STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MURRAY COUNTY
SLAYTON, MINNESOTA

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MURRAY COUNTY
SLAYTON, MINNESOTA

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Introductory Section

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MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
2008

Office	Name	Term Expires
Commissioners		
1st District	Kevin Vickerman*	January 2009
2nd District	Robert Moline	January 2009
3rd District	Gerald W. Magnus	January 2011
4th District	John M. Giese	January 2011
5th District	William J. Sauer	January 2009
Officers		
Elected		
Attorney	Paul M. Malone	January 2011
Auditor/Treasurer	Heidi E. Winter	January 2011
County Judge	David Christenson	January 2011
County Recorder	James V. Johnson	January 2011
Registrar of Titles	James V. Johnson	January 2011
Sheriff	Steven Telkamp	January 2011
Appointed		
Assessor	Marcy Barritt	Indefinite
Highway Engineer	Randy Groves	Indefinite
Court Administrator	Steven Schulze	Indefinite
Veterans Service Officer	James Reinert	Indefinite
Coroner	Dr. H. Dean Hughes	Indefinite

*Chair for 2008

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund except the Hospital Enterprise Fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2008, which, along with the financial statements of the business-type activities and Hospital Enterprise Fund, collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were not engaged to audit the financial statements of the Murray County Memorial Hospital as part of our audit of Murray County's basic financial statements. The Hospital's financial activities are included in the County's basic financial statements as both a major fund (Hospital Enterprise Fund) and 94 percent, 101 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the business-type activities.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we audited the Murray County Memorial Hospital, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and Hospital major enterprise fund of Murray County as of December 31, 2008, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1.D.10. to the financial statements, Murray County has not reported its other postemployment benefits (OPEB) liability in the governmental activities and, accordingly, has not reported the change to the net OPEB obligation. Accounting principles generally accepted in the United States of America require that OPEB obligations, which arise from an exchange of salaries and benefits for employee service and are part of the compensation that employers offer for services received, and the annual OPEB cost be accrued as liabilities and expenses as the employees earn the right to the benefits. Accruing OPEB costs would increase liabilities, reduce net assets, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not reporting a liability and related expenses for OPEB as described above, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Murray County as of December 31, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Finally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit, each major fund other than the Hospital Enterprise Fund, and the aggregate remaining fund information of Murray County as of December 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Murray County has not included in the MD&A condensed financial information on the operations or capital assets of the business-type activities comparing current year to prior year.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2010, on our consideration of Murray County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

March 25, 2010

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MURRAY COUNTY
SLAYTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. 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 $50,166,917 of which $40,742,889 is invested in capital assets and $1,512,528 is restricted to specific purposes. The $7,911,500 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

- The County's governmental activities' net assets increased by $3,616,232 for the year ended December 31, 2008. 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 a significant increase in wind production tax.

- The net cost of governmental activities for the current fiscal year was $2,851,928. General revenues totaling $6,468,160 funded the net cost.

- The General Fund balance decreased by $103,623, the Road and Bridge Special Revenue Fund balance decreased by $337,394, the Human Services Special Revenue Fund decreased by $18,843, the EDA Special Revenue Fund increased by $246,346, and the Ditch Special Revenue Fund balance decreased by $86,024.

- For the year ended December 31, 2008, the unreserved fund balance of the General Fund was $3,837,973, or 55.0 percent, of the total General Fund expenditures for the year of $6,966,493.

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.

<u>Governmental funds</u> 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, and EDA Special Revenue Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with this budget.

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

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

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

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35 through 82 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 $64,411,106 at the close of 2008. The largest portion of the net assets (68 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 2007 is presented.

Net Assets
(in thousands)

	Governmental Activities	Business-Type Activities	Total 2008	Total 2007
Assets				
Current and other assets	$ 14,580	$ 12,586	$ 27,166	$ 26,292
Capital assets	40,743	7,623	48,366	44,581
Total Assets	$ 55,323	$ 20,209	$ 75,532	$ 70,873
Liabilities				
Long-term liabilities	$ 4,067	$ 4,348	$ 8,415	$ 8,901
Other liabilities	1,089	1,617	2,706	2,699
Total Liabilities	$ 5,156	$ 5,965	$ 11,121	$ 11,600
Net Assets				
Invested in capital assets, net of related debt	$ 40,743	$ 3,086	$ 43,829	$ 39,865
Restricted	1,513	-	1,513	1,820
Unrestricted	7,911	11,158	19,069	17,588
Total Net Assets	$ 50,167	$ 14,244	$ 64,411	$ 59,273

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 29.6 percent of the net assets.

Governmental Activities

The County's governmental activities' net assets increased by 7.2 percent ($50,166,917 for 2008 compared to $46,550,685 for 2007). Key elements in this increase in net assets are as follows, with comparative data for 2007.

Governmental Activities
Changes in Net Assets
(in thousands)

	2008	2007
Revenues		
Program revenues		
Charges for services	$ 1,215	$ 2,299
Operating grants and contributions	3,649	1,923
Capital grants and contributions	2,857	1,830
General revenues		
Property taxes	4,492	4,273
Other	1,983	2,275
Total Revenues	$ 14,196	$ 12,600
Expenses		
General government	$ 1,881	$ 2,681
Public safety	1,574	1,327
Highways and streets	3,950	3,288
Sanitation	415	380
Human services	1,121	1,067
Health	57	64
Culture and recreation	582	736
Conservation of natural resources	754	747
Economic development	114	690
Interest	125	182
Total Expenses	$ 10,573	$ 11,162
Revenues Over Expenses	$ 3,623	$ 1,438
Transfers to business-type activities	(7)	(10)
Increase in Net Assets	$ 3,616	$ 1,428
Net Assets - January 1	46,551	45,123
Net Assets - December 31	$ 50,167	$ 46,551

The cost of all governmental activities for 2008 was $10,572,929 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 $4,492,155. The amount paid by those who directly benefited from the programs was $1,214,851, and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was $3,648,973. Capital grants and contributions were $2,857,177. The County paid for the remaining "public benefit" portion of governmental activities with $970,124 in grants and contributions not restricted to specific programs and $316,077 in interest.

The following table presents the cost of each of the County's four largest program functions, as well as each function's net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden placed on the County's taxpayers by each of these functions.

Governmental Activities
(in thousands)

	Total Cost of Services	Net Cost of Services
General government	$ 1,881	$ 1,578
Public safety	1,574	1,323
Highways and streets	3,950	(736)
Human services	1,121	1,121
All others	2,047	(434)
Total	$ 10,573	$ 2,852

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $9,809,151, a decrease of $299,538 in comparison with the prior year. Of the combined ending fund balances, $8,808,373 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of $3,837,973. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 55 percent of total General Fund expenditures. The General Fund's total fund balance decreased by $103,623, and its unreserved fund balance decreased by $698,197.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $2,316,268 at fiscal year-end, representing 36.3 percent of its annual expenditures. The Road and Bridge Special Revenue Fund's total fund balance decreased by $337,394 during 2008, and its unreserved fund balance decreased by $423,249.

The Human Services Special Revenue Fund generally has no fund balance, as Lincoln, Lyon, & Murray Human Services performs human services functions for Murray County through a joint powers agreement. At December 31, 2008, however, $18,843 was due to Lincoln, Lyon, & Murray Human Services, for County program aid unallotment, creating a negative undesignated fund balance.

The Ditch Special Revenue Fund had an unreserved fund balance of $2,514,693 at fiscal year-end. The ending fund balance decreased $86,024 during 2008.

The EDA Special Revenue Fund had an unreserved fund balance of $158,282 at fiscal year-end. The EDA Special Revenue Fund's fund balance increased $246,346 in 2008.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board revised the General Fund budget. The expenditure budget increased $1,136,712. These budget amendments fall into two categories: new information changing original budget estimates and greater than anticipated costs.

With these adjustments, the actual charges to appropriations (expenditures) were $94,150 below the final budget amounts.

On the other hand, revenues were $140,826 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2008, totaled $40,742,889 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $4,166,944, or 11.4 percent, from the previous year. The major capital asset events were: construction of highways and streets, various building improvements, the construction of a sewer improvement system, and purchase of highway and other miscellaneous equipment.

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

	2008	2007
Land, including right-of-way	$ 633	$ 633
Infrastructure	34,525	31,788
Buildings	3,679	2,363
Work in progress	-	103
Improvements other than buildings	379	208
Machinery and equipment	1,526	1,481
Total	$ 40,742	$ 36,576

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $7,965,000, which was backed by the full faith and credit of the government.

Outstanding Debt
(in thousands)

	2008	2007
General obligation ditch bonds	$ 3,040	$ 3,260
General obligation refunding bonds	1,305	1,375
Hospital revenue note	3,320	3,436
General obligation promissory notes	300	351
Total	$ 7,965	$ 8,422

The County's debt related to general obligation bonds decreased by $290,000 during the fiscal year.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2008, the County's outstanding debt was 1.2 percent of its total estimated market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2009 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2008 was 4.3 percent. This is lower than the state unemployment rate of 4.8 percent and shows a slight increase from the County's 4.4 percent rate of one year ago.

- Mortgage interest rates are decreasing slightly from 2007, but refinancing of mortgages and/or financing of new construction continues to occur at a very slight rate.

