



REBECCA OTTO
STATE AUDITOR

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September 19, 2014

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County, Minnesota as of and for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under 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, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting about planning matters on June 19, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 24, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Pipestone County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Pipestone County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Supplementary Information

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pipestone County are described in Note 1 to the financial statements. During 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 61, 65, and 66. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. GASB Statement No. 66, *Technical Corrections--2012, an amendment of GASB Statements No. 10 and No. 62*, resolves conflicts between GASB Statements. No other new accounting policies were adopted, and the application of existing policies was not changed during 2013. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental, the business-type activities, each major fund, and the aggregate remaining fund information were the fair value of investments, the year-end liability for compensated absences, and the estimates of the capital assets' useful lives and related depreciation.

Management's estimates relating to the fair value of investments are based on the year-end statements received from brokers. The year-end liability for compensated absences is based on past experience with related expenditures. The estimates of the capital assets' useful lives and related depreciation are based on past experience with replacement of worn assets and industry averages. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements of each opinion unit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 18, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the County’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

* * *

This information is intended solely for the use of the Board of County Commissioners and management of Pipestone County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

PIPESTONE COUNTY
UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

The following are the uncorrected misstatements that were not made to the financial statements for the year ended December 31, 2013.

<u>Fund/Activity</u>	<u>Financial Statement Category/Account Description</u>	<u>Debit</u>	<u>Credit</u>
General Fund	Investment earnings Cash and pooled investments <i>Pooled investments were not adjusted to reflect the decrease in fair market value as of December 31, 2013.</i>	\$ 81,215	\$ 81,215
Road and Bridge Special Revenue Fund	Investment earnings Investments <i>Investments were not adjusted to reflect the decrease in fair market value as of December 31, 2013.</i>	\$ 29,015	\$ 29,015

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Year Ended December 31, 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2013

Office	Name	Term Expires
Commissioners		
1st District	Luke Johnson	January 2017
2nd District	Harold "Butch" Miller ¹	January 2015
3rd District	Bruce Kooiman	January 2017
4th District	William Johnson ²	January 2015
5th District	Jerry Remund	January 2017
Officers		
Elected		
Attorney	James O'Neill	January 2015
Auditor	Tyler Reisch ³	January 2015
Coroner	Dr. Larry Christensen	January 2015
County Recorder	Mary Ann DeGroot	January 2015
Sheriff	Dan Delaney	January 2015
Treasurer	Steve Weets	January 2015
Appointed		
Assessor	Joyce Schmidt	Indefinite
County Administrator	Sharon Hanson	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite

¹Chair 2013

²Chair 2014

³Joyce Steinhoff retired March 2013; Board appointed Tyler Reisch to complete the term until January 2015.

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County, Minnesota, as of and for the year ended December 31, 2013, including the Medical Center as of and for the year ended June 30, 2013, 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 Medical Center, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those 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 Medical Center, 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 from 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, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2013, including the Medical Center as of June 30, 2013, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Pipestone 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 18, 2014, on our consideration of Pipestone 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 Pipestone County's internal control over financial reporting and compliance. It does not include the Medical Center which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 18, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of Pipestone County's financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$58,499,510, of which \$46,878,611 is the County's net investment in capital assets and \$4,374,082 is restricted for specific purposes. The unrestricted net position of \$7,246,817 may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's governmental activities' net position decreased by \$241,109 for the year ended December 31, 2013. The decrease is mainly attributable to the County's special item relating to the transfer of the family services operation to Southwest Health and Human Services.
- The net cost of governmental activities for the current fiscal year was \$5,225,815. The net cost was funded by general revenues totaling \$4,984,706.
- Fund balances of the governmental funds increased by \$1,125,909. Most of the increase can be attributed the issuance of the Series 2013A General Obligation Hospital Refunding Bonds in the amount of \$1,520,000 in the Medical Facility Bonds Debt Service Fund.
- For the year ended December 31, 2013, the assigned and unassigned balance of the General Fund was \$4,786,492, or 70.0 percent of the total General Fund expenditures for that year. This represents an increase from 2012, which had 63.7 percent of the total General Fund expenditures.
- The Pipestone County Medical Center's assets exceeded its liabilities by \$30,559,150 at June 30, 2013. The Medical Center recorded an increase in net position of \$1,742,783 for the year ended June 30, 2013.

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 level 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. 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. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents the County's 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. The County has the Pipestone County Medical Center reported under business-type activities.

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

Fund Level Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Ditch Special Revenue Fund, and the Medical Facility Bonds Debt Service Fund. Budgetary comparison schedules have 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.

Proprietary funds are used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public be financed or recovered primarily through user charges. The Pipestone County Medical Center is included in the proprietary fund reporting. The proprietary fund is reported on Exhibits 7 through 9.

