STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

MURRAY COUNTY
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MURRAY COUNTY
SLAYTON, MINNESOTA

TABLE OF CONTENTS

MURRAY COUNTY
SLAYTON, MINNESOTA

TABLE OF CONTENTS

Introductory Section

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MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
2012

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

*Chair for 2012
**Chair for 2013

MURRAY COUNTY
SLAYTON, MINNESOTA

ORGANIZATION SCHEDULE
SHETEK AREA WATER AND SEWER COMMISSION
2012

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 2015
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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525 PARK STREET
SAINT PAUL, MN 55103-2139

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(651) 296-4755 (Fax)
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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Murray County

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 92 percent, 100 percent, and 98 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Murray County's basic financial statements. The supplementary information as 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. Such 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013, on our consideration of Murray County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Murray County's internal control over financial reporting and compliance. It does not include the Murray County Memorial Hospital which was audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MURRAY COUNTY
SLAYTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 position are $56,426,542 of which $46,732,186 is net investment in capital assets and $1,525,498 is restricted to specific purposes. The $8,168,858 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

- The County's governmental activities' net position increased by $1,205,782 for the year ended December 31, 2012. 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 $6,094,525. General revenues totaling $7,300,307 funded the net cost.

- The General Fund's fund balance increased by $445,511, the Road and Bridge Special Revenue Fund's fund balance decreased by $20,431, the Human Services Special Revenue Fund saw no change, the EDA Special Revenue Fund's fund balance increased by $228,609, and the Ditch Special Revenue Fund's fund balance decreased by $88,847.

- For the year ended December 31, 2012, the unassigned fund balance of the General Fund was $2,841,723.

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 Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. 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 position 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 appoints the Commission members and must approve any debt.

The government-wide statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, EDA Special Revenue Fund, Debt Service Fund, and Capital Projects Fund. A budgetary comparison schedule has been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are 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 are 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 Position 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 36 through 95 of this report.

Other Information

Other information is provided as supplementary information regarding Murray County's intergovernmental revenue and federal awards programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's assets exceeded liabilities by $73,863,528 at the close of 2012. The largest portion of the net position (80 percent) reflects its net investment in capital assets (for example: land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt. Comparative data with 2011 is presented.

Net Position
(in thousands)

	Governmental Activities	Business-Type Activities	Total 2012	Total 2011
Assets				
Current and other assets	$ 12,729	$ 9,992	$ 22,721	$ 28,455
Capital assets	48,605	14,736	63,341	54,778
Total Assets	$ 61,334	$ 24,728	$ 86,062	$ 83,233
Liabilities				
Long-term liabilities	$ 3,653	$ 2,852	$ 6,505	$ 7,850
Other liabilities	1,254	4,440	5,694	3,775
Total Liabilities	$ 4,907	$ 7,292	$ 12,199	$ 11,625
Net Position				
Net investment in capital assets	$ 46,732	$ 12,081	$ 58,813	$ 49,798
Restricted	1,526	1	1,527	2,478
Unrestricted	8,169	5,355	13,524	19,332
Total Net Position	$ 56,427	$ 17,437	$ 73,864	$ 71,608

Unrestricted net position--the part of net position 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--is 18 percent of net position.

Governmental Activities

The County's governmental activities' net position increased by 2.18 percent ($56,426,542 for 2012 compared to $55,220,760 for 2011). Key elements in this increase in net position are as follows, with comparative data for 2011.

Governmental Activities
Changes in Net Position
(in thousands)

	2012	2011
Revenues		
Program revenues		
Charges for services	$ 1,574	$ 1,845
Operating grants and contributions	4,593	5,758
Capital grants and contributions	1,159	234
General revenues		
Property taxes	5,414	4,768
Other	1,887	1,916
Total Revenues	$ 14,627	$ 14,521
Expenses		
General government	$ 2,176	$ 2,463
Public safety	2,819	1,908
Highways and streets	4,947	4,258
Sanitation	398	519
Human services	1,106	1,088
Health	52	53
Culture and recreation	749	755
Conservation of natural resources	818	870
Economic development	268	825
Interest	86	78
Total Expenses	$ 13,419	$ 12,817
Revenues Over Expenses	$ 1,208	$ 1,704
Transfers to business-type activities	(2)	(2)
Increase in Net Position	$ 1,206	$ 1,702
Net Position - January 1	55,221	53,519
Net Position - December 31	$ 56,427	$ 55,221

The cost of all governmental activities for 2012 was $13,420,346 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 $5,414,351. The amount paid by those who directly benefited from the programs was $1,574,012 and the amount paid by other governments and organizations to subsidize certain programs with grants and contributions was $4,592,956. Capital grants and contributions were $1,158,853. The County paid for the remaining "public benefit" portion of governmental activities with $296,329 in grants and contributions not restricted to specific programs, $64,281 in interest, and $1,111,921 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
2012
(in thousands)

	Total Cost of Services	Net Cost of Services
General government	$ 2,176	$ 1,856
Public safety	2,819	1,849
Highways and streets	4,947	250
Human services	1,106	1,106
All others	2,372	1,034
Total	$ 13,420	$ 6,095

Business-Type Activities

The County's business-type activities include Congregate Housing (Sunrise Terrace) and the Hospital (Murray County Medical Center). The business-type activities net position increased by 6.40 percent ($17,436,986 for 2012 compared to $16,387,539 for 2011). Key elements in this increase in net position are as follows, with comparative data for 2011.

Business-Type Activities
Changes in Net Position
(in thousands)

	2012		2011	
Revenues				
Program revenues				
Charges for services	$	18,105	$	16,379
General revenues				
Other		-		84
Total Revenues	$	18,105	$	16,463
Expenses				
Hospital	$	16,786	$	15,161
Congregate Housing		271		296
Total Expenses	$	17,057	$	15,457
Revenues Over Expenses	$	1,048	$	1,006
Transfers from governmental activities		2		2
Increase in Net Position	$	1,050	$	1,008
Net Position - January 1		16,387		15,379
Net Position - December 31	$	17,437	$	16,387

The cost of all business-type activities for 2012 was $17,057,160 and, as shown on the Statement of Activities on Exhibit 2, none of this was financed by the taxpayers through County taxes. All costs for business-type activities were paid by those who directly benefited from the programs and services. In 2012, this amount was $18,104,895.

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

Business-Type Activities
2012
(in thousands)

	Total Cost of Services		Net Profit for Services	
Hospital	$	16,786	$	1,046
Congregate Housing		271		1
Total	$	17,057	$	1,047

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $8,763,312, an increase of $588,332 in comparison with the prior year. Of the combined ending fund balances, $439,483 is non-spendable, $2,277,108 is restricted, $3,204,998 is assigned, and $2,841,723 is unassigned and available for spending at the County's discretion.

The General Fund is the main operating fund for the County. Of the combined ending fund balances $176,408 is non-spendable, $551,821 is restricted, $1,033,429 is assigned, and $2,841,723 is unassigned. Overall fund balance in the General Fund increased by $442,282 during 2012.

The Road and Bridge Special Revenue Fund had $263,075 in non-spendable funds, $440,369 in restricted funds, and $1,785,282 in assigned funds. Overall fund balance in the Road and Bridge Special Revenue Fund decreased by $13,596 during 2012.

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

The Ditch Special Revenue Fund had a restricted fund balance of $799,142 and decrease of $88,847 during 2012.

The EDA Special Revenue Fund had restricted funds of $104,804 and assigned funds of $386,287. The EDA Special Revenue Fund's fund balance increased by $228,609 during 2012.

BUDGETARY HIGHLIGHTS

Over the course of the year, there were positive budget variances in the General Fund, Road and Bridge Special Revenue Fund, and EDA Special Revenue Fund. The actual revenues over expenditures in the General Fund were $130,153 more than budgeted. The actual revenues over expenditures in the Road and Bridge Special Revenue Fund were $170,674 more than budgeted. The actual revenues over expenditures in the EDA Special Revenue Fund were $43,946 more than budgeted. Over the course of the year, the budgets for the Debt Service Fund and Capital Projects Fund were changed. The revenues and expenditures in the Debt Service Fund increased $232,467 and $38,406 respectively. The revenues and expenditures in the Capital Projects Fund were both decreased by $225,391.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Government Activities

The County's capital assets for its governmental activities at December 31, 2012, totaled $48,604,548 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $1,466,147, or 3.11 percent from the previous year. The major capital asset events were: construction of highways and streets, continued construction of a new Sheriff's Office addition and renovation, and the purchase of highway and other miscellaneous equipment.

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

	2012	2011
Land, including right-of-way	$ 754	$ 645
Construction in progress	965	1,441
Infrastructure	39,152	38,607
Buildings	4,804	3,344
Improvements other than buildings	353	337
Machinery and equipment	2,577	2,764
Total	$ 48,605	$ 47,138

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

Business-Type Activities

The County's capital assets for its business-type activities at December 31, 2012, totaled $14,736,255 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and land improvements. The investment in capital assets increased $7,095,864, or 92.87 percent from the previous year. The major capital asset events were: renovation and construction of a new medical center facility, the purchase of new medical equipment, and other miscellaneous non-medical equipment.

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

	2012	2011
Land, including right-of-way	$ 171	$ 171
Construction in progress	6,650	593
Land improvements	207	226
Buildings	5,935	4,678
Fixed equipment	243	250
Major movable equipment	1,530	1,722
Total	$ 14,736	$ 7,640

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding debt of $6,965,218, which was backed by the full faith and credit of the government.

Outstanding Debt
(in thousands)

	2012	2011
General obligation capital improvement plan bond	$ 1,949	$ 1,949
General obligation ditch bonds	986	1,175
General obligation refunding bonds	1,891	1,019
Hospital revenue note	1,710	2,935
General obligation promissory notes	97	148
Loans payable	332	434
Total	$ 6,965	$ 7,660

The County's overall debt decreased by $694,711 from 2011 to 2012 mainly due to the refunding of a 2006 Hospital Revenue Note as well as scheduled debt retirement of general obligation debt and loans.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2012, the County's outstanding debt was 0.34 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 2013 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Murray County at the end of 2012 was 4.1 percent. This is 1.3 percent lower than the state unemployment rate of 5.4 percent and 3.5 percent lower than the national unemployment rate of 7.6 percent. This is a decrease of 1.3 percent from the County's 5.4 percent rate of one year ago.

- Mortgage interest rates have remained relatively consistent with those of 2011, but refinancing of mortgages and/or financing of new construction, particularly in the agricultural sector, continues to occur at an increased rate.

