STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010

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

ORGANIZATION SCHEDULE
2010

Office	Name	Term Expires
Commissioners		
1st District	Kevin Vickerman	January 2013
2nd District	Robert Moline	January 2013
3rd District	Gerald W. Magnus	January 2011
4th District	John M. Giese*	January 2011
5th District	William J. Sauer**	January 2013
Officers		
Elected		
Attorney	Paul M. Malone	January 2011
Auditor/Treasurer	Heidi E. Winter	January 2011
County Judge	David Christensen	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. Carol Lang	Indefinite

*Chair for 2010
**Chair for 2011

MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
SHETEK AREA WATER AND SEWER COMMISSION
2010

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

Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Murray County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Murray County Memorial Hospital, a major fund (Hospital Enterprise Fund) and 95 percent, 100 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Hospital, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Murray County has omitted from the MD&A, condensed financial information on the operations or capital assets of the business-type activities comparing current year to prior year. Such missing information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011, on our consideration of Murray County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

September 27, 2011

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MURRAY COUNTY
SLAYTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 $53,518,711 of which $43,959,646 is invested in capital assets and $1,471,689 is restricted to specific purposes. The $8,087,376 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

- The County's governmental activities' net assets increased by $501,999 for the year ended December 31, 2010. A large part of the increase is attributable to the County's investing in infrastructure assets without increasing long-term debt and an increase in receivables as well as continued wind production tax revenues.

- The net cost of governmental activities for the current fiscal year was $5,594,069. General revenues totaling $6,096,068 funded the net cost.

- The General Fund balance decreased by $390,275, the Road and Bridge Special Revenue Fund balance decreased by $318,971, Human Services Special Revenue Fund saw no change, the EDA Special Revenue Fund increased by $127,664, and the Ditch Special Revenue Fund balance decreased by $19,130.

- For the year ended December 31, 2010, the unreserved fund balance of the General Fund was $3,032,183, or 42.2 percent, of the total General Fund expenditures of $7,184,138 for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

- Governmental activities--Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.

- Business-type activities--The County charges fees to cover the costs of certain services it provides. Included here are the operations of the Murray County Memorial Hospital and Congregate Housing.

- Component units--The County includes the Shetek Area Water and Sewer Commission, a legally separate entity, because the County is legally accountable for it.

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

Fund Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Ditch Special Revenue Fund, 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 34 through 86 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 $68,897,814 at the close of 2010. 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 2009 is presented.

Net Assets
(in thousands)

	Governmental Activities	Business-Type Activities	Total 2010	Total 2009
Assets				
Current and other assets	$ 13,036	$ 14,219	$ 27,255	$ 26,375
Capital assets	43,960	7,286	51,246	50,622
Total Assets	$ 56,996	$ 21,505	$ 78,501	$ 76,997
Liabilities				
Long-term liabilities	$ 2,277	$ 4,090	$ 6,367	$ 6,817
Other liabilities	1,200	2,036	3,236	2,584
Total Liabilities	$ 3,477	$ 6,126	$ 9,603	$ 9,401
Net Assets				
Invested in capital assets, net of related debt	$ 43,960	$ 3,130	$ 47,090	$ 46,274
Restricted	1,472	-	1,472	1,276
Unrestricted	8,087	12,249	20,336	20,046
Total Net Assets	$ 53,519	$ 15,379	$ 68,898	$ 67,596

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 29.5 percent of the net assets.

Governmental Activities

The County's governmental activities' net assets increased by 0.947 percent ($53,518,711 for 2010 compared to $53,016,712 for 2009). Key elements in this increase in net assets are as follows, with comparative data for 2009.

Governmental Activities
Changes in Net Assets
(in thousands)

	2010	2009
Revenues		
Program revenues		
Charges for services	$ 1,306	$ 1,502
Operating grants and contributions	5,339	4,683
Capital grants and contributions	763	1,788
General revenues		
Property taxes	4,309	4,704
Other	1,789	2,359
Total Revenues	$ 13,506	$ 15,036
Expenses		
General government	$ 2,486	$ 2,246
Public safety	2,992	1,711
Highways and streets	4,286	4,119
Sanitation	372	358
Human services	1,072	1,108
Health	53	53
Culture and recreation	737	714
Conservation of natural resources	692	808
Economic development	264	953
Interest	48	111
Total Expenses	$ 13,002	$ 12,181
Revenues Over Expenses	$ 504	$ 2,855
Transfers to business-type activities	(2)	(5)
Increase in Net Assets	$ 502	$ 2,850
Net Assets - January 1	53,017	50,167
Net Assets - December 31	$ 53,519	$ 53,017

The cost of all governmental activities for 2010 was $13,002,140 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 $4,309,381. The amount paid by those who directly benefited from the programs was $1,306,047 and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was $5,338,919. Capital grants and contributions were $763,105. The County paid for the remaining "public benefit" portion of governmental activities with $493,832 in grants and contributions not restricted to specific programs and $69,181 in interest and $941,924 in wind production tax.

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

Governmental Activities
2010
(in thousands)

	Total Cost of Services	Net Cost of Services
General government	$ 2,486	$ 2,142
Public safety	2,992	1,427
Highways and streets	4,286	57
Human services	1,072	1,072
All others	2,166	896
Total	$ 13,002	$ 5,594

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $8,403,912, a decrease of $600,712 in comparison with the prior year. Of the combined ending fund balances, $6,405,591 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 $3,032,183. 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 42.2 percent of total General Fund expenditures of $7,184,138. The General Fund's total fund balance decreased by $390,275, and its unreserved fund balance decreased by $1,174,292.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $2,092,445 at fiscal year-end, representing 38.4 percent of its annual expenditures of $5,448,120. The Road and Bridge Special Revenue Fund's total fund balance decreased by $318,971 during 2010, and its unreserved fund balance decreased by $577,978.

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

The Ditch Special Revenue Fund had an unreserved fund balance of $1,028,096 at fiscal year-end. The ending fund balance decrease $19,130 during 2010.

The EDA Special Revenue Fund had an unreserved fund balance of $252,867 at fiscal year-end. The EDA Special Revenue Fund's balance increased by $127,664 during 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board revised the General Fund budget. The expenditure budget increased $1,229,987. These budget amendments fall into two categories: new information changing original budget estimates and higher than anticipated costs. With these adjustments, the actual charges to appropriations (expenditures) were $348,349 below the final budget amounts. The revenue budget increased $626,889. These budget amendments fall into two categories: new information changing original budget estimates and higher than anticipated funding sources. With these adjustments, the actual revenues were $195,824 below the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2010, totaled $43,959,646 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $888,881, or 2.1 percent, from the previous year. The major capital asset events were: construction of highways and streets, a building improvement, and the purchase of highway and other miscellaneous equipment.

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

	2010	2009
Land, including right-of-way	$ 645	$ 645
Infrastructure	37,927	36,990
Buildings	3,420	3,591
Improvements other than buildings	357	379
Machinery and equipment	1,611	1,465
Total	$ 43,960	$ 43,070

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 $6,278,457, which was backed by the full faith and credit of the government.

Outstanding Debt
(in thousands)

	2010	2009
General obligation ditch bonds	$ 1,410	$ 1,645
General obligation refunding bonds	1,086	1,149
Hospital revenue note	3,070	3,198
General obligation promissory notes	199	249
Loans Payable	513	608
Total	$ 6,278	$ 6,849

The County's overall debt decreased by $570,798 from 2009 to 2010. The debt related to general obligation bonds decreased by $297,350, debt relating to notes decreased by $179,228, and debt relating to loans payable decreased by $94,220 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 2010, 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 2011 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2010 was 5.6 percent. This is 2.4 percent lower than the state unemployment rate of 8.0 percent and shows a 0.3 decrease from the County's 5.9 percent rate of one year ago.

- Mortgage interest rates are decreasing slightly from 2009 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 2010 decreased from $5,166,994 to $4,747,118. This is a net decrease of $419,876 or 8.1 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, 2010

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Assets				
Current assets				
Cash and pooled investments	$ 8,460,536	$ 3,747,746	$ 12,208,282	$ 769,928
Petty cash and change funds	2,000	-	2,000	-
Taxes receivable				
Prior - net	52,799	-	52,799	-
Special assessments receivable				
Current	4,735	-	4,735	5,653
Prior	6,932	-	6,932	2,154
Noncurrent - net	1,374,350	-	1,374,350	9,453,612
Accounts receivable - net	40,091	102,772	142,863	19,617
Patient receivable - net	-	1,784,411	1,784,411	-
Accrued interest receivable	33,917	-	33,917	6,888
Due from other governments	1,534,534	-	1,534,534	-
Due from component unit	885	-	885	-
Loans receivable	945,759	-	945,759	-
Inventories	274,714	412,267	686,981	64,556
Prepaid items	1,330	67,600	68,930	-
Restricted assets				
Cash and pooled investments	-	10,400	10,400	257,409
Total current assets	**$ 12,732,582**	**$ 6,125,196**	**$ 18,857,778**	**$ 10,579,817**
Noncurrent assets				
Noncurrent cash and investments	$ -	$ 7,562,974	$ 7,562,974	$ -
Deferred debt issuance costs	13,330	13,844	27,174	86,218
Long-term receivable	290,000	-	290,000	-
Capital assets				
Non-depreciable	645,223	153,683	798,906	386,046
Depreciable - net of accumulated depreciation	43,314,423	7,132,147	50,446,570	14,505,030
Other assets	-	517,527	517,527	-
Total noncurrent assets	**$ 44,262,976**	**$ 15,380,175**	**$ 59,643,151**	**$ 14,977,294**
Total Assets	**$ 56,995,558**	**$ 21,505,371**	**$ 78,500,929**	**$ 25,557,111**