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 32 through 79 of this report.

Other Information

Other information is provided as supplementary information regarding Pipestone County's intergovernmental revenue.

Government-Wide Financial Analysis

Over time, net position serves as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$58,499,510 at the close of 2013. The largest portion of Pipestone County's net position (80.1 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending.

	Net Position			
	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Assets				
Current and other assets	\$ 14,264,254	\$ 13,346,643	\$ 23,731,220	\$ 22,741,787
Capital assets	46,978,173	46,644,076	12,494,632	11,780,463
Total Assets	\$ 61,242,427	\$ 59,990,719	\$ 36,225,852	\$ 34,522,250
Liabilities				
Long-term liabilities	\$ 438,111	\$ 477,718	\$ 3,044,915	\$ 3,422,218
Other liabilities	2,304,806	772,382	2,621,787	2,283,665
Total Liabilities	\$ 2,742,917	\$ 1,250,100	\$ 5,666,702	\$ 5,705,883
Net Position				
Net investment in capital assets	\$ 46,878,611	\$ 46,383,907	\$ 9,449,717	\$ 8,358,245
Restricted	4,374,082	2,398,064	-	289,095
Unrestricted	7,246,817	9,958,648	21,109,433	20,169,027
Total Net Position	\$ 58,499,510	\$ 58,740,619	\$ 30,559,150	\$ 28,816,367

Unrestricted net position (in the amount of \$7,246,817)--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 12.4 percent of the net position.

Governmental Activities

The County's governmental activities net position decreased by 0.4 percent (\$58,499,510 for 2013 compared to \$58,740,619 for 2012). Key elements in this decrease in net position are as follows for 2013, with comparative data for 2012.

	Changes in Net Position			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues				
Program revenues				
Charges for services	\$ 2,379,779	\$ 2,860,016	\$ 22,912,325	\$ 11,886,889
Operating grants and contributions	4,048,489	6,005,348	-	-
Capital grants and contributions	763,103	1,726,248	-	-
General revenues				
Property taxes	4,500,501	4,388,574	-	-
Other	1,365,341	1,848,432	478,803	306,754
Total Revenues	\$ 13,057,213	\$ 16,828,618	\$ 23,391,128	\$ 12,193,643
Expenses				
General government	\$ 3,389,018	\$ 3,639,323	\$ -	\$ -
Public safety	2,611,780	2,608,699	-	-
Highways and streets	4,448,667	3,897,447	-	-
Sanitation	182,079	255,388	-	-
Human services	1,120,600	2,747,332	-	-
Health	57,576	57,576	-	-
Culture and recreation	127,554	137,709	-	-
Conservation of natural resources	469,336	558,821	-	-
Economic development	9,975	7,775	-	-
Interest	601	710	-	-
Medical Center	-	-	21,904,103	11,533,736
Total Expenses	\$ 12,417,186	\$ 13,910,780	\$ 21,904,103	\$ 11,533,736
Change in Net Position Before Transfers and Special Item	\$ 640,027	\$ 2,917,838	\$ 1,487,025	\$ 659,907
Transfers	(208,389)	(227,679)	255,758	113,848
Special Item	(672,747)	-	-	-
Increase in Net Position	\$ (241,109)	\$ 2,690,159	\$ 1,742,783	\$ 773,755
Net Position - Beginning	58,740,619	56,050,460	28,816,367	28,042,612
Net Position - Ending	\$ 58,499,510	\$ 58,740,619	\$ 30,559,150	\$ 28,816,367

Total governmental revenues for the County were \$13,057,213, total expenses were \$12,417,186, total transfers out were \$208,389, and a special item was \$672,747. This reflects a \$241,109 decrease in net position for the year ended December 31, 2013.

The cost of all governmental activities for the year was \$12,417,186. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities was only \$5,225,815 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,379,779; or by other governments and organizations that subsidized certain programs with grants and contributions--\$4,811,592. The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (\$4,500,501) (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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 that was placed on the County’s taxpayers by each of these functions.

	Governmental Activities			
	Total Cost of Services		Net Cost (Revenue) of Services	
	2013	2012	2013	2012
Highways and streets	\$ 4,448,667	\$ 3,897,447	\$ 363,221	\$ (1,626,304)
General government	3,389,018	3,639,323	2,418,450	2,707,956
Public safety	2,611,780	2,608,699	958,166	642,494
Human services	1,120,600	2,747,332	1,116,413	1,247,830
All others	847,121	1,017,979	369,565	347,192
Totals	<u>\$ 12,417,186</u>	<u>\$ 13,910,780</u>	<u>\$ 5,225,815</u>	<u>\$ 3,319,168</u>

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 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 \$10,647,646, an increase of \$1,125,909 in comparison with the prior year. Of the combined ending fund balances, \$8,104,050 represents unrestricted (assigned and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$4,786,492. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 70.0 percent of total General Fund expenditures of \$6,845,451. During 2013, the ending fund balance decreased by \$119,212.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$2,712,589 at fiscal year-end, representing 57.5 percent of its 2013 expenditures. The ending fund balance increased \$374,744 during 2013.