- The County's net property tax levy for 2008 (2007 payable) increased by $244,027, or 3.9 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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities (Unaudited)	Total	Shetek Area Water and Sewer Component Unit
Assets				
Current assets				
Cash and pooled investments	$ 8,555,485	$ 4,213,722	$ 12,769,207	$ 1,042,620
Petty cash and change funds	2,000	-	2,000	-
Cash with fiscal agent	1,455,018	-	1,455,018	-
Taxes receivable				
Prior - net	66,933	-	66,933	-
Special assessments receivable				
Current	6,289	-	6,289	378,723
Prior	9,796	-	9,796	12,285
Noncurrent - net	1,842,353	-	1,842,353	9,928,185
Accounts receivable - net	29,600	135,776	165,376	18,945
Patient receivable - net	-	1,953,064	1,953,064	-
Estimated third-party settlements	-	370,000	370,000	-
Accrued interest receivable	39,937	-	39,937	28,030
Due from other governments	1,443,551	-	1,443,551	158,758
Loans receivable	590,296	-	590,296	-
Inventories	218,021	426,538	644,559	72,005
Prepaid items	1,000	216,204	217,204	-
Restricted assets				
Cash and pooled investments	-	9,400	9,400	917,002
Total current assets	**$ 14,260,279**	**$ 7,324,704**	**$ 21,584,983**	**$ 12,556,553**
Noncurrent assets				
Deferred debt issuance costs	$ 14,732	$ 16,360	$ 31,092	$ 93,508
Long-term receivable	305,000	-	305,000	-
Capital assets				
Non-depreciable	633,535	153,683	787,218	351,000
Depreciable - net of accumulated depreciation	40,109,354	7,469,646	47,579,000	15,141,295
Other assets	-	5,244,867	5,244,867	-
Total noncurrent assets	**$ 41,062,621**	**$ 12,884,556**	**$ 53,947,177**	**$ 15,585,803**
Total Assets	**$ 55,322,900**	**$ 20,209,260**	**$ 75,532,160**	**$ 28,142,356**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities (Unaudited)	Total	Shetek Area Water and Sewer Component Unit
<u>Liabilities</u>				
Current liabilities				
Accounts payable	$ 94,654	$ 329,103	$ 423,757	$ 17,380
Salaries payable	232,713	1,058,301	1,291,014	-
Contracts payable	167,162	-	167,162	13,274
Due to other governments	80,301	244	80,545	10,473
Accrued interest payable	54,556	27,749	82,305	109,912
Unearned revenue	11,034	-	11,034	-
Payable from restricted assets	-	9,400	9,400	-
Compensated absences payable - current	55,138	242	55,380	-
Loans payable - current	122,209	-	122,209	-
General obligation bonds payable - current	-	70,000	70,000	60,000
Revenue bonds payable - current	-	122,246	122,246	-
Promissory notes payable - current	50,742	-	50,742	560,132
Customer deposits - current	-	-	-	4,395
General obligation special assessment debt payable - current	220,000	-	220,000	-
Total current liabilities	**$ 1,088,509**	**$ 1,617,285**	**$ 2,705,794**	**$ 775,566**
Noncurrent liabilities				
Compensated absences payable	$ 416,774	$ 7,579	$ 424,353	$ -
Loans payable	591,857	-	591,857	-
General obligation bonds payable	-	1,142,134	1,142,134	3,703,534
General obligation special assessment debt payable	2,820,000	-	2,820,000	-
Unamortized discount	(10,639)	-	(10,639)	-
Revenue bonds payable	-	3,198,073	3,198,073	-
Promissory notes payable	249,482	-	249,482	-
Revenue notes payable	-	-	-	13,633,030
Total noncurrent liabilities	**$ 4,067,474**	**$ 4,347,786**	**$ 8,415,260**	**$ 17,336,564**
Total Liabilities	**$ 5,155,983**	**$ 5,965,071**	**$ 11,121,054**	**$ 18,112,130**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities (Unaudited)	Total	Shetek Area Water and Sewer Component Unit
Net Assets				
Invested in capital assets - net of related debt	$ 40,742,889	$ 3,086,262	$ 43,829,151	$ -
Restricted for				
Public safety	83,772	-	83,772	-
Highways and streets	1,155,148	-	1,155,148	-
Debt service	-	-	-	917,002
Other purposes	273,608	-	273,608	-
Unrestricted	7,911,500	11,157,927	19,069,427	9,113,224
Total Net Assets	**$ 50,166,917**	**$ 14,244,189**	**$ 64,411,106**	**$ 10,030,226**

MURRAY COUNTY
SLAYTON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 1,881,447	$ 295,226	$ 5,390
Public safety	1,573,999	46,460	204,253
Highways and streets	3,950,061	91,495	1,740,078
Sanitation	414,987	332,118	1,454,809
Human services	1,120,519	-	-
Health	56,887	-	-
Culture and recreation	581,537	111,006	125,415
Conservation of natural resources	754,515	331,547	93,157
Economic development	113,619	6,999	25,871
Interest	125,358	-	-
Total governmental activities	**$ 10,572,929**	**$ 1,214,851**	**$ 3,648,973**
Business-type activities			
Hospital (Unaudited)	$ 13,135,746	$ 14,378,174	$ -
Congregate Housing	272,061	273,250	-
Total business-type activities	**$ 13,407,807**	**$ 14,651,424**	**$ -**
Total Primary Government	**$ 23,980,736**	**$ 15,866,275**	**$ 3,648,973**
Component unit			
Shetek Area Water and Sewer Commission	**$ 2,153,723**	**$ 191,276**	**$ -**

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.

EXHIBIT 2

	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Business-Type Activities (Unaudited)	Total	Shetek Area Water and Sewer Component Unit
	$ 2,225	$ (1,578,606)	$ -	$ (1,578,606)	
	-	(1,323,286)	-	(1,323,286)	
	2,854,952	736,464	-	736,464	
	-	1,371,940	-	1,371,940	
	-	(1,120,519)	-	(1,120,519)	
	-	(56,887)	-	(56,887)	
	-	(345,116)	-	(345,116)	
	-	(329,811)	-	(329,811)	
	-	(80,749)	-	(80,749)	
	-	(125,358)	-	(125,358)	
	$ 2,857,177	**$ (2,851,928)**	**$ -**	**$ (2,851,928)**	
	$ -	$ -	$ 1,242,428	$ 1,242,428	
	-	-	1,189	1,189	
	$ -	**$ -**	**$ 1,243,617**	**$ 1,243,617**	
	$ 2,857,177	**$ (2,851,928)**	**$ 1,243,617**	**$ (1,608,311)**	
	$ 2,414,053				**$ 451,606**
		$ 4,492,155	$ -	$ 4,492,155	$ -
		9,138	-	9,138	-
		480,493	-	480,493	-
		98,768	-	98,768	-
		970,124	12,538	982,662	-
		316,077	257,647	573,724	76,683
		108,316	-	108,316	887
		-	1,816	1,816	-
		(6,911)	6,911	-	-
		$ 6,468,160	**$ 278,912**	**$ 6,747,072**	**$ 77,570**
		$ 3,616,232	**$ 1,522,529**	**$ 5,138,761**	**$ 529,176**
		46,550,685	**12,721,660**	**59,272,345**	**9,501,050**
		$ 50,166,917	**$ 14,244,189**	**$ 64,411,106**	**$ 10,030,226**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,538,728	$ 2,657,837
Undistributed cash in agency fund	44,176	11,985
Petty cash and change funds	2,000	-
Cash with fiscal agent	-	-
Taxes receivable		
Delinquent	42,939	10,639
Special assessments receivable		
Current	6,254	-
Delinquent	9,782	-
Noncurrent	744,958	-
Accounts receivable	28,342	1,202
Accrued interest receivable	39,937	-
Due from other funds	86,120	-
Due from other governments	42,578	1,400,973
Loans receivable	-	-
Inventories	18,366	199,655
Prepaid items	-	1,000
Long-term receivable	-	-
Total Assets	**$ 5,604,180**	**$ 4,283,291**

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

EXHIBIT 3

Human Services	Ditch	EDA	Total
$ -	$ 1,060,369	$ 226,351	$ 8,483,285
13,465	2,574	-	72,200
-	-	-	2,000
-	1,455,018	-	1,455,018
13,355	-	-	66,933
-	35	-	6,289
-	14	-	9,796
-	1,097,395	-	1,842,353
-	-	56	29,600
-	-	-	39,937
-	-	1,260	87,380
-	-	-	1,443,551
-	-	590,296	590,296
-	-	-	218,021
-	-	-	1,000
-	305,000	-	305,000
$ 26,820	**$ 3,920,405**	**$ 817,963**	**$ 14,652,659**

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 58,559	$ 36,095
Salaries payable	160,047	70,558
Contracts payable	7,552	159,610
Due to other funds	1,260	-
Due to other governments	62,152	1,416
Deferred revenue - unavailable	825,400	1,338,769
Deferred revenue - unearned	11,034	-
Total Liabilities	**$ 1,126,004**	**$ 1,606,448**
Fund Balances		
Reserved for		
Prepaid items	$ -	$ 1,000
Petty cash	2,000	-
Missing heirs	100	-
Law library	3,200	-
Recorder's compliance	82,126	-
Recorder's technology	118,875	-
Inventories	18,366	199,655
Encumbrances	-	159,920
Sheriff's contingency	2,763	-
Gun permits	2,660	-
E-911	78,349	-
Supervision fees	5,371	-
Septic/sewer loans	257,086	-
Election equipment	69,307	-
Unreserved		
Designated for		
Future expenditures	1,500,000	1,500,000
Compensated absences	327,663	141,826
Capital improvements	500,000	200,000
Sanitation	291,652	-
Capital equipment	72,218	-
County septic system loans	125,868	-
Postemployment benefits	44,105	-
Parks	270,456	-
Employee benefits	2,582	22
Undesignated	703,429	474,420
Total Fund Balances	**$ 4,478,176**	**$ 2,676,843**
Total Liabilities and Fund Balances	**$ 5,604,180**	**$ 4,283,291**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	EDA	Total
$ -	$ -	$ -	$ 94,654
-	-	2,108	232,713
-	-	-	167,162
18,843	-	67,277	87,380
13,465	3,268	-	80,301
13,355	1,402,444	590,296	4,170,264
-	-	-	11,034
$ 45,663	**$ 1,405,712**	**$ 659,681**	**$ 4,843,508**
$ -	$ -	$ -	$ 1,000
-	-	-	2,000
-	-	-	100
-	-	-	3,200
-	-	-	82,126
-	-	-	118,875
-	-	-	218,021
-	-	-	159,920
-	-	-	2,763
-	-	-	2,660
-	-	-	78,349
-	-	-	5,371
-	-	-	257,086
-	-	-	69,307
-	-	-	3,000,000
-	-	2,251	471,740
-	-	-	700,000
-	-	-	291,652
-	-	-	72,218
-	-	-	125,868
-	-	-	44,105
-	-	-	270,456
-	-	-	2,604
(18,843)	2,514,693	156,031	3,829,730
$ (18,843)	**$ 2,514,693**	**$ 158,282**	**$ 9,809,151**
$ 26,820	**$ 3,920,405**	**$ 817,963**	**$ 14,652,659**