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, 2010

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Liabilities				
Current liabilities				
Accounts payable	$ 215,848	$ 276,366	$ 492,214	$ 10,002
Salaries payable	240,850	863,489	1,104,339	630
Contracts payable	126,656	-	126,656	-
Due to other governments	141,914	155	142,069	-
Due to primary government	-	650,000	650,000	885
Accrued interest payable	23,779	25,637	49,416	99,639
Payable from restricted assets	-	10,400	10,400	-
Compensated absences payable - current	57,113	500	57,613	-
Loans payable - current	108,048	-	108,048	-
General obligation bonds payable - current	-	75,000	75,000	145,000
General obligation special assessment debt payable - current	235,000	-	235,000	-
Revenue notes payable - current	-	134,989	134,989	572,000
Promissory notes payable - current	50,742	-	50,742	-
Customer deposits - current	-	-	-	2,857
Total current liabilities	**$ 1,199,950**	**$ 2,036,536**	**$ 3,236,486**	**$ 831,013**
Noncurrent liabilities				
Compensated absences payable	$ 480,820	$ 8,277	$ 489,097	$ -
Loans payable	405,275	-	405,275	-
General obligation bonds payable	-	1,011,422	1,011,422	3,422,645
General obligation special assessment debt payable	1,185,000	-	1,185,000	-
Unamortized discount	(9,627)	-	(9,627)	-
Revenue notes payable	-	2,934,645	2,934,645	11,841,961
Promissory notes payable	147,963	-	147,963	-
Other postemployment benefits payable	67,466	135,388	202,854	-
Total noncurrent liabilities	**$ 2,276,897**	**$ 4,089,732**	**$ 6,366,629**	**$ 15,264,606**
Total Liabilities	**$ 3,476,847**	**$ 6,126,268**	**$ 9,603,115**	**$ 16,095,619**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Net Assets				
Invested in capital assets - net of related debt	$ 43,959,646	$ 3,129,774	$ 47,089,420	$ (1,077,886)
Restricted for				
Public safety	186,252	-	186,252	-
Highways and streets	850,670	-	850,670	-
Sanitation	69,354	-	69,354	-
Conservation	3,473	-	3,473	-
Debt service	-	-	-	230,110
Wastewater system replacement	-	-	-	27,298
Economic development	48,283	-	48,283	-
Other purposes	313,657	-	313,657	-
Unrestricted	8,087,376	12,249,329	20,336,705	10,281,970
Total Net Assets	**$ 53,518,711**	**$ 15,379,103**	**$ 68,897,814**	**$ 9,461,492**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		Program Revenues	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 2,486,103	$ 315,403	$ 16,111
Public safety	2,992,033	96,414	1,435,233
Highways and streets	4,285,610	85,160	3,426,123
Sanitation	372,021	355,745	136,950
Human services	1,071,590	-	-
Health	52,584	-	-
Culture and recreation	737,271	102,658	112,179
Conservation of natural resources	692,430	277,708	81,049
Economic development	264,033	72,959	131,274
Interest	48,465	-	-
Total governmental activities	**$ 13,002,140**	**$ 1,306,047**	**$ 5,338,919**
Business-type activities			
Hospital	$ 12,382,602	$ 13,010,870	$ -
Congregate Housing	290,938	307,699	500
Total business-type activities	**$ 12,673,540**	**$ 13,318,569**	**$ 500**
Total Primary Government	**$ 25,675,680**	**$ 14,624,616**	**$ 5,339,419**
Component unit			
Shetek Area Water and Sewer Commission	**$ 734,694**	**$ 224,234**	**$ -**

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	Total	Shetek Area Water and Sewer Component Unit
$ 13,000	$ (2,141,589)	$ -	$ (2,141,589)	
33,445	(1,426,941)	-	(1,426,941)	
716,660	(57,667)	-	(57,667)	
-	120,674	-	120,674	
-	(1,071,590)	-	(1,071,590)	
-	(52,584)	-	(52,584)	
-	(522,434)	-	(522,434)	
-	(333,673)	-	(333,673)	
-	(59,800)	-	(59,800)	
-	(48,465)	-	(48,465)	
$ 763,105	**$ (5,594,069)**	**$ -**	**$ (5,594,069)**	
$ -	$ -	$ 628,268	$ 628,268	
-	-	17,261	17,261	
$ -	**$ -**	**$ 645,529**	**$ 645,529**	
$ 763,105	**$ (5,594,069)**	**$ 645,529**	**$ (4,948,540)**	
$ 310,909				**$ (199,551)**
	$ 4,309,381	$ -	$ 4,309,381	$ -
	7,328	-	7,328	-
	941,924	-	941,924	-
	107,624	-	107,624	-
	493,832	127,051	620,883	-
	69,181	24,335	93,516	11,563
	169,229	-	169,229	1,469
	-	282	282	-
	(2,431)	2,431	-	-
	$ 6,096,068	**$ 154,099**	**$ 6,250,167**	**$ 13,032**
	$ 501,999	**$ 799,628**	**$ 1,301,627**	**$ (186,519)**
	53,016,712	**14,579,475**	**67,596,187**	**9,648,011**
	$ 53,518,711	**$ 15,379,103**	**$ 68,897,814**	**$ 9,461,492**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Road and Bridge
Assets		
Cash and pooled investments	$ 4,585,283	$ 2,505,624
Undistributed cash in agency fund	62,354	17,692
Petty cash and change funds	2,000	-
Taxes receivable		
Delinquent	33,456	8,616
Special assessments receivable		
Current	4,735	-
Delinquent	6,932	-
Noncurrent	713,839	-
Accounts receivable	36,351	3,392
Accrued interest receivable	33,917	-
Due from other funds	176	574
Due from other governments	394,902	1,119,574
Due from component unit	885	-
Loans receivable	-	-
Inventories	13,733	260,981
Prepaid items	990	340
Total Assets	**$ 5,889,553**	**$ 3,916,793**

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

EXHIBIT 3

Human Services	Ditch	EDA	Total
$ -	$ 1,010,751	$ 255,593	$ 8,357,251
19,844	3,395	-	103,285
-	-	-	2,000
10,727	-	-	52,799
-	-	-	4,735
-	-	-	6,932
-	660,511	-	1,374,350
-	-	348	40,091
-	-	-	33,917
-	-	-	750
-	20,058	-	1,534,534
-	-	-	885
-	-	945,759	945,759
-	-	-	274,714
-	-	-	1,330
$ 30,571	**$ 1,694,715**	**$ 1,201,700**	**$ 12,733,332**

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Road and Bridge
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 195,079	$ 20,215
Salaries payable	170,936	66,602
Contracts payable	836	125,820
Due to other funds	574	176
Due to other governments	110,698	6,056
Deferred revenue - unavailable	858,325	1,128,080
Total Liabilities	**$ 1,336,448**	**$ 1,346,949**
Fund Balances		
Reserved for		
Prepaid items	$ 990	$ 340
Petty cash	2,000	-
Missing heirs	100	-
Recorder's compliance	111,227	-
Recorder's technology	144,905	-
Inventories	13,733	260,981
Encumbrances	694,991	216,078
Sheriff's contingency	85	-
Gun permits	5,708	-
E-911	169,797	-
Lime Creek Service District	69,354	-
Supervision fees	10,662	-
Septic/sewer loans	236,472	-
Election equipment	57,425	-
Unspent grant monies	3,473	-
Unreserved		
Designated for		
Future expenditures	1,500,000	1,500,000
Compensated absences	358,290	175,294
Capital improvements	100,000	400,000
Sanitation	376,691	-
Capital equipment	83,880	-
County septic system loans	88,268	-
Parks	321,305	-
Employee benefits	4,837	-
Ambulance replacement	19,820	-
Undesignated	179,092	17,151
Total Fund Balances	**$ 4,553,105**	**$ 2,569,844**
Total Liabilities and Fund Balances	**$ 5,889,553**	**$ 3,916,793**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	EDA	Total
$ -	$ 554	$ -	$ 215,848
-	238	3,074	240,850
-	-	-	126,656
-	-	-	750
19,844	5,316	-	141,914
10,727	660,511	945,759	3,603,402
$ 30,571	**$ 666,619**	**$ 948,833**	**$ 4,329,420**
$ -	$ -	$ -	$ 1,330
-	-	-	2,000
-	-	-	100
-	-	-	111,227
-	-	-	144,905
-	-	-	274,714
-	-	-	911,069
-	-	-	85
-	-	-	5,708
-	-	-	169,797
-	-	-	69,354
-	-	-	10,662
-	-	-	236,472
-	-	-	57,425
-	-	-	3,473
-	-	-	3,000,000
-	-	4,346	537,930
-	-	-	500,000
-	-	-	376,691
-	-	-	83,880
-	-	-	88,268
-	-	-	321,305
-	-	-	4,837
-	-	-	19,820
-	1,028,096	248,521	1,472,860
$ -	**$ 1,028,096**	**$ 252,867**	**$ 8,403,912**
$ 30,571	**$ 1,694,715**	**$ 1,201,700**	**$ 12,733,332**

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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, 2010

Fund balance - total governmental funds (Exhibit 3)		**$ 8,403,912**
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.		43,959,646
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,603,402
Long-term receivable is not due in the current period and, therefore, is not reported in the governmental funds.		290,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Special assessment general obligation bonds	$ (1,420,000)	
Unamortized bond discount	9,627	
Deferred debt issuance costs	13,330	
Promissory notes payable	(198,705)	
Loans payable	(513,323)	
Compensated absences	(537,933)	
Net OPEB obligation	(67,466)	
Accrued interest payable	(23,779)	(2,738,249)
Net Assets of Governmental Activities (Exhibit 1)		**$ 53,518,711**

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, 2010

	General	Road and Bridge
Revenues		
Taxes	$ 3,443,224	$ 861,307
Special assessments	311,127	-
Licenses and permits	27,518	9,000
Intergovernmental	2,217,678	4,090,355
Charges for services	424,123	40,498
Fines and forfeits	20,760	-
Gifts and contributions	21,811	-
Investment earnings	54,217	-
Miscellaneous	350,557	83,922
Total Revenues	**$ 6,871,015**	**$ 5,085,082**
Expenditures		
Current		
General government	$ 2,318,736	$ -
Public safety	2,934,742	-
Highways and streets	-	5,111,112
Sanitation	350,002	-
Culture and recreation	688,935	-
Conservation of natural resources	616,874	-
Economic development	104,811	-
Intergovernmental	52,584	337,008
Debt service		
Principal	105,919	-
Interest	11,535	-
Administrative charges	-	-
Total Expenditures	**$ 7,184,138**	**$ 5,448,120**
Excess of Revenues Over (Under) Expenditures	**$ (313,123)**	**$ (363,038)**
Other Financing Sources (Uses)		
Transfers in	$ -	$ -
Transfers out	(121,555)	-
Proceeds from the sale of assets	32,600	-
Loans issued	11,699	-
Total Other Financing Sources (Uses)	**$ (77,256)**	**$ -**
Net Change in Fund Balance	**$ (390,379)**	**$ (363,038)**
Fund Balance - January 1	**4,943,380**	**2,888,815**
Increase (decrease) in reserved for inventories	**104**	**44,067**
Fund Balance - December 31	**$ 4,553,105**	**$ 2,569,844**

