total	$ 15,160,855

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

G. Concentrations of Credit Risk — Hospital Enterprise Fund

The Hospital grants credit, without collateral, to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors and patients at December 31, 2011, follows:

Medicare	42%
Medicaid	8
Other third-party payors	21
Private pay	29
Total	100%

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 a separate column on the Statement of Net Assets.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

2. Basis of Presentation (Continued)

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.

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.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities (Continued)

Accounts Receivable

The amount reported is receivable from the sewer system users for utility charges unpaid at December 31, 2011.

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.

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. 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. 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.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities

Capital Assets (Continued)

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

Assets	Years
Land improvements	75
Collection system	40
Machinery and equipment	15

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.

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 cash and to invest in certificates of deposit in financial institutions designated by the County's Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement for which Murray County was in compliance at December 31, 2011. As of December 31, 2011, the Commission had $943,613 on deposit with Murray County.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Receivables

Of the Commission's special assessments receivable – noncurrent balance at December 31, 2011, $8,609,214 was not scheduled for collection during the subsequent year.

3. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2011, follows:

	Balance January 1, 2011	Additions	Deletions	Balance December 31, 2011
Capital assets not depreciated				
Land	$ 386,046	$ -	$ -	$ 386,046
Capital assets depreciated				
Land improvements	$ 1,718,495	$ -	$ -	$ 1,718,495
Buildings and structures	57,450	-	-	57,450
Machinery and equipment	491,400	-	-	491,400
Infrastructure	13,067,692	-	-	13,067,692
Total capital assets depreciated	$ 15,335,037	$ -	$ -	$ 15,335,037
Less: accumulated depreciation for				
Land improvements	$ 82,104	$ 22,913	$ -	$ 105,017
Building & Structures	837	1,436	-	2,273
Machinery and equipment	68,250	32,760	-	101,010
Infrastructure	678,816	328,447	-	1,007,263
Total accumulated depreciation	$ 830,007	$ 385,556	$ -	$ 1,215,563
Total capital assets depreciated, net	$ 14,505,030	$ (385,556)	$ -	$ 14,119,474
Total Capital Assets, Net	$ 14,891,076	$ (385,556)	$ -	$ 14,505,520

Depreciation expense for 2011 was $385,556.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

4. Long-Term Obligations

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2007 Water Revenue Bonds	2027	$45,000 - $130,000	4.00 - 4.40	$ 1,715,000	$ 1,485,000
2007B Sewer Revenue Bonds	2028	$75,000 - $155,000	4.00 - 4.40	2,080,000	1,925,000
Total General Obligation Bonds				$ 3,795,000	$ 3,410,000

The General Obligation Revenue Bonds 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.

Year Ended	G.O. Water Revenue Bonds, Series 2007		G.O. Sewer Revenue Bonds, Series 2007B	
December 31	Principal	Interest	Principal	Interest
2012	$ 65,000	$ 61,655	$ 80,000	$ 78,170
2013	70,000	58,955	85,000	74,870
2014	70,000	56,155	90,000	71,370
2015	75,000	53,255	90,000	67,770
2016	80,000	50,115	95,000	64,070
2017 – 2021	445,000	197,595	535,000	258,693
2022 – 2026	550,000	91,225	650,000	137,392
2027 – 2028	130,000	2,860	300,000	13,420
Total	$ 1,485,000	$ 571,815	$ 1,925,000	$ 765,755

Minnesota Public Facilities Authority General Obligation Notes

Minnesota Public Facilities Authority General Obligation Notes issued for $15,144,000: $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, 2011, were $14,889,200, $11,299,849

7. Component Unit Disclosures

B. Detailed Notes

4. Long-Term Obligations

Minnesota Public Facilities Authority General Obligation Notes (Continued)

from the Water Pollution Control Revolving Fund; and $3,589,451 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, 2011, are as follows:

	Minnesota Public Facilities Authority Loans		
	Water Pollution Control Revolving Fund		Wastewater Infrastructure Fund
Year Ended December 31	Principal	Interest	Principal
2012	$ 513,945	$ 83,557	$ -
2013	519,000	78,366	-
2014	524,000	73,124	-
2015	529,000	67,832	-
2016	535,000	62,489	-
2017 - 2021	2,755,000	230,340	-
2022 - 2026	2,897,000	88,355	-
2027 - 2031	-	-	3,360,000
2032 - 2033	-	-	229,451
Total	$ 8,272,945	$ 684,063	$ 3,589,451

The General Obligation Revenue Notes will be retired with income from operations, prepayments of special assessments, special assessments, and unused construction funding, and are exempt from the limitations on net debt imposed by Minnesota law. The above debt service requirements are subject to change due to early prepayments of special assessments and loans to be issued in the future.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

5. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Minnesota Public Facilities Authority					
General obligation notes	$ 12,413,961	$ -	$ 551,565	$ 11,862,396	$ 513,945
General obligation bonds	3,555,000	-	145,000	3,410,000	145,000
Premium on general obligation bonds	12,645	-	712	11,933	712
Total Long-Term Liabilities	$ 15.981,606	$ -	$ 697,277	$ 15,284,329	$ 659,657

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 past three years.

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REQUIRED SUPPLEMENTARY INFORMATION