- The County's net property tax levy for 2012 increased from $5,208,187 to $5,519,260. This is a net increase of $311,073, or 5.9 percent.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Murray County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the County Auditor/Treasurer, Heidi E. Winter, Murray County Government Center, P. O. Box 57, Slayton, Minnesota 56172.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Assets				
Current assets				
Cash and pooled investments	$ 9,093,882	$ 5,122,585	$ 14,216,467	$ 587,122
Petty cash and change funds	2,000	-	2,000	-
Taxes receivable				
Delinquent - net	52,543	-	52,543	-
Special assessments receivable				
Current	371,221	-	371,221	397,994
Delinquent - net	10,652	-	10,652	8,579
Accounts receivable - net	44,390	108,268	152,658	30,819
Patient receivable - net	-	2,008,150	2,008,150	-
Estimated third-party settlements	-	154,540	154,540	-
Accrued interest receivable	30,628	-	30,628	6,976
Due from other governments	647,526	-	647,526	-
Due from component unit	2,771	-	2,771	-
Due from primary government	-	-	-	152
Loans receivable	227,559	-	227,559	-
Inventories	267,511	528,069	795,580	79,454
Prepaid items	5,531	303,763	309,294	-
Restricted assets				
Cash and pooled investments	-	6,600	6,600	295,716
Investments	-	960,000	960,000	-
Total current assets	**$ 10,756,214**	**$ 9,191,975**	**$ 19,948,189**	**$ 1,406,812**
Noncurrent assets				
Noncurrent cash and investments	$ -	$ 560,517	$ 560,517	$ -
Special assessments receivable	770,126	-	770,126	8,125,720
Loans receivable	897,739	-	897,739	-
Deferred debt issuance costs	39,905	27,849	67,754	76,375
Long-term receivable	265,000	-	265,000	-
Capital assets				
Non-depreciable	1,719,343	6,822,390	8,541,733	386,046
Depreciable - net of accumulated depreciation	46,885,205	7,913,865	54,799,070	13,733,918
Other assets	-	212,109	212,109	-
Total noncurrent assets	**$ 50,577,318**	**$ 15,536,730**	**$ 66,114,048**	**$ 22,322,059**
Total Assets	**$ 61,333,532**	**$ 24,728,705**	**$ 86,062,237**	**$ 23,728,871**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government			Shetek Area
	Governmental Activities	Business-Type Activities	Total	Water and Sewer Component Unit
Liabilities				
Current liabilities				
Accounts payable	$ 85,061	$ 2,183,007	$ 2,268,068	$ 11,277
Salaries payable	268,439	1,218,955	1,487,394	471
Contracts payable	103,791	-	103,791	-
Due to other governments	174,460	98	174,558	-
Due to primary government	-	-	-	2,771
Due to component unit	152	-	152	-
Accrued interest payable	31,170	21,371	52,541	89,460
Payable from restricted assets	-	6,600	6,600	-
Compensated absences payable - current	56,799	221	57,020	-
Loans payable - current	118,001	-	118,001	-
General obligation bonds payable - current current	180,000	1,010,000	1,190,000	155,000
General obligation special assessment debt payable - current	185,000	-	185,000	-
Revenue notes payable - current	-	-	-	518,988
Promissory notes payable - current	50,742	-	50,742	-
Customer deposits - current	-	-	-	3,169
Total current liabilities	**$ 1,253,615**	**$ 4,440,252**	**$ 5,693,867**	**$ 781,136**
Noncurrent liabilities				
Compensated absences payable	$ 466,694	$ 1,123	$ 467,817	$ -
Loans payable	213,545	-	213,545	-
General obligation bonds payable - net	1,768,969	881,388	2,650,357	3,121,221
General obligation special assessment debt payable	801,385	-	801,385	-
Revenue notes payable	-	1,709,709	1,709,709	10,771,451
Promissory notes payable	46,479	-	46,479	-
Advances from other governments	219,997	-	219,997	-
Other postemployment benefits payable	136,306	259,247	395,553	-
Total noncurrent liabilities	**$ 3,653,375**	**$ 2,851,467**	**$ 6,504,842**	**$ 13,892,672**
Total Liabilities	**$ 4,906,990**	**$ 7,291,719**	**$ 12,198,709**	**$ 14,673,808**

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

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government			Shetek Area Water and Sewer Component Unit
	Governmental Activities	Business-Type Activities	Total	
Net Position				
Net investment in capital assets	$ 46,732,186	$ 12,080,834	$ 58,813,020	$ (435,475)
Restricted for				
General government	301,646	-	301,646	-
Public safety	250,175	-	250,175	-
Highways and streets	475,985	-	475,985	-
Conservation of natural resources	88,522	-	88,522	-
Economic development	104,804	-	104,804	-
Debt service	304,366	844	305,210	247,759
Wastewater system replacement	-	-	-	47,958
Unrestricted	8,168,858	5,355,308	13,524,166	9,194,821
Total Net Position	**$ 56,426,542**	**$ 17,436,986**	**$ 73,863,528**	**$ 9,055,063**

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, 2012

	Expenses	Program Revenues: Fees, Charges, Fines, and Other	Program Revenues: Operating Grants and Contributions
Functions/Programs			
Primary government			
Governmental activities			
General government	$ 2,176,070	$ 308,091	$ 11,714
Public safety	2,819,397	261,368	223,127
Highways and streets	4,947,048	170,899	3,854,124
Sanitation	398,312	348,920	55,950
Human services	1,106,393	-	-
Health	52,350	-	-
Culture and recreation	748,481	91,302	120,401
Conservation of natural resources	817,978	356,639	179,532
Economic development	268,154	36,793	148,108
Interest	86,163	-	-
Total governmental activities	**$ 13,420,346**	**$ 1,574,012**	**$ 4,592,956**
Business-type activities			
Hospital	$ 16,786,045	$ 17,832,336	$ -
Congregate Housing	271,115	272,559	-
Total business-type activities	**$ 17,057,160**	**$ 18,104,895**	**$ -**
Total Primary Government	**$ 30,477,506**	**$ 19,678,907**	**$ 4,592,956**
Component unit			
Shetek Area Water and Sewer Commission	**$ 836,345**	**$ 339,551**	**$ -**

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 position

Net Position - Beginning

Net Position - Ending

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

EXHIBIT 2

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Capital Grants and Contributions	**Governmental Activities**	**Business-Type Activities**	**Total**	**Shetek Area Water and Sewer Component Unit**
$ -	$ (1,856,265)	$ -	$ (1,856,265)	
486,341	(1,848,561)	-	(1,848,561)	
672,512	(249,513)	-	(249,513)	
-	6,558	-	6,558	
-	(1,106,393)	-	(1,106,393)	
-	(52,350)	-	(52,350)	
-	(536,778)	-	(536,778)	
-	(281,807)	-	(281,807)	
-	(83,253)	-	(83,253)	
-	(86,163)	-	(86,163)	
$ 1,158,853	**$ (6,094,525)**	**$ -**	**$ (6,094,525)**	
$ -	$ -	$ 1,046,291	$ 1,046,291	
-	-	1,444	1,444	
$ -	**$ -**	**$ 1,047,735**	**$ 1,047,735**	
$ 1,158,853	**$ (6,094,525)**	**$ 1,047,735**	**$ (5,046,790)**	
$ 291,310				**$ (205,484)**
	$ 5,414,351	$ -	$ 5,414,351	$ -
	10,909	-	10,909	-
	1,111,921	-	1,111,921	-
	214,111	-	214,111	-
	296,329	34,989	331,318	-
	64,281	(42,088)	22,193	4,718
	190,018	-	190,018	1,335
	-	7,198	7,198	-
	(1,613)	1,613	-	-
	$ 7,300,307	**$ 1,712**	**$ 7,302,019**	**$ 6,053**
	$ 1,205,782	**$ 1,049,447**	**$ 2,255,229**	**$ (199,431)**
	55,220,760	**16,387,539**	**71,608,299**	**9,254,494**
	$ 56,426,542	**$ 17,436,986**	**$ 73,863,528**	**$ 9,055,063**

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FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

MURRAY COUNTY
SLAYTON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Road and Bridge	Human Services
Assets			
Cash and pooled investments	$ 4,727,962	$ 2,560,039	$ -
Undistributed cash in agency fund	87,278	21,072	23,293
Petty cash and change funds	2,000	-	-
Taxes receivable			
Delinquent	33,384	8,247	10,131
Special assessments receivable			
Delinquent	10,645	-	-
Noncurrent	636,418	-	-
Accounts receivable	42,521	1,748	-
Accrued interest receivable	30,628	-	-
Due from other funds	13,081	625	-
Due from other governments	122,395	506,893	-
Due from component unit	2,771	-	-
Loans receivable	-	-	-
Inventories	7,766	259,745	-
Prepaid items	2,201	3,330	-
Total Assets	**$ 5,719,050**	**$ 3,361,699**	**$ 33,424**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 68,884	$ 13,389	$ -
Salaries payable	201,047	63,645	-
Contracts payable	4,000	99,791	-
Due to other funds	625	-	-
Due to other governments	147,131	2,260	23,293
Due to component unit	152	-	-
Deferred revenue - unavailable	693,830	473,891	10,131
Advance from other governments	-	219,997	-
Total Liabilities	**$ 1,115,669**	**$ 872,973**	**$ 33,424**

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

EXHIBIT 3

Ditch	EDA	Debt Service	Capital Projects	Total
$ 778,566	$ 494,471	$ 299,550	$ 89,688	$ 8,950,276
7,148	-	4,815	-	143,606
-	-	-	-	2,000
-	-	781	-	52,543
7	-	-	-	10,652
504,929	-	-	-	1,141,347
-	121	-	-	44,390
-	-	-	-	30,628
-	-	-	-	13,706
18,238	-	-	-	647,526
-	-	-	-	2,771
-	1,125,298	-	-	1,125,298
-	-	-	-	267,511
-	-	-	-	5,531
$ 1,308,888	**$ 1,619,890**	**$ 305,146**	**$ 89,688**	**$ 12,437,785**
$ 2,778	$ 10	$ -	$ -	$ 85,061
256	3,491	-	-	268,439
-	-	-	-	103,791
-	-	-	13,081	13,706
1,776	-	-	-	174,460
-	-	-	-	152
504,936	1,125,298	781	-	2,808,867
-	-	-	-	219,997
$ 509,746	**$ 1,128,799**	**$ 781**	**$ 13,081**	**$ 3,674,473**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Road and Bridge	Human Services
Liabilities and Fund Balances (Continued)			
Fund Balances			
Nonspendable			
Inventories	$ 7,766	$ 259,745	$ -
Prepaid items	2,201	3,330	-
Septic/sewer loans	166,441	-	-
Restricted			
Debt service	-	-	-
EDA revolving loans	-	-	-
Recorder's compliance	86,966	-	-
Recorder's technology	182,163	-	-
Missing heirs	100	-	-
Supervision fees	14,439	-	-
Sheriff's contingency	2,221	-	-
Permits to carry	11,598	-	-
E-911	221,917	-	-
Election equipment	32,417	-	-
Capital projects	-	-	-
Ditch maintenance and construction	-	-	-
Highway allotments	-	440,369	-
Assigned			
Road and bridge	-	1,610,637	-
Economic development	-	-	-
Sanitation	392,769	-	-
Compensated absences	344,229	174,645	-
Parks	55,163	-	-
County septic system loans	87,536	-	-
Heartland bus replacement	2,000	-	-
Unspent grant monies	88,522	-	-
Flexible spending	355	-	-
Ambulance replacement	62,855	-	-
Unassigned	2,841,723	-	-
Total Fund Balances	**$ 4,603,381**	**$ 2,488,726**	**$ -**
Total Liabilities and Fund Balances	**$ 5,719,050**	**$ 3,361,699**	**$ 33,424**

EXHIBIT 3
(Continued)