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

EXHIBIT 5

Human Services	Ditch	EDA	Total
$ 965,375	$ -	$ -	$ 5,269,906
-	313,035	-	624,162
-	-	-	36,518
106,215	-	30,000	6,444,248
-	-	-	464,621
-	-	-	20,760
-	-	-	21,811
-	-	30,041	84,258
-	8,962	168,172	611,613
$ 1,071,590	**$ 321,997**	**$ 228,213**	**$ 13,577,897**
$ -	$ -	$ -	$ 2,318,736
-	-	-	2,934,742
-	-	-	5,111,112
-	-	-	350,002
-	-	-	688,935
-	69,157	-	686,031
-	-	158,315	263,126
1,071,590	-	-	1,461,182
-	220,000	50,742	376,661
-	61,730	-	73,265
-	856	-	856
$ 1,071,590	**$ 351,743**	**$ 209,057**	**$ 14,264,648**
$ -	**$ (29,746)**	**$ 19,156**	**$ (686,751)**
$ -	$ 10,616	$ 108,508	$ 119,124
-	-	-	(121,555)
-	-	-	32,600
-	-	-	11,699
$ -	**$ 10,616**	**$ 108,508**	**$ 41,868**
$ -	**$ (19,130)**	**$ 127,664**	**$ (644,883)**
-	**1,047,226**	**125,203**	**9,004,624**
-	**-**	**-**	**44,171**
$ -	**$ 1,028,096**	**$ 252,867**	**$ 8,403,912**

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, 2010

Net change in fund balance - total governmental funds (Exhibit 5)			**$**	**(644,883)**
Amounts reported for governmental activities in the statement of activities are different because:				
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.				
Deferred revenue - December 31	$	3,603,402		
Deferred revenue - January 1		(3,707,329)		(103,927)
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	$	2,907,909		
Net book value of assets disposed of		(20,306)		
Current year depreciation		(1,998,722)		888,881
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				(11,699)
Principal payments				
Special assessment general obligation bonds	$	235,000		
Loans payable		105,919		
Promissory notes		50,777		391,696
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.				
Change in accrued interest payable	$	26,863		
Change in compensated absences		(40,929)		
Change in long-term receivable		(15,000)		
Discount and bond issuance costs amortization		(1,207)		
Change in OPEB obligation		(31,967)		
Change in inventories		44,171		(18,069)
Change in Net Assets of Governmental Activities (Exhibit 2)			**$**	**501,999**

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

PROPRIETARY FUND

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Assets			
Current assets			
Cash and pooled investments	$ 3,499,794	$ 247,952	$ 3,747,746
Accounts receivable - net	102,489	283	102,772
Patient receivables - net	1,784,411	-	1,784,411
Inventories	412,267	-	412,267
Prepaid items	67,600	-	67,600
Total current assets, unrestricted	**$ 5,866,561**	**$ 248,235**	**$ 6,114,796**
Restricted assets			
Cash and pooled investments	-	10,400	10,400
Total current assets	**$ 5,866,561**	**$ 258,635**	**$ 6,125,196**
Noncurrent assets			
Noncurrent cash and investments	$ 7,562,974	$ -	$ 7,562,974
Deferred charges	-	13,844	13,844
Capital assets			
Nondepreciable	153,683	-	153,683
Depreciable - net	6,314,211	817,936	7,132,147
Total noncurrent assets	**$ 14,030,868**	**$ 831,780**	**$ 14,862,648**
Other assets			
Deferred financing costs	$ 46,545	$ -	$ 46,545
Investment in Shetek Medical Services	290,896	-	290,896
Investment in Southwest Minnesota Radiation	19,721	-	19,721
Investment in Minnesota Rural Health	7,750	-	7,750
Physician receivables	152,615	-	152,615
Total other assets	**$ 517,527**	**$ -**	**$ 517,527**
Total Assets	**$ 20,414,956**	**$ 1,090,415**	**$ 21,505,371**

EXHIBIT 7
(Continued)

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Totals
Liabilities			
Current liabilities payable from current assets			
Accounts payable	$ 272,309	$ 4,057	$ 276,366
Salaries payable	859,492	3,997	863,489
Compensated absences payable - current	-	500	500
Due to other governments	-	155	155
Due to third party	650,000	-	650,000
Accrued interest payable	4,178	21,459	25,637
General obligation bonds payable - current	-	75,000	75,000
Revenue notes payable - current	134,989	-	134,989
Total current liabilities payable from current assets	**$ 1,920,968**	**$ 105,168**	**$ 2,026,136**
Current liabilities payable from restricted assets			
Accounts payable	-	10,400	10,400
Total current liabilities	**$ 1,920,968**	**$ 115,568**	**$ 2,036,536**
Noncurrent liabilities			
Compensated absences payable - long-term	$ -	$ 8,277	$ 8,277
General obligation bonds payable - long-term	-	1,011,422	1,011,422
Revenue notes payable - long-term	2,934,645	-	2,934,645
Other postemployment benefits payable	134,503	885	135,388
Total noncurrent liabilities	**$ 3,069,148**	**$ 1,020,584**	**$ 4,089,732**
Total Liabilities	**$ 4,990,116**	**$ 1,136,152**	**$ 6,126,268**
Net Assets			
Invested in capital assets - net of related debt	$ 3,398,260	$ (268,486)	$ 3,129,774
Unrestricted	12,026,580	222,749	12,249,329
Total Net Assets	**$ 15,424,840**	**$ (45,737)**	**$ 15,379,103**

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, 2010

	Business-Type Activities - Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Operating Revenues			
Charges for services	$ -	$ 298,678	$ 298,678
Patient services revenues	12,758,564	-	12,758,564
Miscellaneous	252,306	9,021	261,327
Total Operating Revenues	**$ 13,010,870**	**$ 307,699**	**$ 13,318,569**
Operating Expenses			
Personal services	$ -	$ 83,728	$ 83,728
Professional services	3,037,676	2,773	3,040,449
Nursing services	2,240,373	-	2,240,373
Contracted services	-	42,231	42,231
Repairs and maintenance	832,754	6,680	839,434
Administration and fiscal services	3,535,774	-	3,535,774
Other services and charges	-	5,548	5,548
Supplies	-	10,454	10,454
Utilities	-	23,228	23,228
Insurance	-	5,095	5,095
Wellness center	37,574	-	37,574
Downtown building	2,031	-	2,031
Surgery clinic	169	-	169
Clinic	1,304,723	-	1,304,723
Fulda clinic	147,065	-	147,065
Interest expense	155,817	-	155,817
Depreciation	1,088,646	51,121	1,139,767
Total Operating Expenses	**$ 12,382,602**	**$ 230,858**	**$ 12,613,460**
Operating Income (Loss)	**$ 628,268**	**$ 76,841**	**$ 705,109**
Nonoperating Revenues (Expenses)			
Investment income	$ 115,240	$ -	$ 115,240
Grants	127,051	-	127,051
Gifts and contributions	-	500	500
Gain on sale/disposal of capital assets	282	-	282
Gain/loss on investments in equity	(90,905)	-	(90,905)
Interest expense	-	(58,822)	(58,822)
Amortization of deferred charges	-	(1,258)	(1,258)
Total Nonoperating Revenues (Expenses)	**$ 151,668**	**$ (59,580)**	**$ 92,088**
Income (Loss) Before Transfers	**$ 779,936**	**$ 17,261**	**$ 797,197**
Transfers in	-	2,431	2,431
Change in net assets	**$ 779,936**	**$ 19,692**	**$ 799,628**
Net Assets - January 1	**14,644,904**	**(65,429)**	**14,579,475**
Net Assets - December 31	**$ 15,424,840**	**$ (45,737)**	**$ 15,379,103**

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, 2010
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital	Congregate Housing	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	$ 13,530,648	$ 309,624	$ 13,840,272
Other receipts and payments, net	252,306	-	252,306
Payments to suppliers and contractors	(4,630,803)	(100,744)	(4,731,547)
Payments to employees	(6,804,043)	(81,876)	(6,885,919)
Net cash provided by (used in) operating activities	**$ 2,348,108**	**$ 127,004**	**$ 2,475,112**
Cash Flows from Noncapital Financing Activities			
Noncapital grants	$ 127,051	$ -	$ 127,051
Contributions	-	500	500
Transfers in	-	2,431	2,431
Net cash provided by (used in) noncapital financing activities	**$ 127,051**	**$ 2,931**	**$ 129,982**
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	$ (128,451)	$ (70,000)	$ (198,451)
Interest paid on long-term debt	(155,992)	(52,554)	(208,546)
Proceeds from the sale of capital assets	282	-	282
Purchases of capital assets	(871,658)	-	(871,658)
Net cash provided by (used in) capital and related financing activities	**$ (1,155,819)**	**$ (122,554)**	**$ (1,278,373)**
Cash Flows from Investing Activities			
Increase in noncurrent cash and investments	$ (1,324,622)	$ -	$ (1,324,622)
Decrease in investment in Shetek Medical Services, LLC	(42,045)	-	(42,045)
Increase in investment in Southwest Minnesota Radiation	132,952	-	132,952
Investment earnings received	115,240	-	115,240
Loss on investments	(90,905)	-	(90,905)
Decrease in physician receivable	20,228	-	20,228
Net cash provided by (used in) investing activities	$ (1,189,152)	$ -	$ (1,189,152)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 130,188**	**$ 7,381**	**$ 137,569**
Cash and Cash Equivalents at January 1	**3,369,606**	**250,971**	**3,620,577**
Cash and Cash Equivalents at December 31	**$ 3,499,794**	**$ 258,352**	**$ 3,758,146**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents

	Enterprise Funds		
	Hospital	Congregate Housing	Totals
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	$ 3,499,794	$ 247,952	$ 3,747,746
Restricted cash and pooled investments	-	10,400	10,400
Total Cash and Cash Equivalents	**$ 3,499,794**	**$ 258,352**	**$ 3,758,146**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 628,268**	**$ 76,841**	**$ 705,109**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 1,085,643	$ 51,121	$ 1,136,764
Amortization expense	3,003	-	3,003
Interest expense	155,817	-	155,817
Provision for bad debt expense	230,546	-	230,546
(Increase) decrease in accounts receivable	446,883	127	447,010
(Increase) decrease in inventories	(100,962)	-	(100,962)
(Increase) decrease in prepaid items	74,641	-	74,641
Increase (decrease) in accounts payable	(15,717)	(2,986)	(18,703)
Increase (decrease) in salaries payable	(219,374)	418	(218,956)
Increase (decrease) in compensated absences payable	-	978	978
Increase (decrease) in due to other governments	-	51	51
Increase (decrease) in OPEB	59,360	454	59,814
Total adjustments	**$ 1,719,840**	**$ 50,163**	**$ 1,770,003**
Net Cash Provided by (Used in) Operating Activities	**$ 2,348,108**	**$ 127,004**	**$ 2,475,112**

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2010

Assets		
Cash and pooled investments	**$**	**160,818**
Liabilities		
Due to other governments	**$**	**160,818**

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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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply only FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies, established in GAAP and used by the County, are discussed below.

A. Financial Reporting Entity

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

Blended Component Units

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

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

Discretely Presented Component Unit

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

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
The Shetek Area Water and Sewer Commission is responsible for constructing and operating a sanitary water and sewer district within Murray County.	The County appoints Commission members and must approve any debt.	Separate financial statements are not issued for the Shetek Area Water and Sewer Commission.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Murray County. These statements include the financial activities of the overall County government,

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

      2. Fund Financial Statements

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

1. Summary of Significant Accounting Policies

    B. Basic Financial Statements

        2. Fund Financial Statements (Continued)

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, 2010, 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 2010 were $54,217.

The Hospital's investment income for the year ended December 31, 2010, was $115,240 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 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Patient receivables are uncollateralized patient and third-party 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 and the Congregate Housing Enterprise Fund had no capitalized interest.

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

Assets	Years
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, $42,046 for the year ended December 31, 2010, is included in nonoperating income.

b. Investment in Southwest Minnesota Radiation, LLC

The Hospital is a 14-percent owner in Southwest Minnesota Radiation. The Hospital made initial capital contributions in 2007 and 2008 totaling $100,000 each year. This venture provides advanced radiation treatment to the people of southwest Minnesota. The Hospital's investment is reported on the equity method of accounting. The net loss on the investment, $132,951 for the year ended December 31, 2010, is included in nonoperating income.

8. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

9. Deferred Revenue

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
Special assessments receivable	$ 1,386,018
Highway allotments that do not provide current financial resources	1,118,262
Loans receivable	945,759
Delinquent property taxes	52,798
Deferred revenue from accrued interest	20,589
Grants receivable	79,976
Total Deferred Revenue for All Governmental Funds	$ 3,603,402

10. Long-Term Obligations

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

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

1. Summary of Significant Accounting Policies

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

11. Fund Equity

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

12. Use of Estimates

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

E. Hospital Net Patient Service Revenue

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

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 $136,596 in 2010 and $134,931 in 2009.

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

Revenue from the Medicare and Medicaid programs accounted for approximately 32 and 5 percent and 35 and 6 percent of the Hospital's net patient revenue for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

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 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 Congregate Housing Enterprise Fund had deficit fund net assets for the year ended December 31, 2010, of $45,737. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

   B. Excess of Expenditures Over Budget

	Expenditures	Final Budget	Excess
Ditch Special Revenue Fund	$ 351,743	$ 347,927	$ 3,816
EDA Special Revenue Fund	209,057	192,202	16,855

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	$ 8,460,536
Petty cash and change funds	2,000
Business-type activities	
Cash and pooled investments	3,747,746
Restricted assets - cash and pooled investments	10,400
Statement of fund net assets	
Noncurrent cash and investments	7,562,974
Component unit - Shetek Area Water and Sewer Commission	
Cash and pooled investments	769,928
Restricted assets	257,409
Agency fund	
Cash and pooled investments	160,818
Total Cash and Investments	$ 20,971,811

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Deposits		
Checking	$	304,151
Certificates of deposit		2,520,000
Invested in MAGIC Fund		9,480,660
Invested in negotiable certificates of deposit		8,665,000
Petty cash and change funds		2,000
Total Deposits, Cash on Hand, and Investments	$	20,971,811

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2010, 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, 2010, and information relating to potential investment risks:

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	52.2%	N/A	$ 9,480,660
Negotiable certificates of deposit					
Onb Bank & Trust Company, OK	N/A	N/A		06/01/2011	$ 247,000
Wayne County Bank, TN	N/A	N/A		06/01/2011	247,000
CFG Community Bank, MD	N/A	N/A		06/01/2011	247,000
Tennessee State Bank, TN	N/A	N/A		06/01/2011	247,000
Investorsbank, WI	N/A	N/A		06/01/2011	247,000
Onewest Bank, Fsb, CA	N/A	N/A		06/01/2011	247,000
Fifth Third Bank, Ohio	N/A	N/A		06/01/2011	247,000
Orrstown Bank, PA	N/A	N/A		06/01/2011	247,000
Privatebank & Trust Co.	N/A	N/A		08/30/2011	248,000
GBC International Bank, CA	N/A	N/A		09/19/2011	248,000
State Bank of India, CA	N/A	N/A		09/19/2011	248,000
Pacific Enterprise Bank, CA	N/A	N/A		09/19/2011	248,000
East Boston Savings Bank, MA	N/A	N/A		09/19/2011	248,000
Wallis State Bank, TX	N/A	N/A		12/01/2011	248,000
United Community Bank, GA	N/A	N/A		12/01/2011	248,000
Bridgewater Bank, MN	N/A	N/A		12/01/2011	248,000
North Bank, IL	N/A	N/A		12/01/2011	248,000
Trisummit Bank, TN	N/A	N/A		12/01/2011	248,000
City National Bank, CA	N/A	N/A		12/01/2011	248,000
Bank of Versailles, MO	N/A	N/A		12/01/2011	248,000
Sterling National Bank, NY	N/A	N/A		12/01/2011	248,000
Park Federal Savings Bank, IL	N/A	N/A		12/06/2011	248,000
Bank of the Sierra, CA	N/A	N/A		12/06/2011	248,000
United Texas Bank, TX	N/A	N/A		12/06/2011	248,000
Harris National Association, IL	N/A	N/A		01/06/2012	247,000
Washington Trust Company of Westerly	N/A	N/A		12/03/2012	245,000
First Credit Bank, CA	N/A	N/A		12/03/2012	245,000
Citizens Trust Bank, GA	N/A	N/A		12/03/2012	245,000
Amerasia Bank, NY	N/A	N/A		12/03/2012	245,000
First Federal Savings & Loan, SC	N/A	N/A		12/05/2012	245,000
Commonwealth Business Bank, CA	N/A	N/A		12/05/2012	245,000
GE Capital Financial Inc., UT	N/A	N/A		12/05/2012	245,000
Commerce State Bank, WI	N/A	N/A		12/05/2012	245,000
Tristate Capital Bank, PA	N/A	N/A		02/25/2013	232,000
First Chatham Bank, GA	N/A	N/A		02/23/2015	94,000
Sonabank, VA	N/A	N/A		02/23/2015	94,000
Farmers & Merchants Union Bank, WI	N/A	N/A		02/23/2015	94,000
Total negotiable certificates of deposit			47.8%		$ 8,665,000

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5 Percent of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Total investments					$ 18,145,660
Checking					304,151
Certificates of deposit					2,520,000
Petty cash					2,000
Total Cash and Investments					$ 20,971,811

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

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities, not scheduled for collection during the subsequent year are as follows:

Special assessments	$ 1,068,888
Loans receivable	774,068
Long-term receivable	275,000
Total	$ 2,117,956

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:

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Loans Receivable (Continued)

Loan Agreements		
Beginning balance	$	1,040,972
Loans issued		71,904
Loan repayments		(167,117)
Ending Balance	$	945,759

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 291,259	$ -	$ -	$ 291,259
Right-of-way	353,964	-	-	353,964
Total capital assets not depreciated	$ 645,223	$ -	$ -	$ 645,223
Capital assets depreciated				
Land improvements	$ 474,799	$ -	$ -	$ 474,799
Buildings	5,718,460	14,530	110,570	5,622,420
Machinery and equipment	4,605,989	481,531	245,556	4,841,964
Infrastructure	53,345,487	2,411,848	-	55,757,335
Total capital assets depreciated	$ 64,144,735	$ 2,907,909	$ 356,126	$ 66,696,518
Less: accumulated depreciation for				
Land improvements	$ 96,482	$ 21,143	$ -	$ 117,625
Buildings	2,127,165	170,151	94,869	2,202,447
Machinery and equipment	3,140,677	331,763	240,951	3,231,489
Infrastructure	16,354,869	1,475,665	-	17,830,534
Total accumulated depreciation	$ 21,719,193	$ 1,998,722	$ 335,820	$ 23,382,095
Total capital assets depreciated, net	$ 42,425,542	$ 909,187	$ 20,306	$ 43,314,423
Governmental Activities Capital Assets, Net	$ 43,070,765	$ 909,187	$ 20,306	$ 43,959,646

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 153,683	$ -	$ -	$ 153,683
Capital assets depreciated				
Land improvements	$ 382,819	$ -	$ -	$ 382,819
Buildings	8,240,574	163,167	-	8,403,741
Fixed equipment	1,172,042	5,249	-	1,177,291
Major movable equipment	4,164,566	703,242	-	4,867,808
Total capital assets depreciated	$ 13,960,001	$ 871,658	$ -	$ 14,831,659
Less: accumulated depreciation for				
Land improvements	$ 146,236	$ 23,964	$ -	$ 170,200
Buildings	2,907,222	437,622	-	3,344,844
Fixed equipment	845,933	40,738	-	886,671
Major movable equipment	2,663,358	634,440	-	3,297,798
Total accumulated depreciation	$ 6,562,749	$ 1,136,764	$ -	$ 7,699,513
Total capital assets depreciated, net	$ 7,397,252	$ (265,106)	$ -	$ 7,132,146
Business-Type Activities Capital Assets, Net	$ 7,550,935	$ (265,106)	$ -	$ 7,285,829

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

Governmental Activities	
General government	$ 146,474
Public safety	110,313
Highways and streets, including depreciation of infrastructure assets	1,661,359
Sanitation	17,826
Culture and recreation, including depreciation of infrastructure assets	61,719
Conservation of natural resources	1,031
Total Depreciation Expense - Governmental Activities	$ 1,998,722

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities		
Hospital	$	1,085,643
Congregate Housing		51,121
Total Depreciation Expense - Business-Type Activities	$	1,136,764

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General	Road and Bridge	$	176
Road and Bridge	General		574
Total Due To/From Other Funds		$	750

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer to Ditch Special Revenue Fund from General Fund	$	10,616	Provide funding
Transfer to EDA Special Revenue Fund from General Fund		108,508	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund		2,431	Provide funding
Total Interfund Transfers	$	121,555	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The County has no active construction projects as of December 31, 2010.

2. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2010, was $90,039.

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, 2010
Special assessment bonds with government commitment					
2002 G.O. Ditch Bonds	2021	$40,000 - $45,000	2.10 - 3.80	$ 335,000	$ 40,000
2007A G.O. Refunding Bonds	2029	$25,000 - $195,000	4.00 - 4.25	1,625,000	1,380,000
Total G.O. Special Assessment Bonds				$ 1,960,000	$ 1,420,000
Less: unamortized discount					(9,627)
Net G.O. Special Assessment Bonds					$ 1,410,373

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 governmental activities for the total principal amount, $290,000, due from RRRWS, which was decreased as principal payments started in 2010.

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities--Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds					
2004 G.O. Refunding Bonds	2022	$65,000 - $130,000	1.75 - 5.00	$ 1,580,000	$ 1,165,000
Less: deferred amounts for					
Issuance discount					(9,654)
Refunding charges					(68,924)
Total General Obligation Refunding Bonds, Net					$ 1,086,422
Revenue note					
2006 Hospital Revenue Note	2026	$112,869 - $270,153	4.9	$ 3,600,000	$ 3,069,634

Governmental Activities--Loans Payable

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

In 1998, 2000, and 2001, the County entered into the Lake Shetek Clean Water Partnership Project, the Cottonwood River Restoration Clean Water Partnership Project, and the Beaver Creek Clean Water Partnership Project, respectively. The County is financing the loans to residents with loans from the Minnesota Pollution Control Agency, payable annually with interest at two percent. Loan payments are reported in the General Fund. In 2004, the Board authorized $700,000 of transfers, which will be made in installments of $100,000, to the Clean Water Partnership Loan Fund for the County septic loan program.

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities--Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
Cottonwood River CWP Project	2020	$ 9,697	2.00	$ 174,996	$ 109,899
Beaver Creek CWP Project	2018	20,314	2.00	366,567	228,707
Lake Shetek CWP Project	2013	39,474	2.00	712,332	174,717
Total Loans Payable				$ 1,253,895	$ 513,323

Governmental Activities--G.O. Promissory Note Payable

The County has a noninterest-bearing G.O. Promissory Note with the Minnesota Department of Employment and Economic Development (DEED). The original issue amount was $400,000, which was distributed to Monogram Meat Snacks and 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, 2010, the County had $198,705 outstanding.

4. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Governmental Activities

Year Ending December 31	Special Assessment Bonds Principal	Special Assessment Bonds Interest
2011	$ 235,000	$ 52,410
2012	190,000	43,950
2013	185,000	36,450
2014	180,000	29,150
2015	165,000	22,250
2016 - 2020	305,000	50,010
2021 - 2025	80,000	25,745
2026 - 2029	80,000	6,800
Total	$ 1,420,000	$ 266,765

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Governmental Activities (Continued)

Year Ending	G.O. Promissory Notes		Loans Payable	
December 31	Principal	Interest	Principal	Interest
2011	$ 50,742	$ -	$ 108,048	$ 9,181
2012	50,742	-	110,219	7,009
2013	50,742	-	112,435	4,794
2014	46,479	-	50,690	2,853
2015	-	-	31,723	1,933
2016 - 2017	-	-	100,208	2,312
Total	$ 198,705	$ -	$ 513,323	$ 28,082

Business-Type Activities

Year Ending	Revenue Note		General Obligation Bonds	
December 31	Principal	Interest	Principal	Interest
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	156,615	127,819	80,000	41,665
2015	164,575	119,859	85,000	38,280
2016 - 2020	956,569	465,599	515,000	127,097
2021 - 2025	1,226,190	195,979	250,000	12,750
2026	140,218	2,033	-	-
Total	$ 3,069,634	$ 1,339,124	$ 1,165,000	$ 362,506

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, 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	$ 1,655,000	$ -	$ 235,000	$ 1,420,000	$ 235,000
Less: deferred amounts for issuance discounts on refunding	(10,133)	-	(506)	(9,627)	-
Net bonds and notes payable	$ 1,644,867	$ -	$ 234,494	$ 1,410,373	$ 235,000
G.O. promissory notes payable	249,482	-	50,777	198,705	50,742
Loans payable	607,543	11,699	105,919	513,323	108,048
Compensated absences	497,004	40,929	-	537,933	57,113
Net OPEB obligation	35,499	31,967	-	67,466	-
Governmental Activities Long-Term Liabilities	$ 3,034,395	$ 84,595	$ 391,190	$ 2,727,800	$ 450,903

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 1,235,000	$ -	$ 70,000	$ 1,165,000	$ 75,000
Revenue note of 2006	3,198,085	-	128,451	3,069,634	134,989
Compensated absences	7,799	978		8,777	500
Net OPEB obligation	75,574	59,814	-	135,388	-
Total long-term liabilities	$ 4,516,458	$ 60,792	$ 198,451	$ 4,378,799	$ 210,489
Less: deferred amounts	(85,722)	-	(7,144)	(78,578)	-
Business-Type Activities Long-Term Liabilities	$ 4,430,736	$ 60,792	$ 191,307	$ 4,300,221	$ 210,489

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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, 2010, the amount of defeased debt outstanding but removed from financial statements amounted to $1,110,000.

7. Bond Refundings

Crossover Refundings

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

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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the General Employees Retirement Fund 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

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.4 percent.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2010	2009	2008
General Employees Retirement Fund	$ 207,922	$ 196,954	$ 179,586
Public Employees Police and Fire Fund	73,174	72,926	60,638

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

B. Defined Contribution Plan

Seven employees of Murray County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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, 2010, were:

	Employee	Employer
Contribution amount	$ 5,834	$ 5,834
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities

Plan Description

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

Funding Policy

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

The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2009, there were approximately 78 participants in the plan, including 0 retirees. The implicit rate subsidy amount was determined by an actuarial study to be $9,274 for 2010.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	$	42,237
Interest on net OPEB obligation		1,616
Adjustment to ARC		(2,158)
Annual OPEB cost (expense)	$	41,695
Contributions made		(9,274)
Increase in net OPEB obligation	$	32,421
Net OPEB Obligation - Beginning of Year		35,930
Net OPEB Obligation - End of Year	$	68,351

Of the $68,351, $67,466 represents governmental activities and $885 represents business-type activities for the Congregate Housing Enterprise Fund.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

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

Funded Status and Funding Progress

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

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

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

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities (Continued)

Actuarial Methods and Assumptions

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

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

The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 4.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 28 years.

2. Business-Type Activities

Plan Description

The Hospital provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55 and have 15 years of services with the Hospital. The Hospital provides benefits for retirees as required by state statutes. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of January 1, 2009, there were no retirees receiving health benefits from the Organization's health plan.

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

2. Business-Type Activities (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the Hospital's annual OPEB cost of 2010, the amount actually contributed to the plan, and changes in the Hospital's net OPEB obligation:

ARC	$	93,954
Interest on net OPEB obligation		3,381
Adjustment to ARC		(4,513)
Annual OPEB cost (expense)	$	92,822
Contributions made		(33,462)
Increase in net OPEB obligation	$	59,360
Net OPEB Obligation - Beginning of Year		75,143
Net OPEB Obligation - End of Year	$	134,503

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 93,954	$ 18,811	20.0%	$ 75,143
December 31, 2010	92,822	33,462	36.05%	134,503

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

2. Business-Type Activities (Continued)

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own

4. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB)

      2. Business-Type Activities

         Actuarial Methods and Assumptions (Continued)

         investments calculated based on the funded level of the plan at the valuation date. The initial health care trend rate was 9.0 percent, reduced by decrements to an ultimate rate of 5.0 percent after 8 years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2010, was 28 years.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent events

On July 1, 2011, Murray County issued General Obligation Capital Improvement Plan Bonds, Series 2011A in the amount of $1,965,000 to finance the renovation of the Murray County law enforcement center.

On September 20, 2011, Murray County authorized an advance agreement with the Minnesota Rural Water Finance Authority and authorized participation in a joint powers agreement for financing $489,000 for the 2011 Red Rock Rural Water Expansion.

B. Contingent Liabilities

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

Murray County and the Shetek Area Water and Sewer Commission are party to a lawsuit involving the sewer system installed around Lake Shetek. Although the outcome of this lawsuit is not presently determinable, in the opinion of the County Attorney, recent changes in the sewer system should significantly mitigate any potential damages claimed.