The Family Services Special Revenue Fund had an assigned fund balance of \$625,745 at fiscal year-end, representing 54.1 percent of its 2013 expenditures. The ending fund balance decreased \$661,310 during 2013, due to the transfer of the Family Service operations to Southwest Health and Human Services on January 1, 2013.

The Medical Facility Bonds Debt Service Fund had a restricted fund balance of \$1,623,854. On December 18, 2013, the County issued General Obligation Hospital Refunding Bonds, Series 2013A, in the amount of \$1,520,000. Proceeds of the bond issuance were receipted into this fund and will be transferred to the Medical Center Enterprise Fund for the 2014 debt refunding. The fund balance results from the delay in recognition of the transfer of the bond proceeds caused by the different year-end for the Medical Center Enterprise Fund.

Proprietary Fund

The Statement of Net Position at June 30, 2013, for the Pipestone County Medical Center indicates total assets of \$36,320,334, total liabilities of \$5,761,184, and net position of \$30,559,150. Total current assets were \$10,823,966, and total current liabilities were \$2,973,527, for a current ratio of 3.64, up from 3.59 at December 31, 2012. The Statement of Revenues, Expenses, and Changes in Net Position indicates total operating revenues of \$22,912,325 and total operating expenses of \$21,774,907, for an operating income of \$1,137,418, nonoperating revenues of \$478,803, nonoperating expenses of \$129,196, and transfers in of \$255,758, which contributed to the increase in net position from \$28,816,367 to \$30,559,150.

General Fund Budgetary Highlights

Over the course of the year, the County Board did not revise the General Fund budget.

The actual charges to appropriations (expenditures) were \$542,710 over the final budget amounts. The most significant variances occurred in building and plant, County-wide transportation, and other general government due to unanticipated building maintenance and capital asset acquisition.

Resources available for appropriation were \$400,104 over the final budgeted amount. Intergovernmental revenue, special assessments, gifts and contributions, and miscellaneous revenue were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2013, totaled \$46,978,173 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$334,097, or 0.7 percent over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure, machinery and equipment, and buildings offset by a decrease in land and other nondepreciated assets.

Capital Assets at Year-End (Net of Depreciation)

	2013	2012
Land and other nondepreciated assets	\$ 2,265,868	\$ 2,878,548
Land improvements	213,201	225,185
Infrastructure	37,603,570	37,288,020
Buildings	4,731,579	4,376,573
Machinery and equipment	2,163,955	1,875,750
Total	<u>\$ 46,978,173</u>	<u>\$ 46,644,076</u>

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

Pipestone County Medical Center's capital assets at June 30, 2013, amounted to \$12,494,632 (net accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2013, the County had no outstanding bonded debt.