Ditch	EDA	Debt Service	Capital Projects	Total
$ -	$ -	$ -	$ -	$ 267,511
-	-	-	-	5,531
-	-	-	-	166,441
-	-	304,365	-	304,365
-	104,804	-	-	104,804
-	-	-	-	86,966
-	-	-	-	182,163
-	-	-	-	100
-	-	-	-	14,439
-	-	-	-	2,221
-	-	-	-	11,598
-	-	-	-	221,917
-	-	-	-	32,417
-	-	-	76,607	76,607
799,142	-	-	-	799,142
-	-	-	-	440,369
-	-	-	-	1,610,637
-	381,669	-	-	381,669
-	-	-	-	392,769
-	4,618	-	-	523,492
-	-	-	-	55,163
-	-	-	-	87,536
-	-	-	-	2,000
-	-	-	-	88,522
-	-	-	-	355
-	-	-	-	62,855
-	-	-	-	2,841,723
$ 799,142	**$ 491,091**	**$ 304,365**	**$ 76,607**	**$ 8,763,312**
$ 1,308,888	**$ 1,619,890**	**$ 305,146**	**$ 89,688**	**$ 12,437,785**

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 4

RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2012

Fund balance - total governmental funds (Exhibit 3)		**$ 8,763,312**
Amounts reported for governmental activities in the statement of net position 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.		48,604,548
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,808,867
Long-term receivable is not due in the current period and, therefore, is not reported in the governmental funds.		265,000
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	$ (986,385)	
General obligation bonds	(1,948,969)	
Deferred debt issuance costs	39,905	
Promissory notes payable	(97,221)	
Loans payable	(331,546)	
Compensated absences	(523,493)	
Net OPEB obligation	(136,306)	
Accrued interest payable	(31,170)	(4,015,185)
Net Position of Governmental Activities (Exhibit 1)		**$ 56,426,542**

MURRAY COUNTY
SLAYTON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Road and Bridge	Human Services
Revenues			
Taxes	$ 4,320,724	$ 952,371	$ 1,051,928
Special assessments	340,800	-	-
Licenses and permits	32,424	4,175	-
Intergovernmental	1,669,574	5,281,636	54,465
Charges for services	474,964	74,319	-
Fines and forfeits	4,679	-	-
Gifts and contributions	24,149	-	-
Investment earnings	38,209	-	-
Miscellaneous	355,838	150,453	-
Total Revenues	**$ 7,261,361**	**$ 6,462,954**	**$ 1,106,393**
Expenditures			
Current			
General government	$ 2,393,244	$ -	$ -
Public safety	2,549,520	-	-
Highways and streets	-	6,096,118	-
Sanitation	382,713	-	-
Culture and recreation	722,615	-	-
Conservation of natural resources	630,411	-	-
Economic development	151,747	-	-
Intergovernmental	52,350	387,267	1,106,393
Debt service			
Principal	112,813	-	-
Interest	7,642	-	-
Administrative charges	-	-	-
Total Expenditures	**$ 7,003,055**	**$ 6,483,385**	**$ 1,106,393**
Excess of Revenues Over (Under) Expenditures	**$ 258,306**	**$ (20,431)**	**$ -**
Other Financing Sources (Uses)			
Transfers in	$ 166,634	$ -	$ -
Transfers out	(126,708)	-	-
Sale of capital assets	137,359	-	-
Loans issued	9,920	-	-
Total Other Financing Sources (Uses)	**$ 187,205**	**$ -**	**$ -**
Net Change in Fund Balance	**$ 445,511**	**$ (20,431)**	**$ -**
Fund Balance - January 1	**4,161,099**	**2,502,322**	**-**
Increase (decrease) in inventories	**(3,229)**	**6,835**	**-**
Fund Balance - December 31	**$ 4,603,381**	**$ 2,488,726**	**$ -**

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

EXHIBIT 5

Ditch	EDA	Debt Service	Capital Projects	Total
$ -	$ -	$ 217,757	$ -	$ 6,542,780
275,017	-	-	-	615,817
-	-	-	-	36,599
-	-	7,021	-	7,012,696
-	-	-	-	549,283
-	-	-	-	4,679
-	-	-	-	24,149
-	36,857	-	-	75,066
45,899	237,350	-	-	789,540
$ 320,916	**$ 274,207**	**$ 224,778**	**$ -**	**$ 15,650,609**
$ -	$ -	$ 435	$ -	$ 2,393,679
-	-	-	-	2,549,520
-	-	-	-	6,096,118
-	-	-	-	382,713
-	-	-	-	722,615
179,808	-	-	-	810,219
-	115,385	-	-	267,132
-	-	-	-	1,546,010
190,000	50,742	-	-	353,555
43,950	-	37,546	-	89,138
425	-	425	-	850
$ 414,183	**$ 166,127**	**$ 38,406**	**$ -**	**$ 15,211,549**
$ (93,267)	**$ 108,080**	**$ 186,372**	**$ -**	**$ 439,060**
$ 4,420	$ 120,529	$ 110,444	$ -	$ 402,027
-	-	-	(276,932)	(403,640)
-	-	-	-	137,359
-	-	-	-	9,920
$ 4,420	**$ 120,529**	**$ 110,444**	**$ (276,932)**	**$ 145,666**
$ (88,847)	**$ 228,609**	**$ 296,816**	**$ (276,932)**	**$ 584,726**
887,989	**262,482**	**7,549**	**353,539**	**8,174,980**
-	-	-	-	**3,606**
$ 799,142	**$ 491,091**	**$ 304,365**	**$ 76,607**	**$ 8,763,312**

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, 2012

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 584,726**
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	$ 2,808,867	
Deferred revenue - January 1	(3,969,094)	(1,160,227)
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	$ 4,281,375	
Net book value of assets disposed of	(557,923)	
Current year depreciation	(2,257,305)	1,466,147
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 position. 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.		
Loans issued		(10,461)
Principal payments		
Special assessment general obligation bonds	$ 190,000	
Loans payable	112,813	
Promissory notes	50,742	353,555
Amortization of discount on bonds and issuance costs		
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	$ 5,573	
Change in compensated absences	14,379	
Change in long-term receivable	(10,000)	
Discount and bond issuance costs amortization	(1,207)	
Change in OPEB obligation	(40,309)	
Change in inventories	3,606	(27,958)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 1,205,782**

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

PROPRIETARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 7

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds		
	Hospital	**Congregate Housing**	**Totals**
Assets			
Current assets			
Cash and pooled investments	$ 4,934,959	$ 187,626	$ 5,122,585
Accounts receivable - net	108,090	178	108,268
Patient receivables - net	2,008,150	-	2,008,150
Estimated third-party settlements	154,540	-	154,540
Inventories	528,069	-	528,069
Prepaid items	303,763	-	303,763
Total current assets, unrestricted	**$ 8,037,571**	**$ 187,804**	**$ 8,225,375**
Restricted assets			
Cash and pooled investments	-	966,600	966,600
Total current assets	**$ 8,037,571**	**$ 1,154,404**	**$ 9,191,975**
Noncurrent assets			
Noncurrent cash and investments	$ 560,517	$ -	$ 560,517
Deferred charges	-	27,849	27,849
Capital assets			
Nondepreciable	6,822,390	-	6,822,390
Depreciable - net	7,198,171	715,694	7,913,865
Total noncurrent assets	**$ 14,581,078**	**$ 743,543**	**$ 15,324,621**
Other assets			
Cash - funded depreciation	$ 156,264	$ -	$ 156,264
Investment in Minnesota Rural Health	8,750	-	8,750
Physician receivables	47,095	-	47,095
Total other assets	**$ 212,109**	**$ -**	**$ 212,109**
Total Assets	**$ 22,830,758**	**$ 1,897,947**	**$ 24,728,705**

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

EXHIBIT 7
(Continued)

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Totals
Liabilities			
Current liabilities payable from current assets			
Accounts payable	$ 2,179,809	$ 3,198	$ 2,183,007
Salaries payable	1,214,113	4,842	1,218,955
Compensated absences payable - current	-	221	221
Due to other governments	-	98	98
Accrued interest payable	1,039	20,332	21,371
General obligation bonds payable - current	-	1,010,000	1,010,000
Total current liabilities payable from current assets	**$ 3,394,961**	**$ 1,038,691**	**$ 4,433,652**
Current liabilities payable from restricted assets			
Accounts payable	-	6,600	6,600
Total current liabilities	**$ 3,394,961**	**$ 1,045,291**	**$ 4,440,252**
Noncurrent liabilities			
Compensated absences payable - long-term	$ -	$ 1,123	$ 1,123
General obligation bonds payable - long-term	-	881,388	881,388
Revenue notes payable - long-term	1,709,709	-	1,709,709
Other postemployment benefits payable	256,999	2,248	259,247
Total noncurrent liabilities	**$ 1,966,708**	**$ 884,759**	**$ 2,851,467**
Total Liabilities	**$ 5,361,669**	**$ 1,930,050**	**$ 7,291,719**
Net Position			
Net investment in capital assets	$ 12,310,852	$ (230,018)	$ 12,080,834
Restricted for			
Debt service	-	844	844
Unrestricted	5,158,237	197,071	5,355,308
Total Net Position	**$ 17,469,089**	**$ (32,103)**	**$ 17,436,986**

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 NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-Type Activities - Enterprise Funds		
	Hospital	Congregate Housing	Totals
Operating Revenues			
Charges for services	$ -	$ 268,281	$ 268,281
Patient services revenues	17,187,300	-	17,187,300
Miscellaneous	645,036	4,278	649,314
Total Operating Revenues	**$ 17,832,336**	**$ 272,559**	**$ 18,104,895**
Operating Expenses			
Personal services	$ -	$ 85,143	$ 85,143
Professional services	4,035,983	3,326	4,039,309
Nursing services	3,070,204	-	3,070,204
Contracted services	-	30,154	30,154
Repairs and maintenance	1,046,098	3,449	1,049,547
Administration and fiscal services	4,665,685	425	4,666,110
Other services and charges	-	5,628	5,628
Supplies	-	8,263	8,263
Utilities	-	23,334	23,334
Insurance	-	4,316	4,316
Wellness center	22,556	-	22,556
Downtown building	6,702	-	6,702
Surgery clinic	858,264	-	858,264
Clinic	1,615,524	-	1,615,524
Fulda clinic	227,712	-	227,712
Interest expense	21,915	-	21,915
Depreciation	1,215,402	51,121	1,266,523
Total Operating Expenses	**$ 16,786,045**	**$ 215,159**	**$ 17,001,204**
Operating Income (Loss)	**$ 1,046,291**	**$ 57,400**	**$ 1,103,691**
Nonoperating Revenues (Expenses)			
Investment income	$ 51,826	$ 3,021	$ 54,847
Grants	34,989	-	34,989
Gain on disposal of assets	7,198	-	7,198
Gain (loss) on investments	(96,935)	-	(96,935)
Interest expense	-	(54,698)	(54,698)
Amortization of deferred charges	-	(1,258)	(1,258)
Total Nonoperating Revenues (Expenses)	**$ (2,922)**	**$ (52,935)**	**$ (55,857)**
Income (Loss) Before Transfers	**$ 1,043,369**	**$ 4,465**	**$ 1,047,834**
Transfers in	-	1,613	1,613
Change in net position	**$ 1,043,369**	**$ 6,078**	**$ 1,049,447**
Net Position - January 1	**16,425,720**	**(38,181)**	**16,387,539**
Net Position - December 31	**$ 17,469,089**	**$ (32,103)**	**$ 17,436,986**