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,934,165	$ 3,934,165	$ 3,846,146	$ (88,019)
Special assessments	188,011	188,011	316,113	128,102
Licenses and permits	20,690	20,690	30,268	9,578
Intergovernmental	1,152,523	1,152,523	2,059,900	907,377
Charges for services	442,840	427,840	403,775	(24,065)
Fines and forfeits	-	-	2,518	2,518
Gifts and contributions	2,500	2,500	39,536	37,036
Investment earnings	350,000	350,000	12,674	(337,326)
Miscellaneous	234,348	249,348	415,493	166,145
Total Revenues	**$ 6,325,077**	**$ 6,325,077**	**$ 7,126,423**	**$ 801,346**
Expenditures				
Current				
General government				
Commissioners	$ 234,715	$ 234,715	$ 215,768	$ 18,947
Community relations/web page development	32,480	32,480	33,360	(880)
Courts	12,000	12,000	8,448	3,552
Law library	10,000	10,000	9,044	956
Auditor/Treasurer	387,912	387,912	405,600	(17,688)
Accounting and auditing	60,000	60,000	64,222	(4,222)
County assessor	176,718	176,718	181,175	(4,457)
Elections	1,900	1,900	3,699	(1,799)
Assistive voting grant	13,550	13,550	6,703	6,847
Data processing and computer networking	144,770	144,770	97,060	47,710
Machines room	58,700	98,700	93,851	4,849
Motor pool	28,050	28,050	8,168	19,882
Safety officer	1,950	1,950	465	1,485
Human resources	150,820	150,820	137,081	13,739
Attorney	197,284	197,284	148,629	48,655
Recorder	158,536	158,536	195,018	(36,482)
Planning and zoning	89,846	89,846	82,736	7,110
Buildings and plant	451,660	1,771,104	2,087,634	(316,530)
Veterans service officer	30,208	30,208	29,470	738
License center	71,020	71,020	73,608	(2,588)
Other general government	40,217	40,217	9,546	30,671
Total general government	**$ 2,352,336**	**$ 3,711,780**	**$ 3,891,285**	**$ (179,505)**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,668,996	$ 1,671,595	$ 1,907,366	$ (235,771)
E-911 system	86,765	86,765	63,869	22,896
Probation	36,000	36,000	57,124	(21,124)
Civil defense	93,499	93,499	694,310	(600,811)
Other public safety	3,000	3,000	2,468	532
Emergency medical services	63,801	63,801	41,697	22,104
Total public safety	**$ 1,952,061**	**$ 1,954,660**	**$ 2,766,834**	**$ (812,174)**
Sanitation				
Lime Creek Service District	$ -	$ -	$ 76,353	$ (76,353)
Solid waste	96,965	96,965	77,412	19,553
Recycling	277,222	277,222	366,807	(89,585)
Other	500	500	498	2
Total sanitation	**$ 374,687**	**$ 374,687**	**$ 521,070**	**$ (146,383)**
Culture and recreation				
Regional library	$ 67,665	$ 67,665	$ 67,665	$ -
Historical society	56,965	56,965	56,791	174
Senior citizens - RSVP	12,839	12,839	12,739	100
Transportation	217,855	217,855	199,419	18,436
Parks	346,585	346,585	351,342	(4,757)
Minnesota trails	29,610	29,610	29,559	51
Other	6,700	6,000	6,000	-
Total culture and recreation	**$ 738,219**	**$ 737,519**	**$ 723,515**	**$ 14,004**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	$ 166,975	$ 166,975	$ 164,299	$ 2,676
Soil and water conservation	176,860	176,860	168,519	8,341
Agricultural inspection	56,275	56,275	56,529	(254)
RCRCA	3,240	3,240	3,240	-
Environmental & land use advisory task force	50	50	64	(14)
Flood control	3,545	3,545	5,005	(1,460)
Agricultural society	32,500	32,500	32,980	(480)
Water planning	122,072	122,072	81,228	40,844
JCM west fork DMR BMP project	-	-	111,149	(111,149)
Water quality loan program	135,000	135,000	124,306	10,694
Other conservation	31,532	31,532	12,770	18,762
Total conservation of natural resources	**$ 728,049**	**$ 728,049**	**$ 760,089**	**$ (32,040)**
Economic development				
Community development	$ 1,638	$ 1,638	$ 1,455	$ 183
Other	2,124	2,124	173,153	(171,029)
Total economic development	**$ 3,762**	**$ 3,762**	**$ 174,608**	**$ (170,846)**
Intergovernmental				
Health	**$ 52,584**	**$ 52,584**	**$ 52,584**	**$ -**
Debt service				
Principal	$ 108,048	$ 108,048	$ 110,590	$ (2,542)