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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, 2008

Fund balance - total governmental funds (Exhibit 3)		**$ 9,809,151**
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.		40,742,889
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,170,264
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	$ (3,040,000)	
Unamortized bond discount	10,639	
Deferred debt issuance costs	14,732	
Promissory notes payable	(300,224)	
Loans payable	(714,066)	
Compensated absences	(471,912)	
Accrued interest payable	(54,556)	(4,555,387)
Net Assets of Governmental Activities (Exhibit 1)		**$ 50,166,917**

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, 2008

	General	Road and Bridge
Revenues		
Taxes	$ 3,080,137	$ 899,211
Special assessments	252,010	-
Licenses and permits	25,559	5,850
Intergovernmental	2,733,829	5,068,086
Charges for services	450,686	33,627
Fines and forfeits	802	-
Gifts and contributions	26,146	-
Investment earnings	255,401	-
Miscellaneous	292,652	80,955
Total Revenues	**$ 7,117,222**	**$ 6,087,729**
Expenditures		
Current		
General government	$ 3,388,625	$ -
Public safety	1,618,064	-
Highways and streets	-	6,082,824
Sanitation	398,864	-
Health	2,537	-
Culture and recreation	725,715	-
Conservation of natural resources	642,178	-
Economic development	22,783	-
Intergovernmental	52,584	292,067
Debt service		
Principal	103,056	-
Interest	12,087	-
Administrative charges	-	-
Total Expenditures	**$ 6,966,493**	**$ 6,374,891**
Excess of Revenues Over (Under) Expenditures	**$ 150,729**	**$ (287,162)**

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

EXHIBIT 5

Human Services	Ditch	EDA	Total
$ 989,422	$ -	$ -	$ 4,968,770
-	279,739	-	531,749
-	-	-	31,409
112,254	-	-	7,914,169
-	-	-	484,313
-	-	-	802
-	-	100	26,246
-	59,750	25,069	340,220
-	10	107,404	481,021
$ 1,101,676	**$ 339,499**	**$ 132,573**	**$ 14,778,699**
$ -	$ -	$ -	$ 3,388,625
-	-	-	1,618,064
-	-	-	6,082,824
-	-	-	398,864
-	-	-	2,537
-	-	-	725,715
-	98,737	-	740,915
-	-	90,140	112,923
1,120,519	-	-	1,465,170
-	220,000	50,742	373,798
-	138,914	-	151,001
-	931	-	931
$ 1,120,519	**$ 458,582**	**$ 140,882**	**$ 15,061,367**
$ (18,843)	**$ (119,083)**	**$ (8,309)**	**$ (282,668)**

MURRAY COUNTY
SLAYTON, MINNESOTA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	$ -	$ -
Transfers out	(294,625)	-
Loans issued	31,173	-
Total Other Financing Sources (Uses)	**$ (263,452)**	**$ -**
Net Change in Fund Balance	**$ (112,723)**	**$ (287,162)**
Fund Balance - January 1	**4,581,799**	**3,014,237**
Increase (decrease) in reserved for inventories	**9,100**	**(50,232)**
Fund Balance - December 31	**$ 4,478,176**	**$ 2,676,843**

EXHIBIT 5
(Continued)

Human Services		Ditch		EDA		Total	
$	-	$	33,059	$	254,655	$	287,714
	-		-		-		(294,625)
	-		-		-		31,173
$	**-**	**$**	**33,059**	**$**	**254,655**	**$**	**24,262**
$	**(18,843)**	**$**	**(86,024)**	**$**	**246,346**	**$**	**(258,406)**
	-		**2,600,717**		**(88,064)**		**10,108,689**
	-		-		-		**(41,132)**
$	**(18,843)**	**$**	**2,514,693**	**$**	**158,282**	**$**	**9,809,151**

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, 2008

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (258,406)**
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	$ 4,170,264	
Deferred revenue - January 1	(4,752,891)	(582,627)
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	$ 6,013,309	
Net book value of assets disposed of	(16,202)	
Current year depreciation	(1,830,163)	4,166,944
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.		
Proceeds of new debt		
Loans issued		(39,501)
Principal payments		
Special assessment general obligation bonds	$ 220,000	
Loans payable	103,055	
Promissory notes	50,742	373,797
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	$ 27,781	
Change in compensated absences	(29,417)	
Discount and bond issuance costs amortization	(1,207)	
Change in inventories	(41,132)	(43,975)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 3,616,232**

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

PROPRIETARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Hospital (Unaudited)	**Congregate Housing**	**Totals**
Assets			
Current assets			
Cash and pooled investments	$ 3,971,891	$ 241,831	$ 4,213,722
Accounts receivable - net	135,750	26	135,776
Patient receivables - net	1,953,064	-	1,953,064
Estimated third-party settlements	370,000	-	370,000
Inventories	426,538	-	426,538
Prepaid items	216,204	-	216,204
Total current assets, unrestricted	**$ 7,073,447**	**$ 241,857**	**$ 7,315,304**
Restricted assets			
Cash and pooled investments	-	9,400	9,400
Total current assets	**$ 7,073,447**	**$ 251,257**	**$ 7,324,704**
Noncurrent assets			
Deferred charges	$ -	$ 16,360	$ 16,360
Capital assets			
Nondepreciable	153,683	-	153,683
Depreciable - net	6,549,469	920,177	7,469,646
Total noncurrent assets	**$ 6,703,152**	**$ 936,537**	**$ 7,639,689**
Other assets			
Cash - funded depreciation	$ 4,798,584	$ -	$ 4,798,584
Deferred financing costs	52,551	-	52,551
Investment in Shetek Medical Services	224,408	-	224,408
Investment in Southwest Minnesota Radiation	161,574	-	161,574
Investment in Minnesota Rural Health	7,750	-	7,750
Total other assets	**$ 5,244,867**	**$ -**	**$ 5,244,867**
Total Assets	**$ 19,021,466**	**$ 1,187,794**	**$ 20,209,260**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Hospital (Unaudited)	**Congregate Housing**	**Totals**
Liabilities			
Current liabilities payable from current assets			
Accounts payable	$ 322,433	$ 6,670	$ 329,103
Salaries payable	1,054,964	3,337	1,058,301
Compensated absences payable - current	-	242	242
Due to other governments	-	244	244
Accrued interest payable	4,613	23,136	27,749
General obligation bonds payable - current	-	70,000	70,000
Revenue bonds payable - current	122,246	-	122,246
Total current liabilities payable from current assets	**$ 1,504,256**	**$ 103,629**	**$ 1,607,885**
Current liabilities payable from restricted assets			
Accounts payable	-	9,400	9,400
Total current liabilities	**$ 1,504,256**	**$ 113,029**	**$ 1,617,285**
Noncurrent liabilities			
Compensated absences payable - long-term	$ -	$ 7,579	$ 7,579
General obligation bonds payable - long-term	-	1,142,134	1,142,134
Revenue bonds payable - long-term	3,198,073	-	3,198,073
Total noncurrent liabilities	**$ 3,198,073**	**$ 1,149,713**	**$ 4,347,786**
Total Liabilities	**$ 4,702,329**	**$ 1,262,742**	**$ 5,965,071**
Net Assets			
Invested in capital assets - net of related debt	$ 3,378,220	$ (291,958)	$ 3,086,262
Unrestricted	10,940,917	217,010	11,157,927
Total Net Assets	**$ 14,319,137**	**$ (74,948)**	**$ 14,244,189**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-Type Activities - Enterprise Funds		
	Hospital (Unaudited)	**Congregate Housing**	**Totals**
Operating Revenues			
Charges for services	$ -	$ 267,182	$ 267,182
Patient services revenues	14,175,943	-	14,175,943
Miscellaneous	202,231	6,068	208,299
Total Operating Revenues	**$ 14,378,174**	**$ 273,250**	**$ 14,651,424**
Operating Expenses			
Personal services	$ -	$ 66,554	$ 66,554
Professional services	2,842,628	1,534	2,844,162
Nursing services	3,112,126	-	3,112,126
Contracted services	-	32,962	32,962
Repairs and maintenance	931,369	3,399	934,768
Administration and fiscal services	2,563,339	-	2,563,339
Other services and charges	-	14,583	14,583
Supplies	-	8,205	8,205
Utilities	-	24,617	24,617
Insurance	-	5,011	5,011
Wellness center	19,449	-	19,449
Dental clinic	737,840	-	737,840
Downtown building	375	-	375
Surgery clinic	242,103	-	242,103
Clinic	1,573,144	-	1,573,144
Fulda clinic	67,344	-	67,344
Depreciation	877,463	51,121	928,584
Total Operating Expenses	**$ 12,967,180**	**$ 207,986**	**$ 13,175,166**
Operating Income (Loss)	**$ 1,410,994**	**$ 65,264**	**$ 1,476,258**
Nonoperating Revenues (Expenses)			
Investment income	$ 272,365	$ -	$ 272,365
Grants	12,538	-	12,538
Gain on sale/disposal of capital assets	1,816	-	1,816
Gain/loss on investment in Shetek Medical Services	(14,718)	-	(14,718)
Interest expense	(168,566)	(62,817)	(231,383)
Amortization of deferred charges	-	(1,258)	(1,258)
Total Nonoperating Revenues (Expenses)	**$ 103,435**	**$ (64,075)**	**$ 39,360**
Income (Loss) Before Transfers	**$ 1,514,429**	**$ 1,189**	**$ 1,515,618**
Transfers in	-	6,911	6,911
Change in net assets	**$ 1,514,429**	**$ 8,100**	**$ 1,522,529**
Net Assets - January 1	**12,804,708**	**(83,048)**	**12,721,660**
Net Assets - December 31	**$ 14,319,137**	**$ (74,948)**	**$ 14,244,189**