Lincoln-Pipestone Rural Water System

At December 31, 2010, Lincoln-Pipestone Rural Water System had $36,859,000 of general obligation bonds outstanding through 2050. 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

6. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services

Lincoln, Lyon, & Murray Human Services (LLMHS) was formed pursuant to Minn. Stat. § 393.01, subd. 7, by Lincoln, Lyon, and Murray Counties. LLMHS 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

LLMHS 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 2010 was $1,071,590.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, & Murray Human Services (Continued)

At December 31, 2010, LLMHS reported a total fund balance of $3,563,357. In addition, LLMHS reported total net assets of $3,255,242. LLMHS's long-term debt at December 31, 2010, is $433,095 and includes compensated absences payable and net OPEB obligation. The debt will be funded by intergovernmental revenue and revenue from computer services.

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating the Southwest Health and Human Services agency and terminating the joint powers agreements for Lincoln, Lyon, and Murray Human Services and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMP PHS). Dissolution of LLMHS and LLMP PHS is effective December 31, 2010, although the agreement recognizes that both LLMHS and LLMP PHS shall continue to exist after dissolution as long as is necessary to conclude the affairs of the agencies.

Complete financial statements of Lincoln, Lyon, & Murray Human Services can be obtained at 607 West Main Street, 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 2010 was $52,584.

At December 31, 2010, the Health Services had net assets of $1,278,512 and long-term liabilities of $0.

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2010, are $36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of $42,424,191, including unrestricted net assets of $18,949,248. The increase in net assets for the year ended December 31, 2010, was $5,340,636.

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.

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.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

The governing board is composed of one board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to $1,000 per county per year. The current assessment is $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, Lyon, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The Red Rock Rural Water System is governed by 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.

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, 2009 (the most recent information available), were $11,845,000. The Water System's net assets decreased by $201,893 in 2009.

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwest Minnesota Regional Radio Board

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

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

During 2010, Murray County did not make any contributions to the Joint Powers Board.

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $2,920 of the County levy to the Project.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County paid $625 in membership dues in 2010.

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $3,240 of the County levy to the RCRCA.

Heron Lake Watershed District

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

E. Agricultural Best Management Loan Program

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

F. Functional Expenses - Hospital Enterprise Fund

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the year ended December 31, 2010, are:

Health care services	$ 5,278,049
General and administrative	7,104,553
Total	$ 12,382,602

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

G. Concentrations of Credit Risk - Hospital Enterprise Fund

The Hospital grants credit, without collateral, to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors and patients at December 31, 2010, follows:

Medicare	32%
Medicaid	5
Other third-party payors	27
Private pay	36
Total	100%

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

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

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

2. Basis of Presentation

The accounts of the Shetek Area Water and Sewer Commission are presented as a separate column on the Statement of Net Assets.

7. Component Unit Disclosures

   A. Summary of Significant Accounting Policies

      2. Basis of Presentation (Continued)

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

      3. Basis of Accounting

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

      4. Assets and Liabilities

         Deposits and Investments

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

         Cash and Cash Equivalents

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

7. Component Unit Disclosures

   A. Summary of Significant Accounting Policies

      4. Assets and Liabilities (Continued)

Due From Other Governments

The amount reported as due from other governments at December 31, 2010, is receivable from the Minnesota Public Facilities Authority and represents draw-downs requested on 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.

Special Assessments Receivable and Revenue

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

Capital Assets

Capital assets are stated at cost. The government defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities

Capital Assets (Continued)

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

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

5. Use of Estimates

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

B. Detailed Notes

1. Deposits

Cash transactions are administered by the Murray County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash and to invest in certificates of deposit in financial institutions designated by the County's Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement for which Murray County was in compliance at December 31, 2010. As of December 31, 2010, the Commission had $1,027,337 on deposit with Murray County.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Receivables

Of the Commission's special assessments receivable - noncurrent balance at December 31, 2010, $9,072,429 was not scheduled for collection during the subsequent year.

3. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2010, follows:

	Balance January 1, 2010	Additions	Deletions	Balance December 31, 2010
Capital assets not depreciated				
Land	$ 386,046	$ -	$ -	$ 386,046
Capital assets depreciated				
Land improvements	$ 1,718,495	$ -	$ -	$ 1,718,495
Buildings and structures	-	57,450		57,450
Machinery and equipment	491,400	-	-	491,400
Infrastructure	12,997,486	70,206	-	13,067,692
Total capital assets depreciated	$ 15,207,381	$ 127,656	$ -	$ 15,335,037
Less: accumulated depreciation for				
Land improvements	$ 59,191	$ 22,913	$ -	$ 82,104
Buildings and structures	-	837	-	837
Machinery and equipment	35,490	32,760	-	68,250
Infrastructure	352,015	326,801	-	678,816
Total accumulated depreciation	$ 446,696	$ 383,311	$ -	$ 830,007
Total capital assets depreciated, net	$ 14,760,685	$ (255,655)	$ -	$ 14,505,030
Total Capital Assets, Net	$ 15,146,731	$ (255,655)	$ -	$ 14,891,076

Depreciation expense for 2010 was $383,311.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

4. Long-Term Obligations

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General obligation bonds					
2007 Water Revenue Bonds	2027	$45,000 - $130,000	4.00 - 4.40	$ 1,715,000	$ 1,550,000
2007B Sewer Revenue Bonds	2028	$75,000 - $155,000	4.00 - 4.40	2,080,000	2,005,000
Total General Obligation Bonds				$ 3,795,000	$ 3,555,000

The General Obligation Revenue Bonds will be retired with income from operations, special assessments, and unused construction funding and are exempt from the limitations on net debt imposed by Minnesota law.

Year Ended 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
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	70,000	56,155	90,000	71,370
2015	75,000	53,255	90,000	67,770
2016 - 2020	430,000	215,921	515,000	279,750
2021 - 2025	525,000	114,654	625,000	164,195
2026 - 2028	250,000	11,220	440,000	29,630
Total	$ 1,550,000	$ 636,070	$ 2,005,000	$ 847,125

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, 2010, were $14,889,300, $11,299,849

7. Component Unit Disclosures

B. Detailed Notes

4. Long-Term Obligations

Minnesota Public Facilities Authority General Obligation Notes (Continued)

from the Water Pollution Control Revolving Fund; and $3,589,451 from the Wastewater Infrastructure Fund. Note payments for the Water Pollution Control Revolving Fund are due semi-annually for interest and annually for principal on February 20 and August 20, 2008 through 2026, at an interest rate of 1.01 percent. The Wastewater Infrastructure Fund Note payments do not begin until the Revolving Fund loans are repaid. The principal payments are due semi-annually beginning on February 20, 2027 through 2032, and are interest-free.

Debt service requirements at December 31, 2010, are as follows:

	Minnesota Public Facilities Authority Loans		
	Water Pollution Control Revolving Fund		Wastewater Infrastructure Fund
Year Ended December 31	Principal	Interest	Principal
2011	$ 572,000	$ 140,179	$ -
2012	577,000	93,002	-
2013	583,000	87,174	-
2014	589,000	81,286	-
2015	595,000	75,337	-
2016 - 2020	3,067,000	285,319	-
2021 - 2025	3,225,000	127,255	-
2026 - 2030	572,093	5,778	2,688,000
2031 - 2033	-	-	901,451
Total	$ 9,780,093	$ 895,330	$ 3,589,451

The General Obligation Revenue Notes will be retired with income from operations, prepayments of special assessments, special assessments, and unused construction funding, and are exempt from the limitations on net debt imposed by Minnesota law. The above debt service requirements are subject to change due to early prepayments of special assessments and loans to be issued in the future. The year-end balance does not tie to debt service requirements as not all amounts have been drawn on the revenue notes at December 31, 2010.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

5. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Minnesota Public Facilities Authority					
General obligation revenue notes	$ 12,972,510	$ 17,858	$ 576,407	$ 12,413,961	$ 572,000
General obligation bonds	3,690,000	-	135,000	3,555,000	145,000
Premium on general obligation bonds	13,358	-	713	12,645	712
Total Long-Term Liabilities	$ 16,675,868	$ 17,858	$ 712,120	$ 15,981,606	$ 717,712

C. Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 3,785,104	$ 3,512,411	$ 3,443,224	$ (69,187)
Special assessments	229,155	308,720	311,127	2,407
Licenses and permits	19,490	24,214	27,518	3,304
Intergovernmental	1,369,928	2,173,848	2,217,678	43,830
Charges for services	432,675	400,950	424,123	23,173
Fines and forfeits	-	20,760	20,760	-
Gifts and contributions	3,250	24,125	21,811	(2,314)
Investment earnings	350,000	250,000	54,217	(195,783)
Miscellaneous	250,348	351,811	350,557	(1,254)
Total Revenues	**$ 6,439,950**	**$ 7,066,839**	**$ 6,871,015**	**$ (195,824)**
Expenditures				
Current				
General government				
Commissioners	$ 234,715	$ 264,081	$ 237,948	$ 26,133
Community relations/web page development	30,981	30,981	30,800	181
Courts	11,000	22,236	29,466	(7,230)
Law library	10,000	10,000	11,700	(1,700)
Auditor/Treasurer	381,901	384,201	374,772	9,429
Accounting and auditing	75,000	65,000	56,865	8,135
County assessor	172,884	192,453	182,609	9,844
Elections	34,300	34,300	30,242	4,058
Assistive voting grant	18,050	18,050	10,662	7,388
Data processing & computer networking	151,624	132,124	109,372	22,752
Machines room	48,500	56,387	51,874	4,513
Motor pool	12,050	12,050	7,326	4,724
Safety officer	1,950	1,950	199	1,751
Human resources	148,113	148,113	141,758	6,355
Attorney	176,816	198,574	157,201	41,373
Recorder	152,091	175,873	174,932	941
Planning and zoning	95,051	88,541	78,113	10,428
Buildings and plant	462,728	453,728	408,955	44,773
Veterans service officer	29,610	29,610	30,001	(391)
License center	69,532	75,932	74,321	1,611
Other general government	40,217	40,217	119,620	(79,403)
Total general government	**$ 2,357,113**	**$ 2,434,401**	**$ 2,318,736**	**$ 115,665**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,769,319	$ 1,891,413	$ 1,564,305	$ 327,108
E-911 system	86,765	35,765	36,871	(1,106)
Probation	30,000	43,840	44,144	(304)
Civil defense	89,806	972,156	1,216,006	(243,850)
Other public safety	2,550	2,550	10,074	(7,524)
Emergency medical services	68,044	68,044	63,342	4,702
Total public safety	**$ 2,046,484**	**$ 3,013,768**	**$ 2,934,742**	**$ 79,026**
Sanitation				
Lime Creek Service District	$ -	$ -	$ 13,647	$ (13,647)
Solid waste	96,541	96,541	74,096	22,445
Recycling	288,199	288,199	261,803	26,396
Other	-	456	456	-
Total sanitation	**$ 384,740**	**$ 385,196**	**$ 350,002**	**$ 35,194**
Culture and recreation				
Regional library	$ 67,665	$ 67,665	$ 67,665	$ -
Historical society	54,229	70,783	69,231	1,552
Senior citizens - RSVP	12,931	12,931	12,739	192
Transportation	215,821	215,821	190,397	25,424
Parks	344,483	344,483	312,509	31,974
Minnesota trails	29,610	29,610	29,644	(34)
Other	6,750	6,750	6,750	-
Total culture and recreation	**$ 731,489**	**$ 748,043**	**$ 688,935**	**$ 59,108**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	$ 166,975	$ 166,975	$ 162,977	$ 3,998
Soil and water conservation	163,713	163,713	159,109	4,604
Agricultural inspection	57,378	57,378	54,196	3,182
RCRCA	3,240	3,240	3,240	-
Flood control	3,545	3,545	3,545	-
Agricultural society	37,500	37,500	32,840	4,660
Water planning	132,421	82,521	72,340	10,181
Water quality loan program	-	116,219	123,936	(7,717)
Other conservation	45,969	62,713	4,691	58,022
Total conservation of natural resources	**$ 610,741**	**$ 693,804**	**$ 616,874**	**$ 76,930**
Economic development				
Community development	$ -	$ -	$ 1,413	$ (1,413)
Other	2,124	87,466	103,398	(15,932)
Total economic development	**$ 2,124**	**$ 87,466**	**$ 104,811**	**$ (17,345)**
Intergovernmental				
Health	**$ 52,584**	**$ 52,584**	**$ 52,584**	**$ -**
Debt service				
Principal	$ 105,918	$ 105,918	$ 105,919	$ (1)
Interest	11,307	11,307	11,535	(228)
Total debt service	**$ 117,225**	**$ 117,225**	**$ 117,454**	**$ (229)**
Total Expenditures	**$ 6,302,500**	**$ 7,532,487**	**$ 7,184,138**	**$ 348,349**
Excess of Revenues Over (Under) Expenditures	**$ 137,450**	**$ (465,648)**	**$ (313,123)**	**$ 152,525**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other Financing Sources (Uses)				
Transfers in	$ 127,589	$ 127,589	$ -	$ (127,589)
Transfers out	(138,942)	(121,442)	(121,555)	(113)
Proceeds from the sale of assets	-	-	32,600	32,600
Loans issued	-	11,699	11,699	-
Total Other Financing Sources (Uses)	**$ (11,353)**	**$ 17,846**	**$ (77,256)**	**$ (95,102)**
Net Change in Fund Balance	**$ 126,097**	**$ (447,802)**	**$ (390,379)**	**$ 57,423**
Fund Balance - January 1	**4,943,380**	**4,943,380**	**4,943,380**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**104**	**104**
Fund Balance - December 31	**$ 5,069,477**	**$ 4,495,578**	**$ 4,553,105**	**$ 57,527**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,005,000	$ 864,913	$ 861,307	$ (3,606)
Licenses and permits	5,000	5,000	9,000	4,000
Intergovernmental	4,688,718	4,436,003	4,090,355	(345,648)
Charges for services	42,000	42,000	40,498	(1,502)
Miscellaneous	90,500	60,500	83,922	23,422
Total Revenues	**$ 5,831,218**	**$ 5,408,416**	**$ 5,085,082**	**$ (323,334)**
Expenditures				
Current				
Highways and streets				
Administration	$ 293,811	$ 293,811	$ 265,913	$ 27,898
Maintenance	1,407,364	1,247,364	1,175,582	71,782
Engineering	265,280	235,280	227,141	8,139
Construction	3,194,000	3,194,000	2,738,421	455,579
Maintenance and shop	544,198	590,198	704,055	(113,857)
Total highways and streets	**$ 5,704,653**	**$ 5,560,653**	**$ 5,111,112**	**$ 449,541**
Intergovernmental	320,000	320,000	337,008	(17,008)
Total Expenditures	**$ 6,024,653**	**$ 5,880,653**	**$ 5,448,120**	**$ 432,533**
Net Change in Fund Balance	**$ (193,435)**	**$ (472,237)**	**$ (363,038)**	**$ 109,199**
Fund Balance - January 1	**2,888,815**	**2,888,815**	**2,888,815**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**44,067**	**44,067**
Fund Balance - December 31	**$ 2,695,380**	**$ 2,416,578**	**$ 2,569,844**	**$ 153,266**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 963,017	$ 963,657	$ 965,375	$ 1,718
Intergovernmental	157,689	106,094	106,215	121
Total Revenues	**$ 1,120,706**	**$ 1,069,751**	**$ 1,071,590**	**$ 1,839**
Expenditures				
Intergovernmental				
Human services	1,120,706	1,120,706	1,071,590	49,116
Net Change in Fund Balance	**$ -**	**$ (50,955)**	**$ -**	**$ 50,955**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ (50,955)**	**$ -**	**$ 50,955**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ -	$ 292,621	$ 313,035	$ 20,414
Miscellaneous	-	8,961	8,962	1
Total Revenues	**$ -**	**$ 301,582**	**$ 321,997**	**$ 20,415**
Expenditures				
Current				
Conservation of natural resources				
Other	**$ -**	**$ 50,341**	**$ 69,157**	**$ (18,816)**
Debt service				
Principal	$ -	$ 235,001	$ 220,000	$ 15,001
Interest	-	61,729	61,730	(1)
Administrative (fiscal) charges	-	856	856	-
Total debt service	**$ -**	**$ 297,586**	**$ 282,586**	**$ 15,000**
Total Expenditures	**$ -**	**$ 347,927**	**$ 351,743**	**$ (3,816)**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ (46,345)**	**$ (29,746)**	**$ 16,599**
Other Financing Sources (Uses)				
Transfers in	-	10,616	10,616	-
Net Change in Fund Balance	**$ -**	**$ (35,729)**	**$ (19,130)**	**$ 16,599**
Fund Balance - January 1	**1,047,226**	**1,047,226**	**1,047,226**	**-**
Fund Balance - December 31	**$ 1,047,226**	**$ 1,011,497**	**$ 1,028,096**	**$ 16,599**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-5

BUDGETARY COMPARISON SCHEDULE
EDA SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ -	$ 30,000	$ 30,000	$ -
Investment earnings	20,000	25,356	30,041	4,685
Miscellaneous	-	153,929	168,172	14,243
Total Revenues	**$ 20,000**	**$ 209,285**	**$ 228,213**	**$ 18,928**
Expenditures				
Current				
Economic development				
Economic Development Commission	$ 113,508	$ 142,202	$ 158,315	$ (16,113)
Debt service				
Principal	50,000	50,000	50,742	(742)
Total Expenditures	**$ 163,508**	**$ 192,202**	**$ 209,057**	**$ (16,855)**
Excess of Revenues Over (Under) Expenditures	**$ (143,508)**	**$ 17,083**	**$ 19,156**	**$ 2,073**
Other Financing Sources (Uses)				
Transfers in	121,442	108,508	108,508	-
Net Change in Fund Balance	**$ (22,066)**	**$ 125,591**	**$ 127,664**	**$ 2,073**
Fund Balance - January 1	**125,203**	**125,203**	**125,203**	**-**
Fund Balance - December 31	**$ 103,137**	**$ 250,794**	**$ 252,867**	**$ 2,073**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-6

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010

Governmental Activities

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

Business-Type Activities

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

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and all special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 6,302,500	$ 1,229,987	$ 7,532,487
Road and Bridge Special Revenue Fund	6,024,653	(144,000)	5,880,653
Ditch Special Revenue Fund	-	347,927	347,927
EDA Special Revenue Fund	163,508	28,694	192,202

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	$ 351,743	$ 347,927	$ 3,816
EDA Special Revenue Fund	209,057	192,202	16,855

5. Other Postemployment Benefits

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

SUPPLEMENTARY INFORMATION

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MURRAY COUNTY
SLAYTON, MINNESOTA

AGENCY FUND

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT B-1

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 117,425	$ 13,407,297	$ 13,363,904	$ 160,818
Liabilities				
Due to other governments	$ 117,425	$ 13,407,297	$ 13,363,904	$ 160,818

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SHETEK AREA WATER AND SEWER COMMISSION

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-1

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Assets

Current assets		
Cash and pooled investments	$	769,928
Special assessments		
Current		5,653
Prior		2,154
Noncurrent		9,453,612
Interest receivable - special assessment		6,888
Accounts receivable - net		19,617
Inventory		64,556
Total current assets, unrestricted	**$**	**10,322,408**
Restricted assets		
Cash and pooled investments		257,409
Total current assets	**$**	**10,579,817**
Noncurrent assets		
Deferred charges	$	86,218
Capital assets		
Nondepreciable		386,046
Depreciable - net		14,505,030
Total noncurrent assets	**$**	**14,977,294**
Total Assets	**$**	**25,557,111**

EXHIBIT C-1
(Continued)

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Liabilities		
Current liabilities		
Accounts payable	$	10,002
Salaries payable		630
Due to primary government		885
Accrued interest payable		99,639
Customer deposits		2,857
General obligation bonds payable - current		145,000
Revenue notes payable - current		572,000
Total current liabilities	**$**	**831,013**
Noncurrent liabilities		
General obligation bonds payable - long-term	$	3,410,000
Unamortized premiums on bonds		12,645
Revenue notes payable - long-term		11,841,961
Total noncurrent liabilities	**$**	**15,264,606**
Total Liabilities	**$**	**16,095,619**
Net Assets		
Invested in capital assets - net of related debt	$	(1,077,886)
Restricted for		
Debt service		230,110
Wastewater systems replacement		27,298
Unrestricted		10,281,970
Total Net Assets	**$**	**9,461,492**