Interest	9,181	9,181	9,908	(727)
Total debt service	**$ 117,229**	**$ 117,229**	**$ 120,498**	**$ (3,269)**
Total Expenditures	**$ 6,318,927**	**$ 7,680,270**	**$ 9,010,483**	**$ (1,330,213)**
Excess of Revenues Over (Under) Expenditures	**$ 6,150**	**$ (1,355,193)**	**$ (1,884,060)**	**$ (528,867)**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other Financing Sources (Uses)				
Transfers in	$ 127,589	$ 1,355,343	$ 1,560,404	$ 205,061
Transfers out	(136,964)	(136,964)	(116,822)	20,142
Sale of capital assets	-	6,000	20,515	14,515
Loans issued	15,000	15,000	30,695	15,695
Total Other Financing Sources (Uses)	**$ 5,625**	**$ 1,239,379**	**$ 1,494,792**	**$ 255,413**
Net Change in Fund Balance	**$ 11,775**	**$ (115,814)**	**$ (389,268)**	**$ (273,454)**
Fund Balance - January 1	**4,553,105**	**4,553,105**	**4,553,105**	**-**
Increase (decrease) in inventories	**-**	**-**	**(2,738)**	**(2,738)**
Fund Balance - December 31	**$ 4,564,880**	**$ 4,437,291**	**$ 4,161,099**	**$ (276,192)**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 895,655	$ 895,655	$ 883,327	$ (12,328)
Licenses and permits	5,000	5,000	13,125	8,125
Intergovernmental	3,647,155	3,647,155	4,055,523	408,368
Charges for services	11,000	11,000	5,959	(5,041)
Miscellaneous	90,100	90,100	127,706	37,606
Total Revenues	**$ 4,648,910**	**$ 4,648,910**	**$ 5,085,640**	**$ 436,730**
Expenditures				
Current				
Highways and streets				
Administration	$ 300,187	$ 300,187	$ 285,954	$ 14,233
Maintenance	1,417,913	1,417,913	1,434,332	(16,419)
Engineering	265,517	265,517	216,424	49,093
Construction	2,064,000	2,064,000	2,140,370	(76,370)
Maintenance and shop	543,170	543,170	700,408	(157,238)
Total highways and streets	**$ 4,590,787**	**$ 4,590,787**	**$ 4,777,488**	**$ (186,701)**
Intergovernmental	337,000	337,000	367,603	(30,603)
Total Expenditures	**$ 4,927,787**	**$ 4,927,787**	**$ 5,145,091**	**$ (217,304)**
Net Change in Fund Balance	**$ (278,877)**	**$ (278,877)**	**$ (59,451)**	**$ 219,426**
Fund Balance - January 1	**2,569,844**	**2,569,844**	**2,569,844**	**-**
Increase (decrease) in inventories	**-**	**-**	**(8,071)**	**(8,071)**
Fund Balance - December 31	**$ 2,290,967**	**$ 2,290,967**	**$ 2,502,322**	**$ 211,355**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 992,563	$ 992,563	$ 989,995	$ (2,568)
Intergovernmental	128,143	128,143	98,486	(29,657)
Total Revenues	**$ 1,120,706**	**$ 1,120,706**	**$ 1,088,481**	**$ (32,225)**
Expenditures				
Intergovernmental				
Human services	1,120,706	1,120,706	1,088,481	32,225
Net Change in Fund Balance	**$ -**	**$ -**	**$ -**	**$ -**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ -**	**$ -**	**$ -**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Special assessments	$ -	$ 225,022	$ 229,976	$ 4,954
Miscellaneous	-	7,750	7,820	70
Total Revenues	**$ -**	**$ 232,772**	**$ 237,796**	**$ 5,024**
Expenditures				
Current				
Conservation of natural resources				
Other	**$ -**	**$ 92,475**	**$ 96,313**	**$ (3,838)**
Debt service				
Principal	$ -	$ 220,001	$ 235,000	$ (14,999)
Interest	-	52,441	52,438	3
Administrative (fiscal) charges	-	397	397	-
Total debt service	**$ -**	**$ 272,839**	**$ 287,835**	**$ (14,996)**
Total Expenditures	**$ -**	**$ 365,314**	**$ 384,148**	**$ (18,834)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ (132,542)**	**$ (146,352)**	**$ (13,810)**
Other Financing Sources (Uses)				
Transfers in	**$ -**	**$ -**	**$ 6,245**	**$ 6,245**
Net Change in Fund Balance	**$ -**	**$ (132,542)**	**$ (140,107)**	**$ (7,565)**
Fund Balance - January 1	**1,028,096**	**1,028,096**	**1,028,096**	**-**
Fund Balance - December 31	**$ 1,028,096**	**$ 895,554**	**$ 887,989**	**$ (7,565)**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-5