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, 2008
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital (Unaudited)	Congregate Housing	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	$ 14,258,820	$ 275,487	$ 14,534,307
Other receipts and payments, net	204,048	-	204,048
Payments to suppliers and contractors	(7,390,186)	(65,258)	(7,455,444)
Payments to employees	(4,728,677)	(86,938)	(4,815,615)
Net cash provided by (used in) operating activities	**$ 2,344,005**	**$ 123,291**	**$ 2,467,296**
Cash Flows from Noncapital Financing Activities			
Noncapital grants	$ 12,538	$ -	$ 12,538
Transfers in	-	6,911	6,911
Net cash provided by (used in) noncapital financing activities	**$ 12,538**	**$ 6,911**	**$ 19,449**
Cash Flows from Capital and Related Financing Activities			
Transfer to fund depreciation account	$ (587,879)	$ -	$ (587,879)
Principal paid on long-term debt	(115,869)	(70,000)	(185,869)
Interest paid on long-term debt	(168,566)	(56,403)	(224,969)
Purchases of capital assets	(543,966)	-	(543,966)
Investment in Southwest Minnesota Radiation	(100,000)	-	(100,000)
Net cash provided by (used in) capital and related financing activities	**$ (1,516,280)**	**$ (126,403)**	**$ (1,642,683)**
Cash Flows from Investing Activities			
Investment earnings received	**$ 272,365**	**$ -**	**$ 272,365**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 1,112,628**	**$ 3,799**	**$ 1,116,427**
Cash and Cash Equivalents at January 1	**2,859,263**	**247,432**	**3,106,695**
Cash and Cash Equivalents at December 31	**$ 3,971,891**	**$ 251,231**	**$ 4,223,122**
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	$ 3,971,891	$ 241,831	$ 4,213,722
Restricted cash and pooled investments	-	9,400	9,400
Total Cash and Cash Equivalents	**$ 3,971,891**	**$ 251,231**	**$ 4,223,122**

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

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital (Unaudited)	Congregate Housing	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 1,410,994**	**$ 65,264**	**$ 1,476,258**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 877,463	$ 51,121	$ 928,584
(Increase) decrease in accounts receivable	552,876	2,437	555,313
(Increase) decrease in inventories	(1,978)	-	(1,978)
(Increase) decrease in prepaid items	(127,141)	-	(127,141)
Increase (decrease) in accounts payable	(547,468)	3,127	(544,341)
Increase (decrease) in salaries payable	177,443	845	178,288
Increase (decrease) in compensated absences payable	-	451	451
Increase (decrease) in due to other governments	-	46	46
Gain (loss) on disposal of assets	1,816	-	1,816
Total adjustments	**$ 933,011**	**$ 58,027**	**$ 991,038**
Net Cash Provided by (Used in) Operating Activities	**$ 2,344,005**	**$ 123,291**	**$ 2,467,296**

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2008

Assets	
Cash and pooled investments	**$ 113,052**
Liabilities	
Due to other governments	**$ 113,052**

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies, established in GAAP and used by the County, are discussed below.

A. Financial Reporting Entity

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

Blended Component Units

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

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 can be obtained at: 2500 - 28th Street Slayton, Minnesota 56172

Joint Ventures

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

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs.

- The Ditch Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

- The EDA Special Revenue Fund is used to account for the activity of the Economic Development Authority.

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, 2008, 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 2008 were $205,401.

The Hospital's investment income for the year ended December 31, 2008, was $272,365 and is included in nonoperating revenues.

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

1. Summary of Significant Accounting Policies

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

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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 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
Land improvements	3 - 30
Buildings	5 - 40
Public domain infrastructure	10 - 50
Machinery and equipment	3 - 20

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, $23,707 for the year ended December 31, 2008, is included in nonoperating expenses.

         b. Investment in Southwest Minnesota Radiation, LLC

            The Hospital is a 14-percent owner in Southwest Minnesota Radiation. The Hospital made an initial capital contribution in 2007 and 2008 totaling $100,000 each year. This venture provides advanced radiation treatment to the people of southwest Minnesota. The net loss on the investment, $38,425 for the year ended December 31, 2008, is included in nonoperating expenses.

         c. Investment in Minnesota Rural Health

            The Hospital is a member of this cooperative effort of physicians, public health agencies, and hospitals to preserve and maintain health care resources and access with local community choice and control for member communities in southwestern Minnesota. As required to participate in this cooperative membership, the Hospital purchased 25 shares of hospital class B shares for $3,750 and purchased four shares of the clinic class A for $4,000, for a total of $7,750 in stock certificates. Additional purchases are required based on criteria of number of state-licensed beds and number of physicians. No new purchases occurred in 2008.

1. Summary of Significant Accounting Policies

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

8. Compensated Absences

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

9. Deferred Revenue

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

	Unavailable	Unearned
Special assessments receivable	$ 1,858,438	$ -
Highway allotments that do not provide current financial resources	1,277,914	-
Loans receivable	590,296	-
Long-term receivable	305,000	-
Delinquent property taxes	66,933	-
Deferred revenue from accrued interest	18,498	-
Grants receivable	53,185	11,034
Total Deferred/Unearned Revenue for All Governmental Funds	$ 4,170,264	$ 11,034

1. Summary of Significant Accounting Policies

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

10. Long-Term Obligations

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

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

The County has not calculated its OPEB obligation in order to report the liability on the government-wide statement of net assets. Therefore, the change in the net OPEB obligation has not been reported in the government-wide statement of activities. These are departures from generally accepted accounting principles.

11. Fund Equity

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

1. Summary of Significant Accounting Policies

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

12. Use of Estimates

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

E. Hospital Net Patient Service Revenue

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

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 $142,256 in 2008 and $101,493 in 2007.

Revenue from the Medicare and Medicaid programs accounted for approximately 33 and 3 percent and 37 and 2 percent of the Hospital's net patient revenue for the years ended December 31, 2008 and 2007, 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.

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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.

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

Medicare--Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

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 Human Services Special Revenue Fund had a deficit fund balance for the year ended December 31, 2008, of $18,843. The County expects an excess of revenues over expenditures in the future will eliminate the deficit.

The Congregate Housing Enterprise Fund had deficit fund net assets for the year ended December 31, 2008, of $74,948. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
Ditch Special Revenue Fund	$ 458,582	$ 395,555	$ 63,027

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	$ 8,483,285
Undistributed cash in agency funds	72,200
Cash with fiscal agent	1,455,018
Petty cash and change funds	2,000
Business-type activities	
Cash and pooled investments	4,213,722
Restricted assets - cash and pooled investments	9,400
Cash-funded depreciation	4,798,584
Component unit - Shetek Area Water and Sewer Commission	
Cash and pooled investments	1,042,620
Restricted assets	917,002
Agency funds	
Cash and pooled investments	113,052
Total Cash and Investments	$ 21,106,883

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits		
Checking	$	113,764
Certificates of deposit		5,420,000
Invested in MAGIC Fund		8,728,101
Invested in U.S. government agency securities		1,455,018
Invested in negotiable certificates of deposit		5,388,000
Petty cash and change funds		2,000
Total Deposits, Cash on Hand, and Investments	$	21,106,883