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

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Funds		
	Hospital	Congregate Housing	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	$ 17,384,296	$ 273,019	$ 17,657,315
Other receipts and payments, net	645,036	-	645,036
Payments to suppliers and contractors	(5,833,167)	(93,130)	(5,926,297)
Payments to employees	(9,730,749)	(81,848)	(9,812,597)
Net cash provided by (used in) operating activities	**$ 2,465,416**	**$ 98,041**	**$ 2,563,457**
Cash Flows from Noncapital Financing Activities			
Noncapital grants	$ 34,989	$ -	$ 34,989
Transfers in	-	1,613	1,613
Net cash provided by (used in) noncapital financing activities	**$ 34,989**	**$ 1,613**	**$ 36,602**
Cash Flows from Capital and Related Financing Activities			
Principal paid on long-term debt	$ (2,934,654)	$ (80,000)	$ (3,014,654)
Interest paid on long-term debt	(24,870)	(48,509)	(73,379)
Proceeds from the sale of refunding bonds	-	930,000	930,000
Proceeds from issuance of long-term debt	1,709,709	-	1,709,709
Purchases of capital assets	(6,787,807)	-	(6,787,807)
Net cash provided by (used in) capital and related financing activities	**$ (8,037,622)**	**$ 801,491**	**$ (7,236,131)**
Cash Flows from Investing Activities			
Investment earnings received	$ 51,826	$ 3,021	$ 54,847
Loss on investments	(96,935)	-	(96,935)
Decrease in noncurrent cash and investments	8,321,002	-	8,321,002
Decrease in investment in Minnesota Rural Health	(1,000)	-	(1,000)
Decrease in investment in joint ventures	96,935	-	96,935
Decrease in physician receivable	84,277	-	84,277
Net cash provided by (used in) investing activities	**$ 8,456,105**	**$ 3,021**	**$ 8,459,126**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 2,918,888**	**$ 904,166**	**$ 3,823,054**
Cash and Cash Equivalents at January 1	**2,016,071**	**250,060**	**2,266,131**
Cash and Cash Equivalents at December 31	**$ 4,934,959**	**$ 1,154,226**	**$ 6,089,185**

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, 2012

	Enterprise Funds		
	Hospital	Congregate Housing	Totals
Cash and Cash Equivalents - Exhibit 7			
Cash and pooled investments	$ 4,934,959	$ 187,626	$ 5,122,585
Restricted cash and pooled investments	-	966,600	966,600
Total Cash and Cash Equivalents	**$ 4,934,959**	**$ 1,154,226**	**$ 6,089,185**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating income (loss)	**$ 1,046,291**	**$ 57,400**	**$ 1,103,691**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	$ 1,032,556	$ 51,121	$ 1,083,677
Amortization expense	182,846	-	182,846
Interest expense	21,915	-	21,915
Provision for bad debt expense	287,284	-	287,284
(Increase) decrease in accounts receivable	(183,236)	260	(182,976)
(Increase) decrease in inventories	(8,598)	-	(8,598)
(Increase) decrease in prepaid items	(134,693)	-	(134,693)
Increase (decrease) in accounts payable	(19,891)	(2,741)	(22,632)
Increase (decrease) in salaries payable	165,193	(234)	164,959
Increase (decrease) in compensated absences payable	-	(8,535)	(8,535)
Increase (decrease) in due to other governments	-	(11)	(11)
Increase (decrease) in OPEB	75,749	781	76,530
Total adjustments	**$ 1,419,125**	**$ 40,641**	**$ 1,459,766**
Net Cash Provided by (Used in) Operating Activities	**$ 2,465,416**	**$ 98,041**	**$ 2,563,457**

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

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FIDUCIARY FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS

Assets		
Cash and pooled investments	$	203,771
Accounts receivable		330
Total Assets	**$**	**204,101**
Liabilities		
Accounts payable	$	335
Customer deposits		15,952
Due to other governments		187,814
Total Liabilities	**$**	**204,101**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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 position and the statement of activities) display information about Murray County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 position, both the governmental and business-type activities 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position.

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

2. Fund Financial Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

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

The County reports the following major governmental funds:

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

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

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

- The Ditch Special Revenue Fund accounts for special assessment levies against benefitted property restricted for construction and maintenance of an agricultural drainage ditch system.

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

- The Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs of general obligation bonds.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major enterprise funds:

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

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Murray County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Position 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 Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were $100,932.

The Hospital's investment income for the year ended December 31, 2012, was $51,826 and is included in nonoperating revenues.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Position or Equity

      2. Deposits and Investments (Continued)

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

      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 nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payers. Management reviews patient receivables by payer 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 position 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 Position 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 capitalized interest expense in the amount of $21,778; the Congregate Housing Enterprise Fund had no capitalized interest.

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

Assets	Years
Improvements other than buildings	10 - 40
Buildings	7 - 40
Public domain infrastructure	20 - 50
Machinery and equipment	3 - 20

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 (loss) on the investment, ($17,109) for the year ended December 31, 2012, 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 gain (loss) on the investment, ($79,826) for the year ended December 31, 2012, is included in nonoperating income.

8. Compensated Absences

The liability for compensated absences reported in the 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 Position or Equity (Continued)

9. Deferred Revenue

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

	Unavailable
Special assessments receivable	$ 1,151,999
Highway allotments that do not provide current financial resources	465,644
Loans receivable	1,125,298
Delinquent property taxes	52,543
Deferred revenue from accrued interest	13,383
Total Deferred Revenue for All Governmental Funds	$ 2,808,867

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 position. 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 funds 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 other financing sources. 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 Position or Equity (Continued)

11. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

12. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

12. Classification of Fund Balances (Continued)

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

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

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

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

1. Summary of Significant Accounting Policies

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

13. Minimum Fund Balance

Murray County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board as determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) within a range of 35 to 50 percent of the General Fund operating expenditures. The fund balance policy was adopted by the County Board on December 20, 2011. At December 31, 2012, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain 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 payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates of discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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 $115,213 in 2012 and $144,766 in 2011.

Revenue from the Medicare and Medicaid programs accounted for approximately 35 and 11 percent and 42 and 8 percent of the Hospital's net patient revenue for the years ended December 31, 2012 and 2011, 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 payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

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

1. Summary of Significant Accounting Policies

E. Hospital Net Patient Service Revenue (Continued)

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 Position

The Congregate Housing Enterprise Fund had a deficit fund net position for the year ended December 31, 2012, of $32,103. The County expects an excess of revenues over expenses in the future will eliminate the deficit.

B. Excess of Expenditures Over Budget

	Expenditures	Final Budget	Excess
General Revenue Fund	$ 7,003,055	$ 6,279,643	$ 723,412
Road and Bridge Special Revenue Fund	6,483,385	6,391,381	92,004
Human Services Special Revenue Fund	1,106,393	1,104,476	1,917

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 position	
Governmental activities	
Cash and pooled investments	$ 9,093,882
Petty cash and change funds	2,000
Business-type activities	
Cash and pooled investments	5,122,585
Restricted assets - cash and pooled investments	966,600
Noncurrent cash and investments	560,517

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Component unit - Shetek Area Water and Sewer Commission		
Cash and pooled investments		587,122
Restricted - cash and pooled investments		295,716
Agency funds		
Cash and pooled investments		203,771
Total Cash and Investments	$	16,832,193

Deposits		
Checking	$	976,929
Certificates of deposit		2,020,000
Invested in MAGIC Fund		9,351,264
Invested in negotiable certificates of deposit		4,482,000
Petty cash and change funds		2,000
Total Deposits, Cash on Hand, and Investments	$	16,832,193

a. Deposits

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

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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2012, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

(1) securities which 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 that is rated in the highest quality category by two nationally recognized rating agencies and maturing in 270 days or less; and

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to minimize 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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	68.0%	N/A	$ 9,351,264
Negotiable certificates of deposit					
First Freedom Bank, TN	N/A	N/A		01/07/2013	$ 248,000
Tristate Capital Bank, PA	N/A	N/A		02/25/2013	232,000
Privatebank & Trust Co., IL	N/A	N/A		12/02/2013	248,000
Bank of The West, CA	N/A	N/A		12/02/2013	248,000
State Bank of India, NY	N/A	N/A		12/02/2013	248,000
Israel Discount Bank of New York, NY	N/A	N/A		12/02/2013	248,000
Safra National Bank of New York, NY	N/A	N/A		12/02/2013	248,000
Bank Leumi USA, NY	N/A	N/A		12/02/2013	248,000
Plainscapital Bank, TX	N/A	N/A		12/02/2013	248,000
Onewest Bank, Fsb, CA	N/A	N/A		12/02/2013	248,000
Main Street Bank Corp, WV	N/A	N/A		12/03/2013	248,000
Pacific Trust Bank, Fsb, CA	N/A	N/A		12/03/2013	248,000
First Capital Bank, TN	N/A	N/A		12/03/2013	248,000
Hometown Bank, VA	N/A	N/A		12/05/2013	248,000
Bank of The Ozarks, AR	N/A	N/A		12/05/2013	248,000
Pacific Enterprise Bank, CA	N/A	N/A		12/05/2013	248,000
United Texas Bank, TX	N/A	N/A		12/06/2013	248,000
Farmers & Merchants Union Bank, WI	N/A	N/A		02/23/2015	94,000
First Chatham Bank, GA	N/A	N/A		02/23/2015	94,000
Sonabank, VA	N/A	N/A		02/23/2015	94,000
Total negotiable certificates of deposit			32.0%		$ 4,482,000

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					$ 13,833,264
Checking					976,929
Certificates of deposit					2,020,000
Petty cash					2,000
Total Cash and Investments					$ 16,832,193

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

2. Receivables

Receivables as December 31, 2012, for the County's governmental activities, not scheduled for collection during the subsequent year are as follows

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	$ 52,543	$ -
Special assessments	1,151,999	770,126
Accounts	44,390	-
Accrued interest	30,628	-
Due from other governments	647,526	-
Loans	1,125,298	897,739
Long-term	265,000	265,000
Total Receivables	$ 3,317,384	$ 1,932,865

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

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

Loan Agreements		
Beginning balance	$	1,325,750
Loans issued		30,000
Loan repayments		(230,452)
Ending Balance	$	$ 1,125,298

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 291,259	$ 907	$ -	$ 292,166
Right-of-way	353,964	108,089	-	462,053
Construction in progress	1,440,878	965,124	1,440,878	965,124
Total capital assets not depreciated	$ 2,086,101	$ 1,074,120	$ 1,440,878	$ 1,719,343
Capital assets depreciated				
Land improvements	$ 474,799	$ 38,406	$ -	$ 513,205
Buildings	5,710,768	1,770,638	396,417	7,084,989
Machinery and equipment	6,115,347	695,009	831,735	5,978,621
Infrastructure	57,977,954	2,144,080	-	60,122,034
Total capital assets depreciated	$ 70,278,868	$ 4,648,133	$ 1,228,152	$ 73,698,849

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	$ 138,710	$ 21,282	$ -	$ 159,992
Buildings	2,366,311	200,683	285,639	2,281,355
Machinery and equipment	3,350,923	435,356	384,590	3,401,689
Infrastructure	19,370,624	1,599,984	-	20,970,608
Total accumulated depreciation	$ 25,226,568	$ 2,257,305	$ 670,229	$ 26,813,644
Total capital assets depreciated, net	$ 45,052,300	$ 2,390,828	$ 557,923	$ 46,885,205
Governmental Activities Capital Assets, Net	$ 47,138,401	$ 3,464,948	$ 1,998,801	$ 48,604,548