BUDGETARY COMPARISON SCHEDULE
EDA SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Intergovernmental	$ -	$ -	$ 390,143	$ 390,143
Investment earnings	25,776	25,776	30,566	4,790
Miscellaneous	151,712	151,712	180,938	29,226
Total Revenues	**$ 177,488**	**$ 177,488**	**$ 601,647**	**$ 424,159**
Expenditures				
Current				
Economic development				
Economic Development Commission	$ 116,030	$ 129,530	$ 649,798	$ (520,268)
Debt service				
Principal	51,000	51,000	50,742	258
Total Expenditures	**$ 167,030**	**$ 180,530**	**$ 700,540**	**$ (520,010)**
Excess of Revenues Over (Under) Expenditures	**$ 10,458**	**$ (3,042)**	**$ (98,893)**	**$ (95,851)**
Other Financing Sources (Uses)				
Transfers in	110,530	110,530	108,508	(2,022)
Net Change in Fund Balance	**$ 120,988**	**$ 107,488**	**$ 9,615**	**$ (97,873)**
Fund Balance - January 1	**252,867**	**252,867**	**252,867**	**-**
Fund Balance - December 31	**$ 373,855**	**$ 360,355**	**$ 262,482**	**$ (97,873)**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-6

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	$ -	$ 257,659	$ 257,659	0.0%	$ 3,126,758	8.23%

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	$ -	$ 558,803	$ 558,803	0.0%	$ 4,327,814	12.91%

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

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 funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 6,318,927	$ 1,361,343	$ 7,680,270
Ditch Special Revenue Fund	-	365,314	365,314
EDA Special Revenue Fund	167,030	13,500	180,530

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 fund:

Fund	Expenditures	Budget	Excess
General Fund	$ 9,010,483	$ 7,680,270	$ 1,330,213
Road and Bridge Special Revenue Fund	5,145,091	4,927,787	217,304
Ditch Special Revenue Fund	384,148	365,314	18,834
EDA Special Revenue Fund	700,540	180,530	520,010

5. <u>Other Postemployment Benefits</u>

Murray County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. Future reports will provide additional trend analysis to meet the three-year actuarial valuation data requirement as the information becomes available. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Expenditures				
Debt service				
Bond issuance costs	$ -	$ 14,777	$ 27,977	$ (13,200)
Other Financing Sources (Uses)				
Transfers in	$ -	$ 500	$ 500	$ -
Transfers out	-	(1,228,254)	(1,560,404)	(332,150)
Bonds issued	-	1,935,769	1,957,451	21,682
Discount on bonds issued	-	-	(16,031)	(16,031)
Total Other Financing Sources (Uses)	**$ -**	**$ 708,015**	**$ 381,516**	**$ (326,499)**
Net Change in Fund Balance	**$ -**	**$ 693,238**	**$ 353,539**	**$ (339,699)**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ 693,238**	**$ 353,539**	**$ (339,699)**

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

AGENCY FUNDS

Lime Creek Subordinate Service District - to account for the collection and disbursement of funds for the Lime Creek Subordinate Service District.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
Lime Creek Subordinate Service District				
Assets				
Cash and pooled investments	$ -	$ 192,453	$ 192,366	$ 87
Accounts receivable	-	78,100	-	78,100
Total Assets	**$ -**	**$ 270,553**	**$ 192,366**	**$ 78,187**
Liabilities				
Accounts payable	$ -	$ 192,453	$ 192,366	$ 87
Advance from other funds	-	78,100	-	78,100
Total Liabilities	**$ -**	**$ 270,553**	**$ 192,366**	**$ 78,187**
Taxes and Penalties				
Assets				
Cash and pooled investments	$ 160,818	$ 14,104,841	$ 14,116,208	$ 149,451
Accounts receivable	-	51	51	-
Total Assets	**$ 160,818**	**$ 14,104,892**	**$ 14,116,259**	**$ 149,451**
Liabilities				
Due to other governments	**$ 160,818**	**$ 14,104,892**	**$ 14,116,259**	**$ 149,451**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-1
(Continued)

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 160,818	$ 14,297,294	$ 14,308,574	$ 149,538
Accounts receivable	-	78,151	51	78,100
Total Assets	**$ 160,818**	**$ 14,375,445**	**$ 14,308,625**	**$ 227,638**
Liabilities				
Accounts payable	$ -	$ 192,453	$ 192,366	$ 87
Advance from other funds	-	78,100	-	78,100
Due to other governments	160,818	14,104,892	14,116,259	149,451
Total Liabilities	**$ 160,818**	**$ 14,375,445**	**$ 14,308,625**	**$ 227,638**

SHETEK AREA WATER AND SEWER COMMISSION

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EXHIBIT D-1

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Assets		
Current assets		
Cash and pooled investments	$	659,657
Special assessments		
Current		6,941
Prior		2,184
Noncurrent		8,999,112
Interest receivable - special assessment		7,612
Accounts receivable - net		24,756
Inventory		72,005
Total current assets, unrestricted	**$**	**9,772,267**
Restricted assets		
Cash and pooled investments		283,956
Total current assets	**$**	**10,056,223**
Noncurrent assets		
Deferred charges	$	81,297
Capital assets		
Nondepreciable		386,046
Depreciable - net		14,119,474
Total noncurrent assets	**$**	**14,586,817**
Total Assets	**$**	**24,643,040**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-1
(Continued)