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 or 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, 2008, the County's deposits were not 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, 2008, 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
U.S. government agency securities					
U.S. Treasury SLGS	N/A	N/A	<5%	02/01/2009	$ 1,455,018
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	$ 8,728,101
Negotiable certificates of deposit					
Advantage Bank, CO	N/A	N/A		02/20/2009	$ 96,000
Amer Bank, MN	N/A	N/A		02/20/2009	96,000
Bank of Santa Barbara, CA	N/A	N/A		02/20/2009	96,000
Business First Bank, LA	N/A	N/A		02/20/2009	96,000
Community Business Bank, WI	N/A	N/A		02/20/2009	96,000
Imperial Capital Bank, CA	N/A	N/A		02/20/2009	96,000
First Coweta Bank, GA	N/A	N/A		06/01/2009	96,000
Haven Trust Bank, GA	N/A	N/A		06/01/2009	96,000
Omni National Bank, GA	N/A	N/A		06/01/2009	96,000
Security Bank of Bibb County, GA	N/A	N/A		06/01/2009	96,000
Security Bank of Houston County, GA	N/A	N/A		06/01/2009	96,000
Century Security Bank, GA	N/A	N/A		08/28/2009	95,000
First Intercontinental Bank, GA	N/A	N/A		08/28/2009	96,000
Orion Bank, FL	N/A	N/A		08/28/2009	95,000
Security Bank of Jones County, GA	N/A	N/A		08/28/2009	95,000
Habersham Bank, GA	N/A	N/A		09/30/2009	95,000
First Bank of Puerto Rico, PR	N/A	N/A		11/27/2009	240,000
Frontenac Bank, MO	N/A	N/A		11/27/2009	240,000
Independent Federal Savings Bank, DC	N/A	N/A		11/27/2009	240,000
Tomato Bank NA, CA	N/A	N/A		11/27/2009	240,000
Colombo Bank, MD	N/A	N/A		12/03/2009	241,000
Regal Financial Bank, WA	N/A	N/A		12/03/2009	241,000
State Bank of India, CA	N/A	N/A		12/03/2009	241,000
Synovus Bank of Jacksonville, FL	N/A	N/A		12/03/2009	241,000
Bank of Lincoln County, TN	N/A	N/A		12/04/2009	242,000
Charter Bank, NM	N/A	N/A		12/04/2009	242,000
Community West Bank, CA	N/A	N/A		12/04/2009	241,000
Georgia Banking Company, GA	N/A	N/A		12/04/2009	241,000
Heritage Bank of N. Florida, FL	N/A	N/A		12/04/2009	241,000
Onb Bank & Trust Company, OK	N/A	N/A		12/04/2009	241,000
Sonabank NA, VA	N/A	N/A		12/04/2009	242,000
West Pointe Bank, WI	N/A	N/A		12/04/2009	242,000
Total negotiable certificates of deposit			34.6%		$ 5,388,000

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					$ 15,571,119
Checking					113,764
Certificates of deposit					5,420,000
Petty cash					2,000
Total Cash and Investments					$ 21,106,883

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

2. 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	$ 690,701
Loans issued	-
Loan repayments	(100,405)
Ending Balance	$ 590,296

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 291,213	$ -	$ -	$ 291,213
Right-of-way	342,322	-	-	342,322
Work in progress	103,157	-	103,157	-
Total capital assets not depreciated	$ 736,692	$ -	$ 103,157	$ 633,535
Capital assets depreciated				
Land improvements	$ 267,843	$ 186,674	$ -	$ 454,517
Buildings	4,184,614	1,483,387	31,191	5,636,810
Machinery and equipment	4,167,675	413,476	45,855	4,535,296
Infrastructure	45,455,112	4,032,929	-	49,488,041
Total capital assets depreciated	$ 54,075,244	$ 6,116,466	$ 77,046	$ 60,114,664
Less: accumulated depreciation for				
Land improvements	$ 60,096	$ 15,370	$ -	$ 75,466
Buildings	1,821,757	167,170	31,191	1,957,736
Machinery and equipment	2,686,853	352,318	29,653	3,009,518
Infrastructure	13,667,285	1,295,305	-	14,962,590
Total accumulated depreciation	$ 18,235,991	$ 1,830,163	$ 60,844	$ 20,005,310
Total capital assets depreciated, net	$ 35,839,253	$ 4,286,303	$ 16,202	$ 40,109,354
Governmental Activities Capital Assets, Net	$ 36,575,945	$ 4,286,303	$ 119,359	$ 40,742,889

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities (Unaudited)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 143,401	$ 10,282	$ -	$ 153,683
Capital assets depreciated				
Land improvements	$ 375,444	$ 7,375	$ -	$ 382,819
Buildings	7,890,243	321,446	-	8,211,689
Fixed equipment	1,152,438	-	1,271	1,151,167
Major movable equipment	3,098,393	204,863	93,520	3,209,736
Total capital assets depreciated	$ 12,516,518	$ 533,684	$ 94,791	$ 12,955,411
Less: accumulated depreciation for				
Land improvements	$ 98,588	$ 23,679	$ -	$ 122,267
Buildings	2,046,564	424,130	-	2,470,694
Fixed equipment	766,770	40,463	1,271	805,962
Major movable equipment	1,743,053	437,309	93,520	2,086,842
Total accumulated depreciation	$ 4,654,975	$ 925,581	$ 94,791	$ 5,485,765
Total capital assets depreciated, net	$ 7,861,543	$ (391,897)	$ -	$ 7,469,646
Business-Type Activities Capital Assets, Net	$ 8,004,944	$ (381,615)	$ -	$ 7,623,329

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

Governmental Activities	
General government	$ 134,027
Public safety	108,237
Highways and streets, including depreciation of infrastructure assets	1,509,791
Sanitation	16,222
Culture and recreation, including depreciation of infrastructure assets	60,855
Conservation of natural resources	1,031
Total Depreciation Expense - Governmental Activities	$ 1,830,163

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities		
Hospital	$	874,460
Congregate Housing		51,121
Total Depreciation Expense - Business-Type Activities	$	925,581

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
General	EDA Special Revenue	$ 67,277
EDA Special Revenue	General	1,260
General	Human Services Special Revenue	18,843
Totals		$ 87,380

The outstanding balances between funds are the result of economic development activity recorded in the funds. All balances are expected to be liquidated in the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfer to Ditch Special Revenue Fund from General Fund	$	33,059	Provide funding
Transfer to EDA Special Revenue Fund from General Fund		254,655	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund		6,911	Provide funding
Total Interfund Transfers	$	294,625	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The County has active construction projects as of December 31, 2008. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities Construction Commitments	$ 2,489,540	$ 43,921

2. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2008, was $81,873.

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, 2008
Special assessment bonds with government commitment					
2001 G.O. Ditch Bonds	2017	$80,000 - $160,000	4.25 - 5.00	$ 2,355,000	$ 1,320,000
2002 G.O. Ditch Bonds	2011	$40,000 - $45,000	2.10 - 3.80	335,000	120,000
2007A G.O. Refunding Bonds	2029	$25,000 - $195,000	4.00 - 4.25	1,625,000	1,600,000
Total G.O. Special Assessment Bonds				$ 4,315,000	$ 3,040,000
Less: unamortized discount					(10,639)
Net G.O. Special Assessment Bonds					$ 3,029,361

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities--Bonds Payable (Continued)

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 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 Ditch Special Revenue Fund for the total principal amount, $305,000, due from RRRWS, which will decrease as principal payments are made starting 2010.

Business-Type Activities--Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation bonds					
2004 G.O. Refunding Bonds	2022	$65,000 - $130,000	1.75 - 5.00	$ 1,580,000	$ 1,305,000
Less: deferred amounts for					
Issuance discount					(11,410)
Refunding charges					(81,456)
Total General Obligation Refunding Bonds, Net					$ 1,212,134
Revenue note					
2006 Hospital Revenue Note	2026	$112,869 - $270,153	4.9	$ 3,600,000	$ 3,320,319

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.

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities--Loans Payable (Continued)

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 the transfer 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, 2008
Cottonwood River CWP Project	2016	$ 8,154	2.00	$ 147,139	$ 111,109
Beaver Creek CWP Project	2018	20,314	2.00	366,567	299,045
Lake Shetek CWP Project	2013	39,474	2.00	712,332	303,912
Total Loans Payable				$ 1,226,038	$ 714,066

Governmental Activities--G.O. Promissory Note Payable

The County has a non-interest 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 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, 2008, the County had $300,224 outstanding.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds Principal	Special Assessment Bonds Interest
2009	$ 220,000	$ 98,663
2010	1,400,000	61,730
2011	235,000	52,410
2012	190,000	43,950
2013	185,000	36,450
2014 - 2018	610,000	86,350
2019 - 2023	85,000	32,423
2024 - 2028	95,000	14,758
2029	20,000	425
Total	$ 3,040,000	$ 427,159

Year Ending December 31	G.O. Promissory Notes Principal	G.O. Promissory Notes Interest	Loans Payable Principal	Loans Payable Interest
2009	$ 50,742	$ -	$ 122,209	$ 13,673
2010	50,742	-	105,919	11,310
2011	50,742	-	108,048	9,181
2012	50,742	-	110,219	7,010
2013	50,742	-	112,435	4,794
2014 - 2018	46,514	-	155,236	7,098
Total	$ 300,224	$ -	$ 714,066	$ 53,066

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Business-Type Activities (Unaudited)

Year Ending December 31	Revenue Note Principal	Revenue Note Interest	General Obligation Bonds Principal	General Obligation Bonds Interest
2009	$ 122,246	$ 162,188	$ 70,000	$ 54,565
2010	128,460	155,974	70,000	52,553
2011	134,989	149,445	75,000	50,284
2012	141,439	142,995	80,000	47,665
2013	149,039	135,395	80,000	44,765
2014 - 2018	866,468	555,701	460,000	170,792
2019 - 2023	1,110,326	311,843	470,000	49,000
2024 - 2026	667,352	43,746	-	-
Total	$ 3,320,319	$ 1,657,287	$ 1,305,000	$ 469,624

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Special assessment debt with government commitment	$ 3,260,000	$ -	$ 220,000	$ 3,040,000	$ 220,000
Less: deferred amounts for issuance discounts on refunding	(11,145)	-	(506)	(10,639)	-
Net bonds and notes payable	$ 3,248,855	$ -	$ 219,494	$ 3,029,361	$ 220,000
G.O. promissory notes payable	350,966	-	50,742	300,224	50,742
Loans payable	777,620	39,501	103,055	714,066	122,209
Compensated absences	442,495	29,417	-	471,912	55,138
Governmental Activities Long-Term Liabilities	$ 4,819,936	$ 68,918	$ 373,291	$ 4,515,563	$ 448,089

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities (Unaudited)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 1,375,000	$ -	$ 70,000	$ 1,305,000	$ 70,000
Revenue note of 2006	3,436,188	-	115,869	3,320,319	122,246
Compensated absences	7,370	451	-	7,821	242
Total long-term liabilities	$ 4,818,558	$ 451	$ 185,869	$ 4,633,140	$ 192,488
Less: deferred amounts	(100,010)	-	(7,144)	(92,866)	-
Business-Type Activities Long-Term Liabilities	$ 4,718,548	$ 451	$ 178,725	$ 4,540,274	$ 192,488

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, 2008, the amount of defeased debt outstanding but removed from financial statements amounted to $1,225,000.