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 171,247	$ -	$ -	$ 171,247
Construction in progress	593,041	7,771,370	1,713,268	6,651,143
Total capital assets not depreciated	$ 764,288	$ 7,771,370	$ 1,713,268	$ 6,822,390
Capital assets depreciated				
Land improvements	$ 420,607	$ 6,000	$ -	$ 426,607
Buildings	8,472,658	1,713,268	-	10,185,926
Fixed equipment	1,177,291	27,710	-	1,205,001
Major movable equipment	5,643,414	374,459	-	6,017,873
Total capital assets depreciated	$ 15,713,970	$ 2,121,437	$ -	$ 17,835,407

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	$ 194,304	$ 25,702	$ -	$ 220,006
Buildings	3,794,487	456,839	-	4,251,326
Fixed equipment	927,441	34,475	-	961,916
Major movable equipment	3,921,635	566,659	-	4,488,294
Total accumulated depreciation	$ 8,837,867	$ 1,083,675	$ -	$ 9,921,542
Total capital assets depreciated, net	$ 6,876,103	$ 1,037,762	$ -	$ 7,913,865
Business-Type Activities Capital Assets, Net	$ 7,640,391	$ 8,809,132	$ 1,713,268	$ 14,736,255

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

Governmental Activities	
General government	$ 218,069
Public safety	140,438
Highways and streets, including depreciation of infrastructure assets	1,820,584
Sanitation	18,093
Culture and recreation, including depreciation of infrastructure assets	60,121
Total Depreciation Expense - Governmental Activities	$ 2,257,305
Business-Type Activities	
Hospital	$ 1,032,554
Congregate Housing	51,121
Total Depreciation Expense - Business-Type Activities	$ 1,083,675

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due to/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge	General	$ 625
General	Capital Projects	13,081
Total Due To/From Other Funds		$ 13,706

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to Ditch Special Revenue Fund from General Fund	$ 4,420	Provide funding
Transfer to EDA Special Revenue Fund from General Fund	120,529	Provide funding
Transfer to Debt Service Fund from General Fund	146	Provide funding
Transfer to Debt Service Fund from Capital Projects Fund	110,298	Provide funding
Transfer to Congregate Housing Enterprise Fund from General Fund	1,613	Provide funding
Transfer to General Fund from Capital Projects Fund	166,634	Provide funding
Total Interfund Transfers	$ 403,640	

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction Commitments

The County has no active construction projects as of December 31, 2012.

2. Leases

Operating Leases

Total equipment rental expense for the Hospital for the year ended December 31, 2012, was $116,000.

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, 2012
General obligation bonds					
2011A G.O. Capital Improvement Plan Bond	2022	$180,000 - $220,000	0.60 - 2.75	$ 1,965,000	$ 1,965,000
Less: unamortized discount					(16,031)
Net G.O. Capital Improvement Plan Bonds					$ 1,948,969
Special assessment bonds with government commitment					
2007A G.O. Refunding Bonds	2029	$25,000 - $195,000	4.00 - 4.25	$ 1,625,000	$ 995,000
Less: unamortized discount					(8,615)
Net G.O. Special Assessment Bonds					$ 986,385

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities - Bonds Payable (Continued)

The 2007A General Obligation Refunding Bonds include an amount to refund the 1999A G.O. Water Revenue Bonds of Red Rock Rural Water System (RRRWS). RRRWS is levying special assessments to pay for these bonds. The County has pledged its full faith and credit for the repayment of principal and interest on these refunding bonds should RRRWS special assessment revenue be insufficient. The County has recognized a long-term receivable in the governmental activities for the current principal amount, $265,000, due from RRRWS, which decreases as principal payments are made since 2010.

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

Business-Type Activities - Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2004 G.O. Housing Development Refunding Bonds	2022	$65,000 - $130,000	1.75 - 5.00	$ 1,580,000	$ 1,010,000
Less: deferred amounts for					
Issuance discount					(7,898)
Refunding charges					(56,392)
Total General Obligation Refunding Bonds, Net					$ 945,710

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Business-Type Activities - Bonds Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
G.O. 2012A Housing Development Refunding Bonds	2022	$100,000 - $110,000	1.00 - 1.60	$ 960,000	$ 960,000
Less: deferred amounts for Issuance discount					(14,322)
Total General Obligation Refunding Bonds, Net					$ 945,678
Revenue bonds					
2012 Hospital Revenue Bonds	2026		3.5	$ 8,100,000	$ 1,709,709

In 2012, the County issued $960,000 Housing Development Refunding Bonds, Series 2012A. Proceeds from the sale of the bonds will be used to refund $930,000 of the $1,580,000 Housing Development Refunding Bonds of 2004, dated April 1, 2004. Principal installments for the years 2014 through 2022, inclusive, and totaling $930,000, will be called for redemption on February 1, 2013, at a price of par plus accrued interest. As a result of this refunding transaction, the County will realize a net present value debt service savings of $137,602.

The bonds are payable primarily from rental payments from the 20-unit Murray County Congregate Care Housing Project located adjacent to the Murray County Memorial Hospital in the City of Slayton. The bonds are additionally secured by unlimited ad valorem taxes on all taxable property within Murray County. The facility is owned and operated by the Economic Development Authority of Murray County.

3. Detailed Notes on All Funds

   C. Liabilities

      3. Long-Term Debt

Business-Type Activities - Bonds Payable (Continued)

The Hospital has a $3,600,000 Hospital Revenue Note of 2006, with an interest rate of 4.9 percent and principal and interest payments due monthly until June 2026. The debt is collateralized by revenue and capital assets. The Hospital refunded the entire $2,934,654 balance outstanding during 2012 as allowed under the debt agreement.

During the year ended December 31, 2012, the Hospital entered into an agreement with Minnwest Bank South for the issuance of Health Care Facilities Gross Revenue Bonds, Series 2012A, to a maximum of $8,100,000. The final terms of the revenue bonds will be determined upon the completion of the project and closing of the bonds. The Hospital approved a bond resolution requiring that the interest rate will not exceed 3.5 percent, and repayment of the revenue bonds will include monthly principal and interest payments over a period not to exceed 15 years.

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 $900,000 of transfers, which will be made in annual 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, 2012
Cottonwood River CWP Project	2022	$ 11,470	2.00	$ 206,987	$ 107,466
Beaver Creek CWP Project	2018	20,314	2.00	366,567	155,513
Lake Shetek CWP Project	2013	30,147	2.00	544,024	59,402
Total Loans Payable				$ 1,117,578	$ 322,381

The loans payable to the Minnesota Pollution Control Agency of $ 9,165 do not have fixed amortization schedules at December 31, 2012, and are not included in the previous table.

Governmental Activities - G.O. Promissory Note Payable

The County has a noninterest-bearing G.O. Promissory Note with the Minnesota Department of Employment and Economic Development (DEED). The original issue amount was $400,000, which was distributed to Monogram Meat Snacks and 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, 2012, the County had $97,221 outstanding.

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

Year Ending December 31	G.O. Capital Improvement Plan Bonds Principal	G.O. Capital Improvement Plan Bonds Interest	Special Assessment Bonds Principal	Special Assessment Bonds Interest
2013	$ 180,000	$ 34,118	$ 185,000	$ 36,450
2014	185,000	32,884	180,000	29,150
2015	185,000	31,219	165,000	22,250
2016	190,000	28,917	165,000	15,650
2017	190,000	26,020	85,000	10,650
2018 - 2022	1,035,000	66,809	85,000	35,900
2023 - 2027	-	-	90,000	18,655
2028 - 2032	-	-	40,000	1,700
Total	$ $1,965,000	$ 219,967	$ 995,000	$ 170,405

Year Ending December 31	G.O. Promissory Notes Principal	G.O. Promissory Notes Interest	Loans Payable Principal	Loans Payable Interest
2013	$ 50,742	$ -	$ 118,001	$ 5,861
2014	46,479	-	56,369	3,807
2015	-	-	37,515	2,774
2016	-	-	38,269	2,019
2017	-	-	26,058	1,315
2018 - 2022	-	-	55,334	1,560
Total	$ 97,221	$ -	$ 331,546	$ 17,336

Business-Type Activities

Year Ending December 31	Revenue Bonds Principal	Revenue Bonds Interest	General Obligation Bonds Principal	General Obligation Bonds Interest
2013	$ -	$ 142,995	$ 1,010,000	$ 31,570
2014	-	135,395	100,000	10,750
2015	-	127,819	105,000	9,725
2016	-	119,859	105,000	8,675
2017	-	111,818	105,000	7,625
2018 - 2022	-	416,616	545,000	19,500
2023 - 2027	1,709,709	135,138	-	-
Total	$ 1,709,709	$ 1,189,640	$ 1,970,000	$ 87,845

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation capital improvement plan bonds	$ 1,965,000	$ -	$ -	$ 1,965,000	$ 180,000
Special assessment debt with government commitment	1,185,000	-	190,000	995,000	185,000
Less: deferred amounts for issuance discounts on refunding	(25,152)	-	(506)	(24,646)	-
Net bonds payable	$ 3,124,848	$ -	$ 189,494	$ 2,935,354	$ 365,000
G.O. promissory notes payable	147,963	-	50,742	97,221	50,742
Loans payable	433,898	10,461	112,813	331,546	118,001
Compensated absences	537,872	-	14,379	523,493	56,799
Net OPEB obligation	95,997	40,309	-	136,306	-
Governmental Activities Long-Term Liabilities	$ 4,340,578	$ 50,770	$ 367,428	$ 4,023,920	$ 590,542

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 1,090,000	$ 960,000	$ 80,000	$ 1,970,000	$ 1,010,000
Hospital Revenue Note of 2006	2,934,654	-	2,934,654	-	-
Hospital Revenue Bond of 2012	-	1,709,709	-	1,709,709	-
Compensated absences	9,878	-	8,534	1,344	221
Net OPEB obligation	182,717	76,530	-	259,247	-
Total long-term liabilities	$ 4,217,249	$ 2,746,239	$ 3,023,188	$ 3,940,300	$ 1,010,221
Less: deferred amounts	(71,434)	(14,322)	(7,144)	(78,612)	-
Business-Type Activities Long-Term Liabilities	$ 4,145,815	$ 2,731,917	$ 3,016,044	$ 3,861,688	$ 1,010,221

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, 2012, the amount of defeased debt outstanding but removed from financial statements amounted to $975,000.

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 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 Plan

Plan Description

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

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 Plan

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 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plan

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012:

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2012	2011	2010
General Employees Retirement Fund	$ 216,412	$ 219,233	$ 207,922
Public Employees Police and Fire Fund	82,518	78,696	73,175

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 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one

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, 2012, were:

	Employee	Employer
Contribution amount	$ 5,929	$ 5,929
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 2012, there were approximately 78 participants in the plan. None were retirees. The implicit rate subsidy amount was determined by an actuarial study to be $4,921 for 2012.