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Liabilities		
Current liabilities		
Accounts payable	$	3,763
Salaries payable		469
Due to other governments		965
Due to primary government		896
Accrued interest payable		94,284
Customer deposits		3,840
General obligation bonds payable - current		145,000
Revenue notes payable - current		513,945
Total current liabilities	**$**	**763,162**
Noncurrent liabilities		
General obligation bonds payable - long-term	$	3,265,000
Unamortized premiums on bonds		11,933
Revenue notes payable - long-term		11,348,451
Total noncurrent liabilities	**$**	**14,625,384**
Total Liabilities	**$**	**15,388,546**
Net Assets		
Invested in capital assets - net of related debt	$	(766,876)
Restricted for		
Debt service		245,794
Wastewater systems replacement		38,162
Unrestricted		9,737,414
Total Net Assets	**$**	**9,254,494**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-2

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues		
Sewer utility charges	$	306,787
Charges for services		500
Miscellaneous		1,326
Total Operating Revenues	**$**	**308,613**
Operating Expenses		
Personal services	$	8,653
Professional services		154,476
Other services and charges		16,216
Supplies		32,971
Insurance		2,246
Depreciation		385,556
Total Operating Expenses	**$**	**600,118**
Operating Income (Loss)	**$**	**(291,505)**
Nonoperating Revenues (Expenses)		
Interest income	$	6,365
Bonds issue expense		(4,209)
Administrative charges		(856)
Interest expense		(229,246)
Total Nonoperating Revenues (Expenses)	**$**	**(227,946)**
Income (Loss) Before Contributions	**$**	**(519,451)**
Capital contributions		312,453
Change in net assets	**$**	**(206,998)**
Net Assets - January 1		**9,461,492**
Net Assets - December 31	**$**	**9,254,494**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-3

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities		
Cash received from customers	$	302,201
Cash received from vendor		326
Cash paid to employees		(8,752)
Cash paid for supplies and professional services		(217,684)
Net cash provided by (used in) operating activities	**$**	**76,091**
Cash Flows from Capital and Related Financing Activities		
Special assessments	$	765,841
Principal paid on long-term debt		(696,565)
Interest paid on bonds		(88,975)
Interest paid on revenue notes		(146,481)
Net cash provided by (used in) capital and related financing activities	**$**	**(166,180)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**6,365**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(83,724)**
Cash and Cash Equivalents at January 1		**1,027,337**
Cash and Cash Equivalents at December 31	**$**	**943,613**
Cash and Cash Equivalents - Exhibit 1		
Cash and pooled investments	$	659,657
Restricted cash and pooled investments		283,956
Total Cash and Cash Equivalents	**$**	**943,613**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(291,505)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	385,556
(Increase) decrease in accounts receivable		(5,139)
(Increase) decrease in inventories		(7,449)
Increase (decrease) in accounts payable		(6,176)
Increase (decrease) in due to other governments		965
Increase (decrease) in salaries payable		(161)
Total adjustments	**$**	**367,596**
Net Cash Provided by (Used in) Operating Activities	**$**	**76,091**

OTHER SCHEDULES

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT E-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011