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 refundings with the proceeds deposited with an escrow agent. The 2001 Ditch and the 1999A series will be called on February 1, 2009, and be redeemed with proceeds of the escrow account. On February 1, 2010, the County will "crossover" and begin 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

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 Public Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

4. Pension Plans

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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public 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 Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. Pension Plans

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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 179,586	$ 172,320	$ 148,266
Public Employees Police and Fire Fund	60,638	52,857	39,422

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

4. Pension Plans (Continued)

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 in accordance with Minn. Stat. ch. 353D. 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.

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 5.0 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, 2008, were:

	Employee	Employer
Contribution amount	$ 6,287	$ 6,287
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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 Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

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.

6. Summary of Significant Contingencies and Other Items

   A. Contingent Liabilities (Continued)

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

Lincoln-Pipestone Rural Water System

At December 31, 2008, Lincoln-Pipestone Rural Water System had $19,423,000 of general obligation bonds outstanding through 2033. 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 (Jackson, 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 ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

In 2009, Nobles County issued two series of general obligation bonds totaling $19,415,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

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

B. Joint Ventures

Lincoln, Lyon, & Murray Human Services

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

Lincoln County	20.90%
Lyon County	54.77
Murray County	24.33

Lincoln, Lyon, & Murray Human Services is governed by two County Commissioners from each of the participating counties who are chosen by their respective county boards and one lay person from each participating county. Financing is provided by state grants and appropriations from member counties. Murray County's contribution in 2008 was $1,120,519.

At December 31, 2008 (the most recent information available), Lincoln, Lyon, & Murray Human Services reported a total fund balance of $4,068,251. In addition, governmental activities of Lincoln, Lyon, & Murray Human Services reported total net assets of $3,473,467. Lincoln, Lyon, & Murray Human Services' long-term debt at December 31, 2008, is composed of $502,801 of compensated absences payable. The debt will be funded by intergovernmental revenue and revenue from computer services.

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

Lincoln, Lyon, Murray, and Pipestone Public Health Services

Murray County participates with other surrounding counties to provide health services to its citizens through a joint venture as authorized by Minn. Stat. § 471.59. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution in 2008 was $52,584.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln, Lyon, Murray, and Pipestone Public Health Services (Continued)

At December 31, 2008, the Health Services had net assets of $1,018,746 and long-term liabilities of $117,205.

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

Lincoln-Pipestone Rural Water System

Murray County, along with Lincoln, Lyon, Nobles, Rock, Pipestone, 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 County and Yellow Medicine County 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, 2008, are $19,516,143.

The Lincoln-Pipestone Rural Water System's 2008 financial report shows total net assets of $38,060,524, including unrestricted net assets of $17,709,824. The decrease in net assets for the year ended December 31, 2008, was $18,549.

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.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

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

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

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, Jackson, Lyon, Martin, 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 an 11-member Board appointed for terms of three years by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Red Rock Rural Water System (Continued)

Bond issues 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, 2007 (the most recent information available), were $12,793,395, and notes payable were $226,728.

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $2,897 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 2008.

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.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Heron Lake Watershed District

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

D. Agricultural Best Management Loan Program

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

E. 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, 2008, are:

Health care services	$	8,594,634
General and administrative		4,372,546
Total	$	12,967,180

F. 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, 2008, follows:

Medicare	$	769,111	29%
Medicaid		58,171	2%
Blue Cross		792,882	30%
Other third-party payors		489,657	19%
Patients		541,497	20%
Total	$	2,651,318	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.

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.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

4. Assets and Liabilities

Deposits and Investments

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

Cash and Cash Equivalents

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

Due From Other Governments

The amount reported as due from other governments at December 31, 2008, is receivable from the Minnesota Public Facilities Authority and represents draw-downs requested on the revenue notes.

Restricted Assets

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

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities (Continued)

Special Assessments Receivable and Revenue

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

Capital Assets

Capital assets are stated at cost. 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.

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.

7. Component Unit Disclosures

   A. Summary of Significant Accounting Policies (Continued)

      6. Related-Party Transactions

         In 2008, Murray County received $1,399,809 from the Shetek Area Water and Sewer Commission as reimbursement for eligible costs and expenses related to construction of the sewer system.

   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, 2008. As of December 31, 2008, the Commission had $1,959,622 on deposit with Murray County.

      2. Capital Assets

         A summary of the changes in capital assets for the year ended December 31, 2008, follows:

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Capital assets not depreciated				
Land	$ 351,000	$ -	$ -	$ 351,000
Construction in progress	12,843,099	-	12,843,099	-
Total capital assets not depreciated	$ 13,194,099	$ -	$ 12,843,099	$ 351,000
Capital assets depreciated				
Land improvements	$ 1,718,495	$ -	$ -	$ 1,718,495
Machinery and equipment	-	491,400	-	491,400
Infrastructure	-	12,997,486	-	12,997,486
Total capital assets depreciated	$ 1,718,495	$ 13,488,886	$ -	$ 15,207,381

7. Component Unit Disclosures

B. Detailed Notes

2. Capital Assets (Continued)

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Less: accumulated depreciation for				
Land improvements	$ 13,365	$ 22,913	$ -	$ 36,278
Machinery and equipment	-	2,730	-	2,730
Infrastructure	-	27,078	-	27,078
Total accumulated depreciation	$ 13,365	$ 52,721	$ -	$ 66,086
Total capital assets depreciated, net	$ 1,705,130	$ 13,436,165	$ -	$ 15,141,295
Total Capital Assets, Net	$ 14,899,229	$ 13,436,165	$ 12,843,099	$ 15,492,295

3. Long-Term Obligations

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation bonds					
2007 Water Revenue Bonds	2027	$45,000 - $130,000	4.00 - 4.40	$ 1,715,000	$ 1,670,000
2007B Sewer Revenue Bonds	2028	$75,000 - $155,000	4.00 - 4.40	2,080,000	2,080,000
Total General Obligation Bonds				$ 3,795,000	$ 3,750,000

7. Component Unit Disclosures

B. Detailed Notes

3. Long-Term Obligations

Bonds Payable (Continued)

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 December 31	G.O. Water Revenue Bonds, Series 2007 Principal	G.O. Water Revenue Bonds, Series 2007 Interest	G.O. Sewer Revenue Bonds, Series 2007B Principal	G.O. Sewer Revenue Bonds, Series 2007B Interest
2009	$ 60,000	$ 69,155	$ -	$ 85,970
2010	60,000	66,755	75,000	84,470
2011	65,000	64,255	80,000	81,370
2012	65,000	61,655	80,000	78,170
2013	70,000	58,955	85,000	74,870
2014 - 2018	390,000	249,770	480,000	319,450
2019 - 2023	485,000	158,205	575,000	213,758
2024 - 2028	475,000	43,230	705,000	79,507
Total	$ 1,670,000	$ 771,980	$ 2,080,000	$ 1,017,565

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, 2008, were $14,193,162: $10,603,711 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.

7. Component Unit Disclosures

B. Detailed Notes

3. Long-Term Obligations

Minnesota Public Facilities Authority General Obligation Notes (Continued)

Debt service requirements at December 31, 2008, are as follows:

Year Ended December 31	Minnesota Public Facilities Authority Loans – Water Pollution Control Revolving Fund – Principal	Water Pollution Control Revolving Fund – Interest	Wastewater Infrastructure Fund – Principal
2009	$ 539,776	$ 82,265	$ -
2010	545,560	101,645	-
2011	551,343	96,136	-
2012	557,126	90,567	-
2013	561,946	84,940	-
2014 - 2018	2,896,477	338,397	-
2019 - 2023	3,047,808	189,098	-
2024 - 2028	1,903,675	38,581	672,000
2029 - 2033	-	-	2,917,451
Total	$ 10,603,711	$ 1,021,629	$ 3,589,451

4. 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	$ 13,926,626	$ 820,085	$ 553,549	$ 14,193,162	$ 560,132
General obligation bonds	3,795,000	-	45,000	3,750,000	60,000
Premium on general obligation bonds	13,711	-	177	13,534	177
Total Long-Term Liabilities	$ 17,735,337	$ 820,085	$ 598,726	$ 17,956,696	$ 620,309

7. Component Unit Disclosures (Continued)

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.