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	$	47,583
Interest on net OPEB obligation		4,386
Adjustment to ARC		(5,958)
Annual OPEB cost (expense)	$	46,011
Contributions made		(4,921)
Increase in net OPEB obligation	$	41,090
Net OPEB Obligation - Beginning of Year		97,464
Net OPEB Obligation - End of Year	$	138,554

Of the $41,090, $40,309 represents governmental activities and $781 represents business-type activities for the Congregate Housing Enterprise Fund. A portion ($2,248) of the year-end net OPEB obligation is reported in the Congregate Housing Enterprise Fund business-type activity. The remaining $136,306 year-end net OPEB obligation is reported in governmental activities. The County's annual

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

1. Governmental Activities

Annual OPEB Cost and Net OPEB Obligation (Continued)

OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2012, and the preceding two years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	$ 41,695	$ 9,274	22.2%	$ 68,351
December 31, 2011	41,173	12,060	29.3	97,464
December 31, 2012	46,011	4,921	10.7	138,554

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan had no assets to fund the plan. The actuarial accrued liability for benefits was $314,837, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $314,837. The covered payroll (annual payroll of active employees covered by the plan) was $3,270,214, and the ratio of the UAAL to the covered payroll was 9.6 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, 2012, 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 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, 2012, was 26 years.

2. Business-Type Activities

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

The Hospital provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55 and have 15 years of services with the Hospital. The Hospital provides benefits for retirees as required by state statutes. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of January 1, 2012, there were no retirees receiving health benefits from the Hospital'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 2012, the amount actually contributed to the plan, and changes in the Hospital's net OPEB obligation:

ARC	$	101,215
Interest on net OPEB obligation		8,156
Adjustment to ARC		(11,096)
Annual OPEB cost (expense)	$	98,275
Contributions made		(22,526)
Increase in net OPEB obligation	$	75,749
Net OPEB Obligation - Beginning of Year		181,250
Net OPEB Obligation - End of Year	$	256,999

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, 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Employer Contribution	Percentage of Annual Contributed	Net OPEB Obligation
December 31, 2010	$ 92,822	$ 33,462	36.0%	$ 134,503
December 31, 2011	91,854	45,107	49.1	181,250
December 31, 2012	98,275	22,526	22.9	256,999

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, 2012, the most recent actuarial valuation date, the Hospital's plan had no assets. The actuarial accrued liability for benefits was $615,316, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $615,316. The covered payroll (annual payroll) of active employees covered by the plan in the actuarial valuation was $5,989,798, for a ratio of the UAAL to covered payroll of 10.3 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.

4. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB)

      2. Business-Type Activities

         Actuarial Methods and Assumptions (Continued)

         In the January 1, 2012, 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 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 6 years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at December 31, 2012, was 25 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 $460,000 per claim in 2012 and $470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2012, Lincoln-Pipestone Rural Water System had $36,231,499 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and unlimited taxing powers are pledged. The participating counties (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

make any debt service payments. In such a situation, each of the other counties will promptly reimburse the paying counties in proportion to the percentage of Lincoln-Pipestone Rural Water System customers located in such county, in accordance with Minn. Stat. § 116A.24, subd. 3. The outstanding bonds are reported as liabilities in the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the ten participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

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

B. Subsequent Events

On May 13, 2013, Murray County received the final engineer's report for the improvement of main tile and branch one of County Ditch No. 82. The total preliminary project cost estimate is $645,083. In addition, the County has three other pending improvement projects. Murray County is consulting with the finance and bond counsel for a proposed sale of this bond with a reimbursement resolution as the County started incurring expenses for the project in 2013.

On August 6, 2013, Murray County issued General Obligation Notes, Series 2013 in the amount of $100,000 to finance the Redwood-Cottonwood River septic loan program.

On September 24, 2013, the Murray County Board of Commissioners passed a motion to withdraw from the Southwest West Central Service Cooperative for health insurance administration, effective January 1, 2014 (reserving the right to rescind withdrawal until October 25, 2013). In 2014, the County will be joining with Lyon County, Southwest Health and Human Services, Redwood County, and Swift County to form a separate self-funded group. Counties in the group will be rated and funded individually. A joint powers agreement is pending. Beginning in 2014, Murray County

6. Summary of Significant Contingencies and Other Items

B. Subsequent Events (Continued)

will have a segregated fund to account for premiums paid in and claims paid out. Any premium in excess of claims at year-end will be added to fund balance or used to offset rate increases in the subsequent year. Any deficit due to claims in excess of premium will be made up through rate increases or taken from fund balance. The direct impact on the financial statements is indeterminable at this time.

C. Joint Ventures

Southwest Health and Human Services

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

Funding for SWHHS will be based upon consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

SWHHS is governed by the:

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

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

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Health and Human Services (Continued)

- Community Health Board - responsible for all duties as set forth in Minn. Stat. § 145A and made up on one County Commissioner and one alternate from each member county.

Financing is provided by state and federal grants and appropriations from member counties. Murray County's contribution in 2012 was $1,100,364.

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

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

Lincoln-Pipestone Rural Water System

Murray County, along with Jackson, 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 Rural Water 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 a Board appointed by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

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, 2012, are $36,231,499.

The Lincoln-Pipestone Rural Water System's 2012 financial report shows total net position of $49,589,244, including unrestricted net position of $18,020,861. The increase in net position for the year ended December 31, 2012, was $1,044,426.

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

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. Ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. 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 Red Rock Rural Water System is governed by a nine member Board appointed for terms of three years by the District Court. The Water System's Board is solely responsible for the budgeting and financing of the Water System. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their share of debt arising within each respective county.

Interim financing through General Obligation Revenue Bonds were issued by Murray and Cottonwood Counties for $489,000 to finance an expansion in Murray and Cottonwood Counties. Costs assessed to landowners and special assessments levied

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

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 Red Rock Rural Water System.

The Red Rock Rural Water System's 2011 financial report (the latest information available) shows total net position of $27,293,311, including unrestricted net position of $310,920. The increase in net position for the year ended December 31, 2011, was $563,153. 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, 2011, were $13,555,000.

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

Southwest Regional Solid Waste Commission

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

The governing board is composed of one board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to $1,000 per county per year. The current assessment is $500.

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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.

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

The County paid $1,783 in membership dues in 2012.

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.

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 2012.

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 members 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, 2012, are:

Health care services	$	7,074,688
General and administrative		9,711,357
Total	$	16,786,045

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, 2012, follows:

Medicare	35%
Medicaid	11
Other third-party payors	25
Private pay	29
Total	100%

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

1. Financial Reporting Entity

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

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

2. Basis of Presentation

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

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 position 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.

      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.

         Accounts Receivable

         The amount reported is receivable from the sewer system users for utility charges unpaid at December 31, 2012.

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

4. Assets and Liabilities (Continued)

Restricted Assets

Certain funds of the Commission are classified as restricted assets on the statement of net position 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, 2012. As of December 31, 2012, the Commission had $882,298 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, 2012, $8,125,720 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, 2012, follows:

	Beginning	Additions	Deletions	Ending
Capital assets not depreciated				
Land	$ 386,046	$ -	$ -	$ 386,046
Capital assets depreciated				
Land improvements	$ 1,718,495	$ -	$ -	$ 1,718,495
Buildings and structures	57,450	-	-	57,450
Machinery and equipment	491,400	-	-	491,400
Infrastructure	13,067,692	-	-	13,067,692
Total capital assets depreciated	$ 15,335,037	$ -	$ -	$ 15,335,037
Less: accumulated depreciation for				
Land improvements	$ 105,017	$ 22,913	$ -	$ 127,930
Building and structures	2,273	1,436	-	3,709
Machinery and equipment	101,010	32,760	-	133,770
Infrastructure	1,007,263	328,447	-	1,335,710
Total accumulated depreciation	$ 1,215,563	$ 385,556	$ -	$ 1,601,119
Total capital assets depreciated, net	$ 14,119,474	$ (385,556)	$ -	$ 13,733,918
Total Capital Assets, Net	$ 14,505,520	$ (385,556)	$ -	$ 14,119,964

Depreciation expense for 2012 was $385,556.

7. Component Unit Disclosures

B. Detailed Notes (Continued)

4. Long-Term Obligations

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2007 Water Revenue Bonds	2027	$45,000 - $130,000	4.00 - 4.40	$ 1,715,000	$ 1,420,000
2007B Sewer Revenue Bonds	2028	$75,000 - $155,000	4.00 - 4.40	2,080,000	1,845,000
Total General Obligation Bonds				$ 3,795,000	$ 3,265,000

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	Interest	G.O. Sewer Revenue Bonds, Series 2007B Principal	Interest
2013	$ 70,000	$ 58,955	$ 85,000	$ 74,870
2014	70,000	56,155	90,000	71,370
2015	75,000	53,255	90,000	67,770
2016	80,000	50,115	95,000	64,070
2017	80,000	46,835	100,000	60,170
2018 - 2022	465,000	178,405	555,000	236,717
2023 - 2027	580,000	66,440	675,000	109,208
2028	-	-	155,000	3,410
Total	$ 1,420,000	$ 510,160	$ 1,845,000	$ 687,585

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, 2012, were $14,889,200: $11,299,849

7. Component Unit Disclosures

B. Detailed Notes

4. Long-Term Obligations (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, 2012, are as follows:

	Minnesota Public Facilities Authority Loans		
	Water Pollution Control Revolving Fund		Wastewater Infrastructure Fund
Year Ended December 31	Principal	Interest	Principal
2013	$ 518,988	$ 77,780	$ -
2014	524,000	72,538	-
2015	529,000	67,246	-
2016	535,000	61,903	-
2017	540,000	56,499	-
2018 - 2022	2,783,000	199,586	-
2023 - 2027	2,271,000	56,752	-
2028 - 2032	-	-	3,589,451
Total	$ 7,700,988	$ 592,304	$ 3,589,451

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

7. Component Unit Disclosures

B. Detailed Notes (Continued)

5. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
Minnesota Public Facilities Authority					
General obligation notes	$ 11,862,396	$ -	$ 571,957	$ 11,290,439	$ 518,988
General obligation bonds	3,410,000	-	145,000	3,265,000	155,000
Premium on general obligation bonds	11,933	-	712	11,221	712
Total Long-Term Liabilities	$ 15,284,329	$ -	$ 717,669	$ 14,566,660	$ 674,700

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.

D. Subsequent Events

Crossover Refundings

In 2013, the County issued $2,590,000 General Obligation Sewer Revenue Crossover Refunding Bonds, Series 2013A. Proceeds from the sale of the bonds will be used to crossover refund $1,045,000 of the $1,715,000 General Obligation Sewer Revenue Bonds, Series 2007. Maturities 2018 through 2027, inclusive, will be called for redemption on February 1, 2017, at a price of par plus accrued interest. The bonds will also crossover refund $1,385,000 of the $2,080,000 General Obligation Sewer Revenue Bonds, Series 2007B. Maturities 2018 through 2028, inclusive, will be called for redemption on February 2, 2017, at a price of par plus accrued interest.

7. Component Unit Disclosures

D. Subsequent Events

Crossover Refundings (Continued)

The bonds are valid and binding general obligations of Murray County, payable from net revenue of the Shetek Area Water and Sewer District, and additionally secured by ad valorem taxes. The full faith and credit of the County is pledged to their payment and the County has validly obligated itself to levy ad valorem taxes in the event of any deficiency in the debt service account established for this issue.

Principal due with respect to the $2,590,000 General Obligation Sewer Revenue Crossover Refunding Bonds, Series 2013A, is payable annually on February 1 commencing on February 1, 2018, and interest due with respect to the bonds is payable semi-annually on February 1 and August 1 of each year commencing August 1, 2013.