Shared Revenue		
State		
Highway users tax	$	3,891,250
Market value credit		346,852
PERA rate reimbursement		11,609
Disparity reduction aid		23,127
County program aid		99,462
Police aid		59,869
Local performance aid		1,222
E-911		81,048
Total shared revenue	**$**	**4,514,439**
Payments		
Local		
Local contributions	$	37,681
Payments in lieu of taxes		211,171
Total payments	**$**	**248,852**
Grants		
State		
Minnesota Department of		
Corrections	$	10,014
Transportation		43,180
Natural Resources		32,580
Human Services		4,393
Water and Soil Resources Board		168,860
Peace Officer Standards and Training Board		3,787
Pollution Control Agency		55,950
Total state	**$**	**318,764**
Federal		
Department of		
Commerce	$	6,831
Housing and Urban Development		561,172
Transportation		55,435
Homeland Security		898,559
Total federal	**$**	**1,521,997**
Total state and federal grants	**$**	**1,840,761**
Total Intergovernmental Revenue	**$**	**6,604,052**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT E-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	**$ 6,831**
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	**$ 561,172**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	$ 20,399
Formula Grants for Other Than Urbanized Areas	20.509	34,332
Total U.S. Department of Transportation		**$ 54,731**
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	**$ 10,401**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	$ 16,008
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	43,612
Emergency Management Performance Grants	97.042	15,546
Homeland Security Grant Program	97.067	829,143
Total U.S. Department of Homeland Security		**$ 904,309**
Total Federal Awards		**$ 1,537,444**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Murray County and its discretely presented component unit, the Shetek Area Water and Sewer District, but not the blended component unit, the Murray County Memorial Hospital. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Murray County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Murray County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Murray County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$	1,521,997
Grants received more than 60 days after year-end, deferred in 2011		
Emergency Management Performance Grants (CFDA #97.042)		15,546
Homeland Security Grant Program (CFDA #97.067)		69,476
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2011 (CFDA #90.401)		10,401
Deferred in 2010, recognized as revenue in 2011		
Formula Grants for Other Than Urbanized Areas (CFDA #20.509)		(704)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)		(1,202)
Homeland Security Grant Program (CFDA #97.067)		(78,070)
Expenditures per Schedule of Expenditures of Federal Awards	$	1,537,444

5. Subrecipients

Of the expenditures presented in the schedule, Murray County provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
97.067	Homeland Security Grant Program	$ 480,093

Management and
Compliance Section

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MURRAY COUNTY
SLAYTON, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program was:

Homeland Security Grant Program	CFDA #97.067

The threshold for distinguishing between Types A and B programs was $300,000.

County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are implemented by staff to the extent possible.

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. Murray County is also aware that it is necessary to set time aside to allow for proper cross-training within the office. The County continues to find ways to implement internal controls and oversight with procedures and will continue to cross train within the Auditor-Treasurer's Office.

06-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Audit adjustments were necessary to record due from other funds and transfers in the general fund and capital projects fund, materially state proceeds from sale of bonds and bond issuance costs in the capital projects fund, and make reclassification entries as necessary.

Cause: The adjustments resulted from controls over calculating the proper amounts of balances and transactions not detecting a number of errors and the County not considering the need for controls over the recording of certain accounting transactions.

Recommendation: We recommend County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made. We also recommend that the County modify internal controls over financial reporting to detect misstatements, including misclassifications, in the financial statements.

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.

PREVIOUSLY REPORTED ITEM RESOLVED

Accounting Policies and Procedures Manual (06-4)

Murray County did not have a current and comprehensive accounting policies and procedures manual.

Resolution

The County Board approved an accounting policies and procedures manual on September 27, 2011.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

<u>MINNESOTA LEGAL COMPLIANCE</u>

<u>ITEMS ARISING THIS YEAR</u>

11-1 <u>Insufficient Collateral</u>

Criteria: Governmental entities are required by Minn. Stat. § 118A.03 subd. 3 to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

Condition: At December 31, 2011, the County had deposits at Minnwest Bank South and Currie State Bank that were not adequately covered by collateral.

Context: The amount of collateral required to secure deposits at Minnwest Bank South and Currie State Bank at December 31, 2011, was more than the amount of collateral pledged by $302,246 and $275,000, respectively.

Effect: When a County has insufficient collateral with a bank, the County may not receive all deposits in the event of bank default.

Cause: In December 2011, the employee responsible for monitoring and recording investments retired. New procedures for monitoring collateral were implemented during March 2012.

Recommendation: We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

Murray County implemented new procedures in March of 2012 that include monitoring all County deposits to determine that there is adequate collateral pledged to secure all deposits in accordance with Minn Stat. § 118A.03.