REQUIRED SUPPLEMENTARY INFORMATION

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MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 3,402,195	$ 3,075,595	$ 3,080,137	$ 4,542
Special assessments	228,425	228,425	252,010	23,585
Licenses and permits	13,670	13,670	25,559	11,889
Intergovernmental	1,081,829	2,678,200	2,733,829	55,629
Charges for services	469,395	426,395	450,686	24,291
Fines and forfeits	-	800	802	2
Gifts and contributions	100	19,100	26,146	7,046
Investment earnings	500,000	310,000	255,401	(54,599)
Miscellaneous	229,211	224,211	292,652	68,441
Total Revenues	**$ 5,924,825**	**$ 6,976,396**	**$ 7,117,222**	**$ 140,826**
Expenditures				
Current				
General government				
Commissioners	$ 202,384	$ 241,684	$ 246,194	$ (4,510)
Community relations	-	7,785	8,368	(583)
Courts	12,900	12,900	11,908	992
Law library	13,000	13,000	12,727	273
County auditor	358,568	345,568	360,804	(15,236)
Accounting and auditing	37,000	85,000	84,529	471
County assessor	194,228	177,228	166,341	10,887
Elections	13,620	42,720	39,572	3,148
Data processing	136,831	141,831	141,466	365
Machine room	56,314	56,314	52,549	3,765
Motor pool	19,266	19,266	11,815	7,451
Safety officer	2,085	2,085	866	1,219
Human resources	119,506	142,906	140,556	2,350
Attorney	192,870	130,870	128,687	2,183
County recorder	147,510	147,510	145,174	2,336
Planning and zoning	87,190	87,190	90,037	(2,847)
Comprehensive plan	-	2,150	2,057	93
Buildings and plant	513,271	1,581,471	1,548,653	32,818
Veterans service officer	35,057	35,057	33,995	1,062
License center	90,440	90,440	85,444	4,996
Other general government	81,556	81,556	76,883	4,673
Total general government	**$ 2,313,596**	**$ 3,444,531**	**$ 3,388,625**	**$ 55,906**

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

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,136,914	$ 1,354,014	$ 1,407,785	$ (53,771)
Enhanced 911 system	92,483	92,483	82,546	9,937
Probation	40,000	30,000	28,892	1,108
Civil defense	52,242	65,242	68,324	(3,082)
Other public safety	11,800	11,800	6,703	5,097
Lake First Responders	-	1,000	1,000	-
Emergency medical services	-	20,100	22,814	(2,714)
Total public safety	**$ 1,333,439**	**$ 1,574,639**	**$ 1,618,064**	**$ (43,425)**
Sanitation				
Solid waste	$ 103,473	$ 128,473	$ 122,889	$ 5,584
Recycling	286,827	286,827	275,561	11,266
Shetek Area Water and Sewer Commission	-	500	414	86
Total sanitation	**$ 390,300**	**$ 415,800**	**$ 398,864**	**$ 16,936**
Health				
Nursing service	**$ 8,550**	**$ 3,550**	**$ 2,537**	**$ 1,013**
Culture and recreation				
Regional library	$ 68,758	$ 68,758	$ 68,358	$ 400
Historical society	61,513	53,613	51,724	1,889
Senior citizens	13,035	17,035	15,764	1,271
Transportation	211,012	196,012	175,710	20,302
Parks	302,204	366,704	376,679	(9,975)
Minnesota trails	-	30,030	30,030	-
Other	4,350	7,450	7,450	-
Total culture and recreation	**$ 660,872**	**$ 739,602**	**$ 725,715**	**$ 13,887**

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
County extension	$ 164,089	$ 164,089	$ 159,842	$ 4,247
Soil and water conservation	180,150	180,150	149,399	30,751
Agricultural inspection	41,372	47,072	48,846	(1,774)
RCRCA	4,478	4,478	3,240	1,238
Environment and land use advance task force	-	30	30	-
Flood control	3,175	3,800	3,647	153
Agricultural society	27,000	32,600	32,524	76
Water planning	57,873	86,073	85,885	188
Water quality loan program	150,000	152,000	151,683	317
Other conservation	1,487	21,123	7,082	14,041
Total conservation of natural resources	**$ 629,624**	**$ 691,415**	**$ 642,178**	**$ 49,237**
Economic development				
Community development	$ 137,086	$ -	$ -	$ -
Other	2,740	23,382	22,783	599
Total economic development	**$ 139,826**	**$ 23,382**	**$ 22,783**	**$ 599**
Intergovernmental				
Health	**$ 52,584**	**$ 52,584**	**$ 52,584**	**$ -**
Debt service				
Principal	$ 378,057	$ 103,057	$ 103,056	$ 1
Interest	17,083	12,083	12,087	(4)
Total debt service	**$ 395,140**	**$ 115,140**	**$ 115,143**	**$ (3)**
Total Expenditures	**$ 5,923,931**	**$ 7,060,643**	**$ 6,966,493**	**$ 94,150**
Excess of Revenues Over (Under) Expenditures	**$ 894**	**$ (84,247)**	**$ 150,729**	**$ 234,976**

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Other Financing Sources (Uses)				
Transfers in	$ 100,000	$ -	$ -	$ -
Transfers out	(40,000)	(171,112)	(294,625)	(123,513)
Loans issued	-	31,172	31,173	1
Total Other Financing Sources (Uses)	**$ 60,000**	**$ (139,940)**	**$ (263,452)**	**$ (123,512)**
Net Change in Fund Balance	**$ 60,894**	**$ (224,187)**	**$ (112,723)**	**$ 111,464**
Fund Balance - January 1	**4,581,799**	**4,581,799**	**4,581,799**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**9,100**	**9,100**
Fund Balance - December 31	**$ 4,642,693**	**$ 4,357,612**	**$ 4,478,176**	**$ 120,564**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,005,000	$ 899,000	$ 899,211	$ 211
Licenses and permits	-	-	5,850	5,850
Intergovernmental	5,185,851	4,942,882	5,068,086	125,204
Charges for services	26,600	26,600	33,627	7,027
Miscellaneous	37,400	37,400	80,955	43,555
Total Revenues	**$ 6,254,851**	**$ 5,905,882**	**$ 6,087,729**	**$ 181,847**
Expenditures				
Current				
Highways and streets				
Administration	$ 305,642	$ 305,642	$ 287,807	$ 17,835
Maintenance	1,247,020	1,057,020	971,278	85,742
Engineering	239,918	264,918	264,098	820
Construction	3,826,500	3,826,500	3,942,028	(115,528)
Equipment, maintenance, and shop	463,355	623,355	617,613	5,742
Total highways and streets	**$ 6,082,435**	**$ 6,077,435**	**$ 6,082,824**	**$ (5,389)**
Intergovernmental	300,000	300,000	292,067	7,933
Total Expenditures	**$ 6,382,435**	**$ 6,377,435**	**$ 6,374,891**	**$ 2,544**
Excess of Revenues Over (Under) Expenditures	**$ (127,584)**	**$ (471,553)**	**$ (287,162)**	**$ 184,391**
Fund Balance - January 1	**3,014,237**	**3,014,237**	**3,014,237**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**(50,232)**	**(50,232)**
Fund Balance - December 31	**$ 2,891,753**	**$ 2,542,684**	**$ 2,676,843**	**$ 134,159**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,120,706	$ 1,007,706	$ 989,422	$ (18,284)
Intergovernmental	-	112,500	112,254	(246)
Total Revenues	**$ 1,120,706**	**$ 1,120,206**	**$ 1,101,676**	**$ (18,530)**
Expenditures				
Intergovernmental				
Human services	1,120,706	1,162,596	1,120,519	42,077
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ (42,390)**	**$ (18,843)**	**$ 23,547**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ (42,390)**	**$ (18,843)**	**$ 23,547**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 330,947	$ 275,202	$ 279,739	$ 4,537
Investment earnings	-	-	59,750	59,750
Miscellaneous	-	10	10	-
Total Revenues	**$ 330,947**	**$ 275,212**	**$ 339,499**	**$ 64,287**
Expenditures				
Current				
Conservation of natural resources				
Other	**$ 30,865**	**$ 98,741**	**$ 98,737**	**$ 4**
Debt service				
Principal	$ 225,001	$ 220,000	$ 220,000	$ -
Interest	87,529	75,882	138,914	(63,032)
Administrative (fiscal) charges	1,250	932	931	1
Total debt service	**$ 313,780**	**$ 296,814**	**$ 359,845**	**$ (63,031)**
Total Expenditures	**$ 344,645**	**$ 395,555**	**$ 458,582**	**$ (63,027)**
Excess of Revenues Over (Under) Expenditures	**$ (13,698)**	**$ (120,343)**	**$ (119,083)**	**$ 1,260**
Other Financing Sources (Uses)				
Transfers in	-	33,059	33,059	-
Net Change in Fund Balance	**$ (13,698)**	**$ (87,284)**	**$ (86,024)**	**$ 1,260**
Fund Balance - January 1	**2,600,717**	**2,600,717**	**2,600,717**	**-**
Fund Balance - December 31	**$ 2,587,019**	**$ 2,513,433**	**$ 2,514,693**	**$ 1,260**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 5

BUDGETARY COMPARISON SCHEDULE
EDA SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Gifts and contributions	$ -	$ -	$ 100	$ 100
Investment earnings	10,000	10,000	25,069	15,069
Miscellaneous	-	115,000	107,404	(7,596)
Total Revenues	**$ 10,000**	**$ 125,000**	**$ 132,573**	**$ 7,573**
Expenditures				
Current				
Economic development				
Economic Development Commission	$ -	$ 130,086	$ 90,140	$ 39,946
Debt service				
Principal	-	51,000	50,742	258
Total Expenditures	**$ -**	**$ 181,086**	**$ 140,882**	**$ 40,204**
Excess of Revenues Over (Under) Expenditures	**$ 10,000**	**$ (56,086)**	**$ (8,309)**	**$ 47,777**
Other Financing Sources (Uses)				
Transfers in	25,000	25,000	254,655	229,655
Net Change in Fund Balance	**$ 35,000**	**$ (31,086)**	**$ 246,346**	**$ 277,432**
Fund Balance - January 1	**(88,064)**	**(88,064)**	**(88,064)**	**-**
Fund Balance - December 31	**$ (53,064)**	**$ (119,150)**	**$ 158,282**	**$ 277,432**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

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	$ 5,923,931	$ 1,136,712	$ 7,060,643
Road and Bridge Special Revenue Fund	6,382,435	(5,000)	6,377,435
Human Services Special Revenue Fund	1,120,706	41,890	1,162,596
Ditch Special Revenue Fund	344,645	50,910	395,555
EDA Special Revenue Fund	-	181,086	181,086

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
Ditch Special Revenue Fund	$ 458,582	$ 395,555	$ 63,027

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SUPPLEMENTARY INFORMATION

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AGENCY FUNDS

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

Southwest Minnesota Opportunity Council - to account for the collection and disbursement of funds to the Southwest Minnesota Opportunity Council.