Business-Type Activities

At June 30, 2013, the Pipestone County Medical Center had total long-term debt outstanding of \$3,044,915, which is for a portion of the hospital expansion and remodeling project. The project was principally completed in May 2003 and is allowing for better care to patients, improved physical conditions, and enhanced equipment. The new rehabilitation and surgery areas are vastly expanded from the previous layout and are benefiting the Medical Center in recruitment and retention of patients, employees, and physicians.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2014 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2013 was 3.9 percent. This compares favorably with the average annual state unemployment rate of 5.1 percent at the end of 2013. The 2013 estimated County population is 9,270, a decrease of 326, or 3.4 percent, from the 2010 census of 9,596.
- Among Pipestone County residents, the overall poverty rate was estimated to be 11.2 percent in 2012, compared to 11.4 percent in Minnesota.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Pipestone County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Tyler Reisch, County Auditor, Pipestone County Courthouse, 416 Hiawatha Avenue South, Pipestone, Minnesota 56164.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 9,244,315	\$ 6,973,125	\$ 16,217,440
Investments	1,219,000	-	1,219,000
Receivables - net	3,323,084	2,685,086	6,008,170
Loans receivable	193,756	-	193,756
Inventories	240,503	700,634	941,137
Prepaid items	43,596	370,639	414,235
Assets restricted as to use for			
Capital acquisition and debt redemption	-	12,140,204	12,140,204
Insurance	-	500,000	500,000
Investment in joint venture	-	361,532	361,532
Capital assets			
Nondepreciable capital assets	2,265,868	2,301,392	4,567,260
Depreciable capital assets - net of accumulated depreciation	44,712,305	10,193,240	54,905,545
	\$ 61,242,427	\$ 36,225,852	\$ 97,468,279
Total Assets	\$ 61,242,427	\$ 36,225,852	\$ 97,468,279
<u>Liabilities</u>			
Current liabilities			
Accounts payable and other current liabilities	\$ 607,909	\$ 2,424,345	\$ 3,032,254
Accrued interest payable	-	27,813	27,813
Unearned revenue	-	264,111	264,111
Internal balances	1,696,897	(94,482)	1,602,415
Long-term liabilities			
Due within one year	39,328	408,178	447,506
Due in more than one year	398,783	2,636,737	3,035,520
	\$ 2,742,917	\$ 5,666,702	\$ 8,409,619
Total Liabilities	\$ 2,742,917	\$ 5,666,702	\$ 8,409,619
<u>Net Position</u>			
Net investment in capital assets	\$ 46,878,611	\$ 9,449,717	\$ 56,328,328
Restricted for			
Other purposes	242,060	-	242,060
Public safety	93,512	-	93,512
Highways and streets	2,407,731	-	2,407,731
Debt service	1,630,779	-	1,630,779
Unrestricted	7,246,817	21,109,433	28,356,250
	\$ 58,499,510	\$ 30,559,150	\$ 89,058,660
Total Net Position	\$ 58,499,510	\$ 30,559,150	\$ 89,058,660

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	Expenses	Fees, Charges, Fines, and Other
Governmental activities		
General government	\$ 3,389,018	\$ 379,966
Public safety	2,611,780	1,355,527
Highways and streets	4,448,667	354,307
Sanitation	182,079	205,089
Human services	1,120,600	4,187
Health	57,576	-
Culture and recreation	127,554	-
Conservation of natural resources	469,336	80,703
Economic development	9,975	-
Interest	601	-
Total governmental activities	\$ 12,417,186	\$ 2,379,779
Business-type activities		
Medical Center	21,904,103	22,912,325
Total	\$ 34,321,289	\$ 25,292,104

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
Interest income
Miscellaneous
Minority interest

Transfers

Special Item

Transfer of family service operation to
Southwest Health and Human Services

Total general revenues, transfers, and special item

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 590,602	\$ -	\$ (2,418,450)	\$ -	\$ (2,418,450)
298,087	-	(958,166)	-	(958,166)
2,968,036	763,103	(363,221)	-	(363,221)
55,950	-	78,960	-	78,960
-	-	(1,116,413)	-	(1,116,413)
-	-	(57,576)	-	(57,576)
30,812	-	(96,742)	-	(96,742)
105,002	-	(283,631)	-	(283,631)
-	-	(9,975)	-	(9,975)
-	-	(601)	-	(601)
\$ 4,048,489	\$ 763,103	\$ (5,225,815)	\$ -	\$ (5,225,815)
-	-	-	1,008,222	1,008,222
\$ 4,048,489	\$ 763,103	\$ (5,225,815)	\$ 1,008,222	\$ (4,217,593)
		\$ 4,500,501	\$ -	\$ 4,500,501
		6,234	-	6,234
		474,650	-	474,650
		69,895	-	69,895
		662,369	-	662,369
		91,445	149,948	241,393
		60,748	-	60,748
		-	328,855	328,855
		(208,389)	255,758	47,369
		(672,747)	-	(672,747)
		\$ 4,984,706	\$ 734,561	\$ 5,719,267
		\$ (241,109)	\$ 1,742,783	\$ 1,501,674
		58,740,619	28,816,367	87,556,986
		\$ 58,499,510	\$ 30,559,150	\$ 89,058,660

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,249,521	\$ 1,485,583
Undistributed cash in agency funds	70,493	20,097
Petty cash and change funds	3,025	100
Investments	44,000	1,175,000
Taxes receivable		
Prior	24,657	8,832
Special assessments receivable		
Prior	15,567	-
Noncurrent	337,574	-
Accounts receivable	100,950	1,481
Loans receivable	-	-
Accrued interest receivable	30,608	3,021
Due from other funds	125	17,298
Due from other governments	88,252	2,693,212
Advance to other funds	25,000	-
Inventories	-	240,503
Prepaid items	43,596	-
	\$ 6,033,368	\$ 5,645,127
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 131,968	\$ 46,712
Salaries payable	159,573	48,741
Contracts payable	92,162	63,551
Due to other funds	17,298	125
Due to other governments	44,536	14,577
Advance from other funds	-	-
	\$ 445,537	\$ 173,706
Deferred Inflows of Resources		
Unavailable revenue	\$ 384,412	\$ 2,449,773