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 4,388,659	$ 4,388,659	$ 4,320,724	$ (67,935)
Special assessments	329,221	329,221	340,800	11,579
Licenses and permits	22,740	22,740	32,424	9,684
Intergovernmental	865,893	865,893	1,669,574	803,681
Charges for services	385,335	385,335	474,964	89,629
Fines and forfeits	-	-	4,679	4,679
Gifts and contributions	1,000	1,000	24,149	23,149
Investment earnings	150,000	150,000	38,209	(111,791)
Miscellaneous	264,948	264,948	355,838	90,890
Total Revenues	**$ 6,407,796**	**$ 6,407,796**	**$ 7,261,361**	**$ 853,565**
Expenditures				
Current				
General government				
Commissioners	$ 236,365	$ 236,365	$ 225,022	$ 11,343
Community relations/web page development	42,445	42,445	40,560	1,885
Courts	12,010	12,010	19,585	(7,575)
Law library	10,000	10,000	8,894	1,106
Auditor/Treasurer	381,762	381,762	351,900	29,862
Accounting and auditing	60,000	60,000	43,009	16,991
County assessor	186,978	186,978	186,059	919
Elections	33,051	33,051	28,482	4,569
Assistive voting grant	24,736	24,736	24,258	478
Data processing and computer networking	121,662	121,662	93,001	28,661
Machines room	67,700	67,700	49,126	18,574
Motor pool	13,150	13,150	27,448	(14,298)
Human resources	151,248	151,248	134,288	16,960
Attorney	172,358	172,358	156,777	15,581
Recorder	190,325	190,325	205,334	(15,009)
Planning and zoning	96,546	96,546	86,509	10,037
Buildings and plant	432,910	432,910	520,926	(88,016)
Veterans service officer	30,283	30,283	35,213	(4,930)
License center	79,118	79,118	83,072	(3,954)
Other general government	(24,183)	(24,183)	73,781	(97,964)
Total general government	**$ 2,318,464**	**$ 2,318,464**	**$ 2,393,244**	**$ (74,780)**

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

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts							
	Original		Final		Actual Amounts		Variance with Final Budget	
Expenditures								
Current (Continued)								
Public safety								
Sheriff	$	1,688,196	$	1,688,196	$	2,166,703	$	(478,507)
E-911 system		93,590		93,590		45,533		48,057
Probation		44,943		44,943		35,907		9,036
Civil defense		93,699		93,699		298,693		(204,994)
Other public safety		4,500		4,500		2,684		1,816
Emergency medical services		30,000		30,000		-		30,000
Total public safety	**$**	**1,954,928**	**$**	**1,954,928**	**$**	**2,549,520**	**$**	**(594,592)**
Sanitation								
Solid waste	$	95,765	$	95,765	$	92,207	$	3,558
Recycling		280,563		280,563		289,958		(9,395)
Other		500		500		548		(48)
Total sanitation	**$**	**376,828**	**$**	**376,828**	**$**	**382,713**	**$**	**(5,885)**
Culture and recreation								
Regional library	$	67,665	$	67,665	$	67,665	$	-
Historical society		50,118		50,118		51,952		(1,834)
Senior citizens - RSVP		12,390		12,390		12,603		(213)
Transportation		203,765		203,765		200,054		3,711
Parks		364,369		364,369		354,485		9,884
Minnesota trails		29,610		29,610		29,356		254
Other		6,500		6,500		6,500		-
Total culture and recreation	**$**	**734,417**	**$**	**734,417**	**$**	**722,615**	**$**	**11,802**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	$ 168,934	$ 168,934	$ 167,053	$ 1,881
Soil and water conservation	174,910	174,910	174,987	(77)
Agricultural inspection	56,427	56,427	58,565	(2,138)
RCRCA	3,240	3,240	3,240	-
Environmental & land use advisory task force	50	50	-	50
Flood control	3,545	3,545	2,085	1,460
Agricultural society	32,500	32,500	31,560	940
Water planning	118,702	118,702	78,727	39,975
Water quality loan program	150,000	150,000	107,843	42,157
Other conservation	8,400	8,400	6,351	2,049
Total conservation of natural resources	**$ 716,708**	**$ 716,708**	**$ 630,411**	**$ 86,297**
Economic development				
Community development	$ 2,997	$ 2,997	$ 1,499	$ 1,498
Other	2,124	2,124	150,248	(148,124)
Total economic development	**$ 5,121**	**$ 5,121**	**$ 151,747**	**$ (146,626)**
Intergovernmental				
Health	**$ 52,584**	**$ 52,584**	**$ 52,350**	**$ 234**
Debt service				
Principal	$ 112,813	$ 112,813	$ 112,813	$ -
Interest	7,780	7,780	7,642	138
Total debt service	**$ 120,593**	**$ 120,593**	**$ 120,455**	**$ 138**
Total Expenditures	**$ 6,279,643**	**$ 6,279,643**	**$ 7,003,055**	**$ (723,412)**
Excess of Revenues Over (Under) Expenditures	**$ 128,153**	**$ 128,153**	**$ 258,306**	**$ 130,153**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 166,634	$ 166,634
Transfers out	(120,529)	(120,529)	(126,708)	(6,179)
Sale of capital assets	-	-	137,359	137,359
Loans issued	-	-	9,920	9,920
Total Other Financing Sources (Uses)	**$ (120,529)**	**$ (120,529)**	**$ 187,205**	**$ 307,734**
Net Change in Fund Balance	**$ 7,624**	**$ 7,624**	**$ 445,511**	**$ 437,887**
Fund Balance - January 1	**4,161,099**	**4,161,099**	**4,161,099**	**-**
Increase (decrease) in inventories	**-**	**-**	**(3,229)**	**(3,229)**
Fund Balance - December 31	**$ 4,168,723**	**$ 4,168,723**	**$ 4,603,381**	**$ 434,658**

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 986,809	$ 986,809	$ 952,371	$ (34,438)
Licenses and permits	8,000	8,000	4,175	(3,825)
Intergovernmental	5,120,367	5,120,367	5,281,636	161,269
Charges for services	11,000	11,000	74,319	63,319
Miscellaneous	74,100	74,100	150,453	76,353
Total Revenues	**$ 6,200,276**	**$ 6,200,276**	**$ 6,462,954**	**$ 262,678**
Expenditures				
Current				
Highways and streets				
Administration	$ 278,249	$ 278,249	$ 299,061	$ (20,812)
Maintenance	1,370,047	1,370,047	1,276,665	93,382
Engineering	327,317	327,317	331,189	(3,872)
Construction	3,480,000	3,480,000	3,544,340	(64,340)
Maintenance and shop	568,168	568,168	644,863	(76,695)
Total highways and streets	**$ 6,023,781**	**$ 6,023,781**	**$ 6,096,118**	**$ (72,337)**
Intergovernmental	367,600	367,600	387,267	(19,667)
Total Expenditures	**$ 6,391,381**	**$ 6,391,381**	**$ 6,483,385**	**$ (92,004)**
Net Change in Fund Balance	**$ (191,105)**	**$ (191,105)**	**$ (20,431)**	**$ 170,674**
Fund Balance - January 1	**2,502,322**	**2,502,322**	**2,502,322**	**-**
Increase (decrease) in inventories	**-**	**-**	**6,835**	**6,835**
Fund Balance - December 31	**$ 2,311,217**	**$ 2,311,217**	**$ 2,488,726**	**$ 177,509**

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,078,508	$ 1,078,508	$ 1,051,928	$ (26,580)
Intergovernmental	25,968	25,968	54,465	28,497
Total Revenues	**$ 1,104,476**	**$ 1,104,476**	**$ 1,106,393**	**$ 1,917**
Expenditures				
Intergovernmental				
Human services	**1,104,476**	**1,104,476**	**1,106,393**	**(1,917)**
Net Change in Fund Balance	**$ -**	**$ -**	**$ -**	**$ -**
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	**$ -**	**$ -**	**$ -**	**$ -**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
EDA SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Investment earnings	$ 27,404	$ 27,404	$ 36,857	$ 9,453
Miscellaneous	213,381	213,381	237,350	23,969
Total Revenues	**$ 240,785**	**$ 240,785**	**$ 274,207**	**$ 33,422**
Expenditures				
Current				
Economic development				
Economic Development Commission	$ 125,909	$ 125,909	$ 115,385	$ 10,524
Debt service				
Principal	50,742	50,742	50,742	-
Total Expenditures	**$ 176,651**	**$ 176,651**	**$ 166,127**	**$ 10,524**
Excess of Revenues Over (Under) Expenditures	**$ 64,134**	**$ 64,134**	**$ 108,080**	**$ 43,946**
Other Financing Sources (Uses)				
Transfers in	**120,529**	**120,529**	**120,529**	**-**
Net Change in Fund Balance	**$ 184,663**	**$ 184,663**	**$ 228,609**	**$ 43,946**
Fund Balance - January 1	**262,482**	**262,482**	**262,482**	**-**
Fund Balance - December 31	**$ 447,145**	**$ 447,145**	**$ 491,091**	**$ 43,946**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012

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%
January 1, 2012	-	314,837	314,837	0.0	3,270,214	9.63

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%
January 1, 2012	-	615,316	615,316	0.0	5,989,798	10.27

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for all governmental funds, except the Ditch Special Revenue Fund. 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 budgeted special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Over the course of the year, the County Board may revise estimated revenue and expenditure budgets. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and new grant awards.

There were no budget amendments in 2012.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Revenue Fund	$ 7,003,055	$ 6,279,643	$ 723,412
Road and Bridge Special Revenue Fund	6,483,385	6,391,381	92,004
Human Services Special Revenue Fund	1,106,393	1,104,476	1,917

5. Other Postemployment Benefits Funding Status

Murray County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three valuation funding status requirement. See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

Significant Actuarial Assumption Changes

2012

The County obtained an actuarial evaluation as of January 1, 2012. Since the last actuarial valuation as of January 1, 2009, the following actuarial assumptions have changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The RP 2000 Combined Healthy mortality table was updated to reflect the projection of 2000 rates to 2012 based on Scale BB.

SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT B-1

BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ 225,448	$ 217,757	$ (7,691)
Intergovernmental	-	7,019	7,021	2
Total Revenues	**$ -**	**$ 232,467**	**$ 224,778**	**$ (7,689)**
Expenditures				
General Government				
Other general government	$ -	$ 435	$ 435	$ -
Debt service				
Interest	-	37,546	37,546	-
Administrative (fiscal) charges	-	425	425	-
Total Expenditures	**$ -**	**$ 38,406**	**$ 38,406**	**$ -**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ 194,061**	**$ 186,372**	**$ (7,689)**
Other Financing Sources (Uses)				
Transfers in	-	-	**110,444**	**110,444**
Net Change in Fund Balance	**$ -**	**$ 194,061**	**$ 296,816**	**$ 102,755**
Fund Balance - January 1	**7,549**	**7,549**	**7,549**	**-**
Fund Balance - December 31	**$ 7,549**	**$ 201,610**	**$ 304,365**	**$ 102,755**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT B-2

BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 225,391	$ -	$ -	$ -
Expenditures				
Debt service				
Interest	225,391	-	-	-
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ -**	**$ -**
Other Financing Sources (Uses)				
Transfers out	-	(685,254)	(276,932)	408,322
Net Change in Fund Balance	**$ -**	**$ (685,254)**	**$ (276,932)**	**$ 408,322**
Fund Balance - January 1	**353,539**	**353,539**	**353,539**	**-**
Fund Balance - December 31	**$ 353,539**	**$ (331,715)**	**$ 76,607**	**$ 408,322**

AGENCY FUNDS

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

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

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Balance January 1	Additions	Deductions	Balance December 31
LIME CREEK SUBORDINATE SERVICE DISTRICT				
Assets				
Cash and pooled investments	$ 87	$ 56,379	$ 40,509	$ 15,957
Accounts receivable	78,100	33,430	111,200	330
Total Assets	**$ 78,187**	**$ 89,809**	**$ 151,709**	**$ 16,287**
Liabilities				
Accounts payable	$ 87	$ 543	$ 295	$ 335
Advance from other funds	78,100	-	78,100	-
Customer deposits	-	15,952	-	15,952
Total Liabilities	**$ 78,187**	**$ 16,495**	**$ 78,395**	**$ 16,287**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 149,451**	**$ 15,319,840**	**$ 15,281,477**	**$ 187,814**
Liabilities				
Due to other governments	**$ 149,451**	**$ 15,319,840**	**$ 15,281,477**	**$ 187,814**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Balance January 1	Additions	Deductions	Balance December 31
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 149,538	$ 15,376,219	$ 15,321,986	$ 203,771
Accounts receivable	78,100	33,430	111,200	330
Total Assets	**$ 227,638**	**$ 15,409,649**	**$ 15,433,186**	**$ 204,101**
Liabilities				
Accounts payable	$ 87	$ 543	$ 295	$ 335
Advance from other funds	78,100	-	78,100	-
Customer deposits	-	15,952	-	15,952
Due to other governments	149,451	15,319,840	15,281,477	187,814
Total Liabilities	**$ 227,638**	**$ 15,336,335**	**$ 15,359,872**	**$ 204,101**

SHETEK AREA WATER AN SEWER COMMISSION

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-1

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2012

Assets		
Current assets		
Cash and pooled investments	$	587,122
Special assessments receivable		
Delinquent		8,579
Interest receivable - special assessment		6,976
Accounts receivable - net		30,819
Due from primary government		152
Inventory		79,454
Total current assets, unrestricted	**$**	**713,102**
Restricted assets		
Cash and pooled investments		295,716
Total current assets	**$**	**1,008,818**
Noncurrent assets		
Deferred charges	$	76,375
Special assessments receivable		397,994
Capital assets		
Nondepreciable		386,046
Depreciable - net		13,733,918
Total noncurrent assets	**$**	**14,594,333**
Total Assets	**$**	**15,603,151**

EXHIBIT D-1
(Continued)

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF NET POSITION
DECEMBER 31, 2012

Liabilities		
Current liabilities		
Accounts payable	$	11,277
Salaries payable		471
Due to primary government		2,771
Accrued interest payable		89,460
Customer deposits		3,169
General obligation bonds payable - current		155,000
Revenue notes payable - current		518,988
Total current liabilities	**$**	**781,136**
Noncurrent liabilities		
General obligation bonds payable - long-term	$	3,110,000
Unamortized premiums on bonds		11,221
Revenue notes payable - long-term		10,771,451
Total noncurrent liabilities	**$**	**13,892,672**
Total Liabilities	**$**	**14,673,808**
Net Position		
Net investment in capital assets	$	(435,475)
Restricted for		
Debt service		247,759
Wastewater systems replacement		47,958
Unrestricted		9,194,821
Total Net Position	**$**	**9,055,063**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-2

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Operating Revenues		
Sewer utility charges	$	339,051
Charges for services		500
Miscellaneous		1,335
Total Operating Revenues	**$**	**340,886**
Operating Expenses		
Personal services	$	7,163
Professional services		147,086
Other services and charges		23,272
Supplies		47,818
Insurance		2,080
Depreciation		385,556
Total Operating Expenses	**$**	**612,975**
Operating Income (Loss)	**$**	**(272,089)**
Nonoperating Revenues (Expenses)		
Interest income	$	4,718
Bonds issue expense		(4,209)
Administrative charges		(856)
Interest expense		(218,305)
Total Nonoperating Revenues (Expenses)	**$**	**(218,652)**
Income (Loss) Before Contributions	**$**	**(490,741)**
Capital contributions		291,310
Change in net position	**$**	**(199,431)**
Net Position - January 1		**9,254,494**
Net Position - December 31	**$**	**9,055,063**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT D-3

SHETEK AREA WATER AND SEWER COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash Flows from Operating Activities		
Cash received from customers	$	333,337
Cash received from vendor		1,335
Cash paid to employees		(7,223)
Cash paid for supplies and professional services		(219,220)
Net cash provided by (used in) operating activities	**$**	**108,229**
Cash Flows from Capital and Related Financing Activities		
Special assessments	$	767,220
Principal paid on long-term debt		(716,957)
Interest paid on bonds		(83,304)
Interest paid on revenue notes		(140,681)
Net cash provided by (used in) capital and related financing activities	**$**	**(173,722)**
Cash Flows from Investing Activities		
Investment earnings received	**$**	**4,718**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(60,775)**
Cash and Cash Equivalents at January 1		**943,613**
Cash and Cash Equivalents at December 31	**$**	**882,838**
Cash and Cash Equivalents - Exhibit D-1		
Cash and pooled investments	$	587,122
Restricted cash and pooled investments		295,716
Total Cash and Cash Equivalents	**$**	**882,838**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(272,089)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	385,556
(Increase) decrease in accounts receivable		(6,063)
(Increase) decrease in due from primary government		(152)
(Increase) decrease in inventories		(7,449)
Increase (decrease) in accounts payable		7,514
Increase (decrease) in due to other governments		(965)
Increase (decrease) in due to primary government		1,875
Increase (decrease) in salaries payable		2
Total adjustments	**$**	**380,318**
Net Cash Provided by (Used in) Operating Activities	**$**	**108,229**

OTHER SCHEDULES

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MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT E-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012

Shared Revenue		
State		
Highway users tax	$	4,553,127
Market value credit		146,617
PERA rate reimbursement		11,609
Disparity reduction aid		25,661
County program aid		99,461
Police aid		57,713
Local performance aid		1,221
E-911		79,559
Total shared revenue	**$**	**4,974,968**
Payments		
Local		
Local contributions	$	61,760
Payments in lieu of taxes		214,111
Total payments	**$**	**275,871**
Grants		
State		
Minnesota Department of		
Corrections	$	10,677
Public Safety		264,970
Transportation		39,522
Natural Resources		29,356
Veterans Affairs		2,298
Water and Soil Resources Board		179,532
Peace Officer Standards and Training Board		3,321
Pollution Control Agency		55,950
Total state	**$**	**585,626**
Federal		
Department of		
Commerce	$	11,126
Housing and Urban Development		148,108
Transportation		699,972
Homeland Security		317,025
Total federal	**$**	**1,176,231**
Total state and federal grants	**$**	**1,761,857**
Total Intergovernmental Revenue	**$**	**7,012,696**

MURRAY COUNTY
SLAYTON, MINNESOTA

EXHIBIT E-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Commerce		
Passed Through Southwest Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	**$ 11,126**
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	**$ 148,108**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	$ 663,082
Formula Grants for Rural Areas	20.509	36,890
Total U.S. Department of Transportation		**$ 699,972**
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act Requirements Payments	90.401	**$ 18,913**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	$ 5,984
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	15,773
Homeland Security Grant Program	97.067	210,246
Total U.S. Department of Homeland Security		**$ 232,003**
Total Federal Awards		**$ 1,110,122**

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

MURRAY COUNTY
SLAYTON, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 Commission, but not the blended component unit, the Murray County Memorial Hospital. The County's reporting entity is defined in Note 1 to the basic 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, 2012. 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 position, 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	$ 1,176,231
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2012 (CFDA #90.401)	18,913
Deferred in 2011, recognized as revenue in 2012	
Emergency Management Performance Grants (CFDA #97.042)	(15,546)
Homeland Security Grant Program (CFDA #97.067)	(69,476)
Expenditures per Schedule of Expenditures of Federal Awards	$ 1,110,122

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
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	$ 148,108
97.067	Homeland Security Grant Program	93,875

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MURRAY COUNTY
SLAYTON, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

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

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

The major program is:

Highway Planning and Construction	CFDA #20.205

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Segregation of Duties

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

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

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

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

Cause: The County informed us that it is limited in resources and by the number of individuals it can hire. It has implemented internal controls in an attempt to mitigate risks as much as possible.

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

Client's Response:

Murray County is aware that because of the size of the accounting staff, it is impossible to achieve proper segregation of duties. Murray County is also aware that it is necessary to set time aside to allow for proper cross-training within the office. The County continues to find ways to implement internal controls and oversight with procedures and will continue to cross train within the Auditor/Treasurer's Office and other fee offices as necessary.

06-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we identified six adjustments which were proposed and recorded that resulted in significant changes to the County's financial statements. These adjustments were not material, individually or in the aggregate; however, the number of adjustments required indicates an internal control weakness.

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

Effect: Multiple audit adjustments were recorded to correctly identify and report revenue, including federal revenue.

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

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-1 Insufficient Collateral

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

Condition: At December 31, 2012, the County had deposits at Currie State Bank that were not adequately covered by collateral.

Context: The amount of collateral required to secure deposits at Currie State Bank at December 31, 2012, was more than the actual amount of collateral pledged by $25,000.

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

Cause: The County does not have a procedure in place to monitor pledged collateral by bank to determine if deposits are properly collateralized.

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

Client's Response:

Murray County implemented new procedures in March 2012 that include monitoring all County deposits to determine that there is adequate collateral pledged to secure all deposits in accordance with Minn. Stat. § 118A.03. Currie State Bank was contacted on August 19, 2013, to pledge an additional $25,000 to insure 110 percent of the deposit.

PREVIOUSLY REPORTED ITEMS RESOLVED

Depository Pledge Agreements and Pledge Receipts (11-2)

According to Minn. Stat. § 118A.03A, subd. 4, "[a]ny collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged." Murray County could not provide depository pledge agreements for three of the four banks for which deposits were held at year-end. In addition, the County did not have all pledge receipts on file to identify collateral pledged.

Resolution

The County implemented procedures to monitor pledge receipts to identify collateral pledged and was able to provide depository pledge agreements for all banks for which deposits were held at year-end.

Construction Project Bidding Process (11-3)

Pursuant to Minn. Stat. §§ 471.345, subd. 3, and 375.21, construction contracts estimated to exceed $100,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper of the County. The County did not publish advertisement for bids in a qualified newspaper for the Lime Creek Sewer Project because the County's estimate for each of the two parts of the project, a collection system ($73,326) and a treatment system ($83,494), did not exceed $100,000. The lowest bid received for the treatment system, however, was $134,237, which was both over the estimate and the bid threshold.

Resolution

The County advertised for bids in a qualified legal newspaper of the County on all contracts tested for compliance during the current audit.

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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*

Independent Auditor's Report

Board of County Commissioners
Murray County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the 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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Murray County Memorial Hospital, a component unit, 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 of the financial statements, we considered Murray County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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. 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 the attention of those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 and 06-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Murray County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Murray County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 11-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Murray County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 26, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Murray County

Report on Compliance for Each Major Federal Program

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 the County's major federal program for the year ended December 31, 2012. Murray County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Murray County's basic financial statements include the operations of the Murray County Memorial Hospital, a component unit, 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.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Murray County's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Murray County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Murray County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

September 26, 2013