11-2 Depository Pledge Agreements and Pledge Receipts

Criteria: According to Minn. Stat. § 118A.03A, subd. 4, "[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. 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."

Condition: Murray County could not provide depository pledge agreements for any banks for which deposits were held at year end. In addition, the County did not have all pledge receipts on file to identify collateral pledged at December 31, 2011.

Context: The County could not provide depository pledge agreements for Minnwest Bank South, Currie State Bank, First National Bank, or State Bank of Chandler. In addition, the County did not maintain pledge receipts for Minnwest Bank South or Currie State Bank. Only 14 of 18 pledge receipts were on file for State Bank of Chandler, and 3 of 10 pledge receipts were on file for First National Bank.

Effect: The County was not in compliance with Minnesota statutes regarding depository pledge agreements.

Cause: In December 2011, the employee responsible for monitoring and recording investments retired. Procedures for obtaining and maintaining depository pledge agreements and pledge receipts remained a work in progress during August 2012.

Recommendation: We recommend that the County Auditor/Treasurer obtain collateral assignments from each of these banks. The new assignments should be reviewed to make sure they include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and are approved by the Bank's Board of Directors or loan committee. In addition, pledge receipts should be maintained for all collateral pledged.

Client's Response:

The Auditor-Treasurer is in the process of contacting all banks that are assigned as depositories to obtain collateral assignments that will be reviewed to make sure they include the statutory language required by Minn. State § 118A.03, subd 4, and are approved by the Bank's Board of Directors.

11-3 Construction Project Bidding Process

Criteria: Pursuant to Minn. Stat. §§ 471.345, subd. 3 and 375.21, construction contracts estimated to exceed $100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County.

Condition: In its April 5, 2011 minutes, the County Board voted "to award the project for the Lime Creek Sewer Project . . . for the low bid amount of $214,701.10 ($80,454.00 – Collection System and $134,247.10 – Treatment System) . . . ." At the same meeting, immediately after awarding the contract, the County Board approved "Lime Creek Sewer Project Change Order Number 1 for a deduct of $38,081.50." No advertisement for bids was published in a qualified legal newspaper.

Context: A section of the specifications book entitled "Advertisement for Quotes" indicated that "[t]he bid form is broken into Base Bid 1 and Base Bid 2. Each base bid may be awarded separately." A spreadsheet entitled "Engineers Estimate, 2011 Murray County Lime Creek Sewer Improvements" states estimates of $73,326 (collection system) and $83,494 (treatment system). The lowest bid received for the treatment system, however, was $134,237.10, 60% over the estimate, and 34% over the bid threshold.

Effect: Although the contract was substantially over the bid threshold, it was awarded with no public notice published in a qualified legal newspaper.

Cause: No advertisement for bids was published because the County's estimate for each of the two parts of the project did not exceed $100,000.

Recommendation: We recommend that the County comply with Minn. Stat. §§ 471.345, subd. 3 and 375.21, by publishing advertisements for bids when awarding contracts above the bidding threshold. When an initial estimate is found to be unreasonably low, as here, quotes should be rejected and bids should be solicited in a public manner as required by law.

Client's Response:

Murray County will comply with Minn. Stat § 471.345, subd. 3 when soliciting public bids.

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

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the Murray County Memorial Hospital, a blended component unit of Murray County as described in our report on Murray County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of Murray County is responsible for establishing and maintaining effective 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as item 06-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as item 99-1 to be a significant deficiency.

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 Political Subdivisions*, 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 Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing districts of its own.

The results of our tests indicate that for the items tested, Murray County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 11-1 through 11-3.

Murray County's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses 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

September 27, 2012

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Murray County

Compliance

We have audited Murray County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Murray County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Murray County's basic financial statements include the operations of the Murray County Memorial Hospital, whose federal awards, if any, are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Murray County Memorial Hospital, because the Hospital was audited by other auditors.

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

In our opinion, Murray County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Murray County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 27, 2012