EXHIBIT 3

<u>Family Services</u>	<u>Medical Facility Bonds Debt Service</u>	<u>Other Governmental Fund Ditch</u>	<u>Total</u>
\$ 599,084	\$ 1,781,149	\$ 4,563	\$ 9,119,900
26,661	4,039	-	121,290
-	-	-	3,125
-	-	-	1,219,000
12,005	6,925	-	52,419
-	-	-	15,567
-	-	-	337,574
-	-	-	102,431
193,756	-	-	193,756
-	-	-	33,629
-	-	-	17,423
-	-	-	2,781,464
-	-	-	25,000
-	-	-	240,503
-	-	-	43,596
<u>\$ 831,506</u>	<u>\$ 1,792,113</u>	<u>\$ 4,563</u>	<u>\$ 14,306,677</u>
\$ -	\$ 5,750	\$ 16	\$ 184,446
-	-	323	208,637
-	-	-	155,713
-	155,584	-	173,007
-	-	-	59,113
-	-	25,000	25,000
<u>\$ -</u>	<u>\$ 161,334</u>	<u>\$ 25,339</u>	<u>\$ 805,916</u>
<u>\$ 12,005</u>	<u>\$ 6,925</u>	<u>\$ -</u>	<u>\$ 2,853,115</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General	Road and Bridge
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 240,503
Prepaid items	43,596	-
Advance to other funds	25,000	-
Noncurrent loans receivable	-	-
Restricted for		
Missing heirs	6,998	-
Law library	27,660	-
Recorder's technology fund	57,103	-
Recorder's compliance fund	110,176	-
Enhanced 911	48,900	-
Sheriff's contingency	2,397	-
Transit	40,123	-
Probation supervision	7,544	-
DUI fees	6,723	-
Drug forfeitures	8,432	-
Jail canteen fund	4,452	-
Permit to carry	15,064	-
Highway allotments	-	68,556
Septic/sewer loans	12,759	-
Debt service	-	-
Assigned for		
Elections	110,913	-
Buildings	107,657	-
Capital improvements	301,176	-
Capital equipment	-	452,500
Ambulance	60,000	-
Solid waste/recycling	465,172	-
County septic loan program	82,830	-
Computer software	200,212	-
Rock River septic loans	8,940	-
Prepaid court expense	1,014	-
AgBMP septic loan	7,932	-
Road and bridge	-	2,260,089
Family services	-	-
Unassigned	3,440,646	-
Total Fund Balances	\$ 5,203,419	\$ 3,021,648
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,033,368	\$ 5,645,127

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Medical Facility Bonds Debt Service</u>	<u>Other Governmental Fund Ditch</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 240,503
-	-	-	43,596
-	-	-	25,000
193,756	-	-	193,756
-	-	-	6,998
-	-	-	27,660
-	-	-	57,103
-	-	-	110,176
-	-	-	48,900
-	-	-	2,397
-	-	-	40,123
-	-	-	7,544
-	-	-	6,723
-	-	-	8,432
-	-	-	4,452
-	-	-	15,064
-	-	-	68,556
-	-	-	12,759
-	1,623,854	-	1,623,854
-	-	-	110,913
-	-	-	107,657
-	-	-	301,176
-	-	-	452,500
-	-	-	60,000
-	-	-	465,172
-	-	-	82,830
-	-	-	200,212
-	-	-	8,940
-	-	-	1,014
-	-	-	7,932
-	-	-	2,260,089
625,745	-	-	625,745
-	-	(20,776)	3,419,870
<u>\$ 819,501</u>	<u>\$ 1,623,854</u>	<u>\$ (20,776)</u>	<u>\$ 10,647,646</u>
<u>\$ 831,506</u>	<u>\$ 1,792,113</u>	<u>\$ 4,563</u>	<u>\$ 14,306,677</u>