EXHIBIT C-2

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010

Operating Revenues		
Sewer utility charges	$	223,984
Charges for services		250
Miscellaneous		1,469
Total Operating Revenues	**$**	**225,703**
Operating Expenses		
Personal services	$	7,860
Professional services		64,719
Other services and charges		15,321
Supplies		14,147
Advertising		325
Insurance		1,986
Depreciation		383,311
Total Operating Expenses	**$**	**487,669**
Operating Income (Loss)	**$**	**(261,966)**
Nonoperating Revenues (Expenses)		
Interest income	$	11,563
Bonds issue expense		(4,209)
Administrative charges		(856)
Interest expense		(241,960)
Total Nonoperating Revenues (Expenses)	**$**	**(235,462)**
Income (Loss) Before Contributions	**$**	**(497,428)**
Capital contributions		310,909
Change in net assets	**$**	**(186,519)**
Net Assets - January 1		**9,648,011**
Net Assets - December 31	**$**	**9,461,492**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-3

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Flows from Operating Activities		
Cash received from customers	$	227,777
Cash received from vendor		2,469
Cash paid to employees		(8,227)
Cash paid for supplies and professional services		(114,603)
Net cash provided by (used in) operating activities	**$**	**107,416**
Cash Flows from Capital and Related Financing Activities		
Special assessments	$	709,525
Proceeds from capital debt		33,520
Principal paid on long-term debt		(711,406)
Interest paid on bonds		(94,414)
Interest paid on revenue notes		(152,081)
Construction of capital assets		(127,656)
Net cash provided by (used in) capital and related financing activities	**$**	**(342,512)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**11,563**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(223,533)**
Cash and Cash Equivalents at January 1		**1,250,870**
Cash and Cash Equivalents at December 31	**$**	**1,027,337**
Cash and Cash Equivalents - Exhibit 1		
Cash and pooled investments	$	769,928
Restricted cash and pooled investments		257,409
Total Cash and Cash Equivalents	**$**	**1,027,337**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(261,966)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	383,311
(Increase) decrease in accounts receivable		5,346
Increase (decrease) in accounts payable		(457)
Increase (decrease) in salaries payable		(367)
Increase (decrease) in contracts payable		(18,451)
Total adjustments	**$**	**369,382**
Net Cash Provided by (Used in) Operating Activities	**$**	**107,416**

OTHER SCHEDULES

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010

Shared Revenue		
State		
Highway users tax	$	3,363,112
Market value credit		347,077
PERA rate reimbursement		11,609
Disparity reduction aid		25,685
County program aid		99,461
Police aid		59,565
E-911		81,048
Total shared revenue	**$**	**3,987,557**
Payments		
Local		
Local contributions	$	60,000
Payments in lieu of taxes		107,624
Total payments	**$**	**167,624**
Grants		
State		
Minnesota Department of		
Corrections	$	10,400
Transportation		47,866
Natural Resources		29,644
Human Services		3,611
Water and Soil Resources Board		164,049
Peace Officer Standards and Training Board		3,585
Historical Society		13,000
Pollution Control Agency		55,950
Total state	**$**	**328,105**
Federal		
Department of		
Commerce	$	33,445
Housing and Urban Development		131,274
Justice		1,442
Transportation		647,173
Homeland Security		1,147,628
Total federal	**$**	**1,960,962**
Total state and federal grants	**$**	**2,289,067**
Total Intergovernmental Revenue	**$**	**6,444,248**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Commerce			
Passed Through Minnesota Department of Public Safety			
Public Safety Interoperable Communications Grant Program	11.555	$	14,718
Passed Through Southwest Minnesota Regional Radio Board			
Public Safety Interoperable Communications Grant Program	11.555		18,727
Total U.S. Department of Commerce		**$**	**33,445**
U.S. Department of Housing and Urban Development			
Passed Through Minnesota Department of Employment and Economic Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	**$**	**131,274**
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety			
Public Safety Partnership and Community Policing Grants	16.710	$	**471**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	618,117
Formula Grants for Other Than Urbanized Areas	20.509		27,093
Total U.S. Department of Transportation		**$**	**645,210**
U.S. Environmental Protection Agency			
Passed Through Minnesota Public Facilities Authority			
Capitalization Grants for Clean Water State Revolving Funds	66.458	**$**	**17,859**
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	**$**	**3,698**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	$	9,004
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		1,202
Emergency Management Performance Grants	97.042		31,875
Homeland Security Grant Program	97.067		1,113,913

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-2
(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security (Continued)		
Passed Through Blue Earth County		
Homeland Security Grant Program	97.067	70,906
Total U.S. Department of Homeland Security		**$ 1,226,900**
Total Federal Awards		**$ 2,058,857**

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, 2010

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Murray County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of Murray County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Murray County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	$ 1,960,962
Grants received more than 60 days after year-end, deferred in 2010	
Formula Grants for Other Than Urbanized Areas (CFDA #20.509)	704
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	1,202
Homeland Security Grant Program (CFDA #97.067)	78,070
Capitalization Grants for Clean Water State Revolving Funds monies received by the Shetek Area Water and Sewer Commission are payable to the state in the future and, therefore, are recognized as a liability and not revenue (CFDA #66.458)	17,859
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2010 (CFDA #90.401)	3,698

4. Reconciliation to Schedule of Intergovernmental Revenue (Continued)

Public Safety Partnership and Community Policing Grants unspent in 2009 and expended in 2010 (CFDA #16.710)	471
Deferred in 2009, recognized as revenue in 2010	
Bulletproof Vest Partnership Program (CFDA #16.607)	(1,442)
Formula Grants for Other than Urbanized Areas (CFDA #20.509)	(2,667)
Expenditures per Schedule of Expenditures of Federal Awards	$ 2,058,857

5. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
97.067	Homeland Security Grant Program	$ 908,901

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds would be denoted by the addition of ARRA to the program name, but Murray County received no ARRA funding during 2010.

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MURRAY COUNTY
SLAYTON, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Murray County.

B. Significant 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 programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."

E. The Auditor's Report on Compliance for the major federal award programs 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 programs are:

Highway Planning and Construction	CFDA #20.205
Homeland Security Grant Program	CFDA #97.067

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.

Without proper segregation of duties, errors or irregularities may not be detected timely.

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

06-1 Audit Adjustments

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

During our audit, we proposed 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 significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, 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

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

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

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

Client's Response:

Murray County has completed a comprehensive accounting policies and procedures manual. It will go to the Murray County Board of Commissioners for approval on September 27, 2011.

PREVIOUSLY REPORTED ITEMS RESOLVED

Budgeting Procedures (08-2)

The Board-approved budget did not agree with the revenue and expenditure budgets on the County's accounting system. The original budget in the County's accounting system exceeded the Board-approved budget for the General Fund and all special revenue funds by $1,149,031 for revenues and $1,097,255 for expenditures. In addition, the Board-approved budget and authorized budget amendments also did not match the final budget in the County's accounting system for the General Fund and all special revenue funds.

Resolution

We noted significant improvements in the County's process for entering the original budget into the accounting system. In 2010 there were minor differences between the Board-approved budget and the original budget in the County's accounting system for the General Fund and all special revenue funds.

Monitoring Internal Controls (09-1)

Our audit procedures detected areas and responsibilities that were performed by County staff with little or no monitoring by management or other staff members. Some areas with minimal or no monitoring included reviewing receipts, calculating inventory balances, reviewing identified receivables, and ensuring securities were properly collateralized as required by Minn. Stat. § 118A.03 at all times.

Resolution

We noted improvement in the areas of reviewing receipts, calculating inventory balances, and reviewing identified receivables. We expect the County continue to make improvements over ensuring securities are properly collateralized as required by Minn. Stat. § 118A.03 at all times.

Capital Assets (09-2)

The County's capital assets policy did not address policies and procedures to identify asset additions and deletions for entry into the capital asset system. Department heads were not required to report capital asset additions and deletions to County staff responsible for maintaining the capital asset records.

Resolution

In July 2011 the County started a procedure that requires department heads to sign-off on capital asset information for the related department and to return the signed worksheet even if there were no changes to capital assets.

Segregation of Duties - Payroll (09-3)

One employee in the Auditor/Treasurer's Office had the ability to process bi-weekly payroll, prepare and submit direct deposit information, and perform general ledger functions. No other County employee reviewed or monitored what was processed or entered into the payroll system. The payroll charges were not reviewed before disbursements were made and, although reports were run for each pay period to verify information on the payroll system, reports were only being reviewed by the individual who entered information.

Resolution

During 2010 the County implemented a process to include review of payroll reports, including direct deposit reports, by an individual independent of the payroll system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Subrecipient Monitoring (CFDA #14.228) (09-4)

Murray County did not have policies and procedures in place for monitoring subrecipients, nor did it sufficiently monitor subrecipient activity for the Community Development Block Grants for monies passed through to the Southwest Minnesota Housing Partnership.

Resolution

In 2010, the County Auditor/Treasurer reviewed the monthly Health Homes Tracking Report from Western Community Action monthly to monitor subrecipient activity for the Community Development Block Grants for monies passed through to the Southwest Minnesota Housing Partnership.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Tax Levy Approval (09-5)

The tax levy for 2009 was approved by the County Board on December 30, 2008. According to Minn. Stat. § 275.07, subd. 1, the tax levy approved by the County "shall be certified by the proper authorities to the county auditor on or before five working days after December 20 in each year."

Resolution

The County Board approved the 2011 tax levy on December 21, 2010, as specified by Minn. Stat. § 275.07.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Murray County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate Board resolutions to commit fund balance; and

- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

<u>Governmental Fund Type Definitions</u>

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
    - if yes, the fund may continue to be classified as a special revenue fund;
    - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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

Board of County Commissioners
Murray County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Murray County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2011. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Murray County Memorial Hospital, a blended component unit of Murray County as described in our report on Murray County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 06-4 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and we are reporting for that purpose.

Murray County's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

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

September 27, 2011

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

Board of County Commissioners
Murray County

Compliance

We have audited Murray County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Murray County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

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

In our opinion, Murray County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

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

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

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

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

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

September 27, 2011