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MURRAY COUNTY
SLAYTON, MINNESOTA

Statement 1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 112,245	$ 16,988,812	$ 17,004,069	$ 96,988
Liabilities				
Due to other governments	$ 112,245	$ 16,988,812	$ 17,004,069	$ 96,988
SOUTHWEST MINNESOTA OPPORTUNITY COUNCIL				
Assets				
Cash and pooled investments	$ 4,728	$ 13,052	$ 1,716	$ 16,064
Liabilities				
Due to other governments	$ 4,728	$ 13,052	$ 1,716	$ 16,064
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 116,973	$ 17,001,864	$ 17,005,785	$ 113,052
Liabilities				
Due to other governments	$ 116,973	$ 17,001,864	$ 17,005,785	$ 113,052

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OTHER SCHEDULE

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MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 6

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
State		
Highway users tax	$	3,675,669
Market value credit		472,793
PERA rate reimbursement		11,609
Disparity reduction aid		25,704
County program aid		457,429
Police aid		51,935
E-911		67,540
Total Shared Revenue	**$**	**4,762,679**
Payments		
Local		
Local contributions	$	1,409,008
Payments in lieu of taxes		98,768
Total Payments	**$**	**1,507,776**
Grants		
State		
Minnesota Department of		
Corrections	$	10,478
Public Safety		13,508
Transportation		40,079
Natural Resources		37,108
Water and Soil Resources Board		73,551
Peace Officer Standards and Training Board		5,207
Pollution Control Agency		73,637
Total State	**$**	**253,568**
Federal		
Department of		
Housing and Urban Development	$	25,771
Transportation		1,313,877
Homeland Security		50,498
Total Federal	**$**	**1,390,146**
Total State and Federal Grants	**$**	**1,643,714**
Total Intergovernmental Revenue	**$**	**7,914,169**

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MURRAY COUNTY
SLAYTON, MINNESOTA

<u>Schedule 7</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report disclaims an opinion on the business-type activities and Hospital major enterprise fund and expresses a qualified opinion on the governmental activities of Murray County. The opinions on the financial statements of the discretely presented component unit, each major fund other than the Hospital Enterprise Fund, and the aggregate remaining fund information are unqualified.

B. Deficiencies in internal control were disclosed by the audit of financial statements of Murray County and are reported in the "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.*" One of the significant deficiencies is a material weakness.

C. No instances of noncompliance material to the financial statements of Murray County were disclosed during the audit.

D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award program for Murray County expresses an unqualified opinion.

F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

G. The major program is:

Highway Planning and Construction	CFDA #20.205

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

I. Murray County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

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

Some of the County's departments that collect fees are not able to segregate the accounting duties. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

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

Client's Response:

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

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements will not be fairly presented.

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

Client's Response:

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

06-4 Accounting Policies and Procedures Manual

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of infrastructure), related depreciation, and the redetermination of useful lives];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data backups; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

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

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

<u>Client's Response</u>:

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

<u>ITEMS ARISING THIS YEAR</u>

08-1 <u>Information System Risk Management</u>

County management is responsible for internal controls related to its information system. This responsibility extends to monitoring ongoing activities provided by service organizations. Murray County contracts with Computer Professionals Unlimited, Inc. (CPUI), a service organization, to provide:

- computer hardware for hosting the County's applications;
- processing of accounting transactions and other data;
- daily, weekly, and full system backups of applications and processed data; and
- disaster recovery planning for continued operations.

The County has not developed a formal plan to identify and manage risks associated with this information system arrangement. The County could partially manage these risks if CPUI obtained an audit of its control objectives and control activities. These audits are performed in accordance with Statement on Auditing Standards (SAS) No. 70, Service Organizations, as amended. At the present time, a SAS 70 Service Auditor's Report for CPUI was not available.

During our site visit to CPUI, we noted that computers were not located in a restricted area away from public view. The computers are in an unlocked cage. Daily backup tapes for information processed Monday through Thursday are kept on site in a locked metal cabinet; however the cabinet is not designed to protect the tapes from the heat that would be generated in the event of a fire. One fire extinguisher was observed in the office. Weekly and full system backup information is kept at an off-site location.

We recommend that Murray County management establish a formal plan to meet its responsibilities for monitoring internal controls related to its information system. This should include documented consideration of services provided by CPUI. To specifically address hardware and backup physical control weaknesses associated with CPUI, we recommend County management work with CPUI to manage and minimize those risks. Also, the County should consider the possibility of requesting that CPUI obtain a SAS 70 audit.

Client's Response:

Murray County is working with Computer Professionals Unlimited, Inc., to monitor and mitigate Information System risks. Murray County has contacted management at CPUI to ensure that the issues cited in the audit findings have been resolved.

08-2 Budgeting Procedures

The Board-approved budget does not agree with the revenue and expenditure budgets on the County's accounting system. The original budget in the County's accounting system for the General Fund and Road and Bridge Special Revenue Fund exceeded the Board-approved budgets for revenues and expenditures, and the Ditch Special Revenue Fund budgets for revenues and expenditures were less than what was Board-approved. The Board-approved budget and authorized budget amendments also do not match the final budget in the County's accounting system.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board-approved and documented in the Board minutes.

We recommend that the County improve its budgetary accounting by implementing controls that will ensure amounts entered into the accounting system tie to the Board-approved amounts for each fund's revenue and expenditure budgets.

Client's Response:

Murray County has developed a new budgeting procedure that ensures that Board-approved budgets correlate to the budget in the County's accounting system. The Auditor has obtained more training and experience and has created a comprehensive budget procedure.

PREVIOUSLY REPORTED ITEMS RESOLVED

Financial Reporting (05-1)

The County lacked internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution

The County continued to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of the governmental funds and the budgetary comparison schedules for 2008.

Computer Risk Management (06-3)

The County had not developed a formal plan to identify and manage risks associated with its computer system, required strong passwords, or limited access to options for individuals on the computer system.

Resolution

The County made progress in strengthening controls over the computer systems.

Annual Adopted Budget (06-6)

The County did not adopt or make reference in its minutes to the budget document that details the fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds.

Resolution

The County adopted the 2008 budget detailing revenues and expenditures by function for each of the operational funds in the December 27, 2007, meeting.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS.

None.

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 discretely presented component unit, each major fund except for the Hospital Enterprise Fund and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2008, which, along with the financial statements of the business-type activities and Hospital Enterprise Fund, collectively comprise the County's basic financial statements, and have issued our report thereon dated March 25, 2010. We have issued a qualified opinion on the government-wide financial statements because Murray County has not reported other postemployment benefits (OPEB) obligations in the Statement of Net Assets and has not reported the related net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. We have not issued an opinion on the business-type activities and Hospital major enterprise fund because we were not engaged to audit the Murray County Memorial Hospital as part of our audit of Murray County. 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered Murray County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1, 06-1, 06-4, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Murray County complied with the material terms and conditions of applicable legal provisions.

Murray County's written responses to the significant deficiencies and material weakness 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 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

March 25, 2010

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

Board of County Commissioners
Murray County

Compliance

We have audited the compliance of Murray County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. Murray County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Murray County's financial statements include the operations of the Shetek Area Water and Sewer Commission component unit, which expended $849,208 in federal awards during the year ended December 31, 2008, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Shetek Area Water and Sewer Commission because the Commission had a separate single audit in accordance with OMB Circular A-133.

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

In our opinion, Murray County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Murray County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund except the Hospital Enterprise Fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2008, which, along with the business-type activities and Hospital Enterprise Fund, collectively comprise the County's basic financial statements, and have issued our report thereon dated March 25, 2010. We have issued a qualified opinion on the government-wide financial statements because Murray County has not reported the other postemployment benefits (OPEB) obligation in the Statement of Net Assets and has not reported the net OPEB obligation change in the Statement of Activities, as required by generally accepted accounting principles. We did not audit the financial statements of the Murray County Memorial Hospital, which represent the amounts shown as the business-type activities and the Hospital Enterprise Fund. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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

March 25, 2010

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MURRAY COUNTY
SLAYTON, MINNESOTA

Schedule 8

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	**$**	**25,771**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	1,285,327
Public Transportation for Non-Urbanized Areas	20.509		28,550
Total U.S. Department of Transportation		**$**	**1,313,877**
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	**$**	**8,205**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Boating Safety Financial Assistance	97.012	$	35,215
Emergency Management Performance Grants	97.042		12,907
Homeland Security Grant Program	97.067		2,376
Total U.S. Department of Homeland Security		**$**	**50,498**
Total Federal Awards		**$**	**1,398,351**

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Murray County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Murray County considers all revenues to be available if collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues (Schedule 6)	$ 1,390,146
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2008 (CFDA #90.401)	8,205
Expenditures per Schedule of Expenditures of Federal Awards	$ 1,398,351

4. Passed Through to Subrecipients

During 2008, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers that do not appear were not assigned by the pass-through agencies.