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)	\$	10,647,646
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.		46,978,173
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		2,853,115
Internal balance results from the delay in recognition of the transfer of bond proceeds caused by the different year-end for the Medical Center Enterprise Fund.		(1,541,313)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	\$ (214,225)	
Loans payable	(223,886)	(438,111)
	<u> </u>	<u> </u>
Net Position of Governmental Activities (Exhibit 1)		<u>58,499,510</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Road and Bridge
Revenues		
Taxes	\$ 2,809,621	\$ 830,342
Special assessments	261,493	-
Licenses and permits	12,438	-
Intergovernmental	1,703,204	3,976,900
Charges for services	1,376,153	130,157
Fines and forfeits	7,190	-
Gifts and contributions	3,500	-
Investment earnings	82,557	9,415
Miscellaneous	422,672	184,025
	\$ 6,678,828	\$ 5,130,839
Expenditures		
Current		
General government	\$ 3,409,857	\$ -
Public safety	2,565,480	-
Highways and streets	-	4,428,840
Sanitation	214,010	-
Culture and recreation	76,903	-
Conservation of natural resources	423,811	-
Economic development	9,975	-
Intergovernmental	128,227	289,562
Debt service		
Principal	13,093	-
Interest	4,095	-
	\$ 6,845,451	\$ 4,718,402
Excess of Revenues Over (Under) Expenditures	\$ (166,623)	\$ 412,437
Other Financing Sources (Uses)		
Transfers out	\$ -	\$ -
Loans issued	47,411	-
Proceeds from sale of refunding bonds	-	-
Premium on sale of refunding bonds	-	-
Proceeds from sale of capital assets	-	40,125
	\$ 47,411	\$ 40,125

EXHIBIT 5

<u>Family Services</u>	<u>Medical Facility Bonds Debt Service</u>	<u>Other Governmental Fund Ditch</u>	<u>Total</u>
\$ 1,101,741	\$ 238,144	\$ -	\$ 4,979,848
-	-	-	261,493
-	-	-	12,438
59,671	-	-	5,739,775
-	-	-	1,506,310
-	-	-	7,190
-	-	-	3,500
1,472	1,615	-	95,059
4,187	-	-	610,884
\$ 1,167,071	\$ 239,759	\$ -	\$ 13,216,497
\$ -	\$ -	\$ -	\$ 3,409,857
-	-	-	2,565,480
-	-	-	4,428,840
-	-	-	214,010
-	-	-	76,903
-	-	40,996	464,807
-	-	-	9,975
1,155,634	-	-	1,573,423
-	-	-	13,093
-	-	-	4,095
\$ 1,155,634	\$ -	\$ 40,996	\$ 12,760,483
\$ 11,437	\$ 239,759	\$ (40,996)	\$ 456,014
\$ -	\$ (208,389)	\$ -	\$ (208,389)
-	-	-	47,411
-	1,496,332	-	1,496,332
-	44,981	-	44,981
-	-	-	40,125
\$ -	\$ 1,332,924	\$ -	\$ 1,420,460

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Road and Bridge
Special Item		
Transfer of family service operation to Southwest Health and Human Services	\$ -	\$ -
Net Change in Fund Balance	\$ (119,212)	\$ 452,562
Fund Balance - January 1	5,322,631	2,646,904
Increase (decrease) in inventories	-	(77,818)
Fund Balance - December 31	\$ 5,203,419	\$ 3,021,648

EXHIBIT 5
(Continued)

<u>Family Services</u>	<u>Medical Facility Bonds Debt Service</u>	<u>Other Governmental Fund Ditch</u>	<u>Total</u>
\$ (672,747)	\$ -	\$ -	\$ (672,747)
\$ (661,310)	\$ 1,572,683	\$ (40,996)	\$ 1,203,727
1,480,811	51,171	20,220	9,521,737
-	-	-	(77,818)
<u>\$ 819,501</u>	<u>\$ 1,623,854</u>	<u>\$ (20,776)</u>	<u>\$ 10,647,646</u>

**PIPESTONE COUNTY
PIPESTONE, 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, 2013**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 1,203,727

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 revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources - December 31	\$ 2,853,115	
Deferred inflows of resources - January 1	(3,052,524)	(199,409)

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 2,049,414	
Net book value of assets disposed of	(136,228)	
Current year depreciation and depletion	(1,579,090)	334,096

The issuance of long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds of new debt	\$ (47,411)	
Principal payments on debt	13,093	(34,318)

The delay in recognition of the transfer of bonds caused by a different year-end for the Medical Center Enterprise Fund provides current financial resources in the government funds but is reported as an internal balance and, therefore, is not reported in the statement of activities.		(1,541,313)
---	--	-------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 73,926	
Change in inventories	(77,818)	(3,892)

Change in Net Position of Governmental Activities (Exhibit 2) \$ (241,109)

PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2013**

Assets

Current assets	
Cash and pooled investments	\$ 6,973,125
Accounts receivable - net	68,363
Patient and resident receivables - net	2,322,075
Due from minority interest partner	294,648
Due from other funds	94,482
Inventories	700,634
Prepaid items	370,639
Total current assets	\$ 10,823,966
Noncurrent assets	
Assets internally designated for	
Capital acquisition and debt redemption	\$ 12,140,204
Insurance	500,000
Investment in joint venture	361,532
Total noncurrent restricted assets	\$ 13,001,736
Capital assets - net	\$ 12,494,632
Total Assets	\$ 36,320,334

Liabilities

Current liabilities	
Accounts payable	\$ 1,645,878
Salaries payable	175,507
Paid time off	524,098
Payroll taxes and other	78,862
Interest	27,813
Unearned revenues - current portion	113,191
Current maturities of long-term debt	408,178
Total current liabilities	\$ 2,973,527
Noncurrent liabilities	
Long-term debt, less current maturities	2,636,737
Other liabilities	
Unearned revenues - less current portion	150,920
Total Liabilities	\$ 5,761,184

Net Position

Net investment in capital assets	\$ 9,449,717
Unrestricted	21,109,433
Total Net Position	\$ 30,559,150

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

Operating Revenues	
Net patient and resident service revenue - net of provisions for bad debts	\$ 22,040,803
Miscellaneous	871,522
	<hr/>
Total Operating Revenues	\$ 22,912,325
Operating Expenses	
Professional care of patients and residents	\$ 15,739,931
General and administrative	3,197,477
Property and household	1,224,343
Depreciation and amortization	1,197,395
Dietary	415,761
	<hr/>
Total Operating Expenses	\$ 21,774,907
Operating Income (Loss)	\$ 1,137,418
Nonoperating Revenues (Expenses)	
Interest income	\$ 149,948
Minority interest in joint ventures	328,855
Interest expense	(123,548)
Other expense	(5,648)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 349,607
Income (Loss) Before Capital Contributions and Transfers	\$ 1,487,025
Transfers in	255,758
	<hr/>
Change in net position	\$ 1,742,783
Net Position - July 1	28,816,367
	<hr/>
Net Position - June 30	\$ 30,559,150
	<hr/> <hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 22,989,123
Other receipts	1,166,513
Cash payments to employees for services	(10,662,041)
Cash payments to suppliers for goods and services	<u>(10,308,253)</u>
Net cash provided by (used in) operating activities	<u>\$ 3,185,342</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (1,860,885)
Principal paid on long-term debt	(377,303)
Transfer from County	255,758
Interest paid on long-term debt	<u>(125,812)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (2,108,242)</u>
Cash Flows from Investing Activities	
Sales and maturities of investments	\$ 19,172
Interest income and other nonoperating cash flows	144,300
Capital contributed by joint venture partner	117,248
Distribution from joint venture	<u>167,789</u>
Net cash provided by (used in) investing activities	<u>\$ 448,509</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,525,609
Cash and Cash Equivalents - July 1	<u>5,737,355</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 7,262,964</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	\$ 6,973,125
Noncurrent cash	<u>289,839</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 7,262,964</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2013
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 1,137,418</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 1,197,395
Non-cash patronage allocation	(107,897)
(Increase) decrease in receivables	594,200
(Increase) decrease in supplies	(55,494)
Increase (decrease) in prepaid expenses	(15,148)
Increase (decrease) in accounts payable	397,625
Increase (decrease) in accrued expenses	(226,868)
Increase (decrease) in unearned revenue	<u>264,111</u>
Total adjustments	<u>\$ 2,047,924</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 3,185,342</u></u>

FIDUCIARY FUNDS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2013

<u>Assets</u>	
Cash and pooled investments	<u>\$ 188,386</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 188,386</u>

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.9. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

A. Financial Reporting Entity

Pipestone 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 Pipestone County and its blended component unit. 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

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. Pipestone County has one blended component unit.

<u>Component Unit</u>	<u>Component Unit of Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Pipestone County Medical Center provides acute inpatient and outpatient care to the County area.	County Commissioners are the members of the Pipestone County Medical Center Board, and a financial benefit/burden relationship exists.	Separate financial statements can be obtained at: 916 Fourth Avenue S.W. P. O. Box 370 Pipestone, Minnesota 56164

The Medical Center adopted a new fiscal year end of June 30, effective June 30, 2012. The fiscal year of July 1, 2012 to June 30, 2013, is presented in these financial statements.

Joint Ventures

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis that 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 County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activities 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 unit. 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. All remaining governmental funds are aggregated and reported as nonmajor funds. The County presents only one enterprise fund.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

- The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.
- The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Family Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.
- The Medical Facility Bonds Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

The County reports the following major enterprise fund:

- The Medical Center Fund is used to account for the operation of the Medical Center, a blended component unit of Pipestone County. The Medical Center consists of a 25-bed acute care hospital.

Additionally, the County reports the following fund types:

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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.

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. Pipestone 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 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 general long-term debt and acquisitions under capital leases are reported as other financing sources.

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.

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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, excluding assets limited as to use.

Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments 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 2013 were \$84,857.

Pipestone 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.

The Medical Center's investment income for the year ended June 30, 2013, was \$149,948 and is included in nonoperating revenues (expenses).

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 customer and third-party payor obligations. 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 estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average 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, their use is limited by applicable laws and regulations.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an estimated useful life in excess of two years and an initial, individual cost of more than \$10,000 for governmental activities or more than \$5,000 for business-type activities. 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Capital Assets (Continued)

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 County did not have any capitalized interest.

Property, plant, and equipment of the governmental activities are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 35
Buildings	25 - 60
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

Capital assets other than land and construction in progress of business-type activities are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 20
Buildings and fixed equipment	5 - 40
Major movable equipment	5 - 20

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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. A liability for compensated absences is reported on the governmental funds only if they have matured, for example as a result of employee

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Compensated Absences (Continued)

resignations and retirements. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation. Per County policy, employees are not paid an equivalent cash value of accumulated sick leave upon termination.

8. Long-Term Obligations

In the government-wide financial statements and 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 are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently the County has no items that qualify for reporting in this category.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

9. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

10. 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 portion of net position that does not meet the definition of restricted or net investment in capital assets.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

11. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Pipestone 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 for 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 imposed by law through constitutional provisions or enabling legislation.
- 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 that 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.
- 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.

Pipestone County’s fund balance policy does not address the order of resource use or any stabilization arrangements for emergency situations.

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

12. Minimum Fund Balance

Pipestone County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore the County Board has determined it needs to maintain a minimum unassigned fund balance at least equal to 35 to 50 percent of total General Fund operating expenditures. At December 31, 2013, unrestricted fund balance for the General Fund was at or above the minimum fund balance level.

13. 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.

14. Special Item

Pipestone County approved a resolution seeking to join Southwest Health and Human Services (SWHHS) for its human services function, commencing January 1, 2013. In the approved resolution, Pipestone County agreed to contribute \$487,940 to the human services function of SWHHS.

E. Medical Center - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Medical Center - Net Patient Service Revenue (Continued)

retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows:

Medicare - The Medical Center is licensed as a Critical Access Hospital. The Medical Center is reimbursed for most acute care services at cost plus one percent with final settlement determined after submission of annual cost reports by the Medical Center subject to audits thereof by the Medicare intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2010. Clinical services are paid on a cost basis or a fixed fee schedule.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are paid based on a fee screen basis.

Blue Cross - Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge and/or at a discount from established charges. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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

Laws and regulations governing Medicare, Medicaid, and other 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2013:

	Expenditures	Final Budget	Excess
General Fund	\$ 6,845,451	\$ 6,302,741	\$ 542,710
Ditch Special Revenue Fund	40,996	10,400	30,596

B. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$20,776 as of December 31, 2013. The fund balance deficit will be eliminated by future levy of special assessments.

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	\$ 9,244,315
Investments	1,219,000
Business-type activities	
Cash and pooled investments	6,973,125
Restricted assets	
Capital improvements and debt redemption	12,140,204
Insurance	500,000
Statement of fiduciary net position	
Cash and pooled investments	188,386
Total Cash and Investments	\$ 30,265,030

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2013, 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;

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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 matures in 270 days or less; and
- (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. It is the County's policy to minimize exposure to interest rate risk by: (1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and (3) limiting the average maturity in accordance with the County's cash requirements.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 has adopted a policy to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2013, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2013, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation note	AA+	S&P		10/30/2023	\$ 250,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		12/27/2023	250,000
Total Federal Home Loan Mortgage Corporation notes			10.5%		\$ 500,000
Federal Home Loan Bank bond	AA+	S&P		03/28/2023	\$ 450,000
Federal Home Loan Bank bond	AA+	S&P		05/22/2023	250,000
Federal Home Loan Bank bond	AA+	S&P		03/14/2023	750,000
Federal Home Loan Bank bond	AA+	S&P		05/23/2023	299,875
Federal Home Loan Bank bond	AA+	S&P		09/28/2022	150,000
Federal Home Loan Bank bond	AA+	S&P		11/28/2022	300,000
Federal Home Loan Bank bond	AA+	S&P		12/28/2022	100,000
Total Federal Home Loan Bank bonds			48.2%		\$ 2,299,875
Investment pools/mutual funds					
Raymond James Money Market Account	N/R	N/A	N/A	N/A	\$ 2,500
Negotiable certificates of deposit with brokers					
Discover Bank	N/A	N/A	5.0%	07/03/2017	\$ 240,000
GE Capital Bank	N/A	N/A	5.1%	07/06/2018	245,000
Goldman Sachs	N/A	N/A	5.1%	12/31/2018	245,000
CIT Bank	N/A	N/A	5.0%	06/27/2019	240,000
GE Capital Retail Bank	N/A	N/A	5.1%	Various	245,000
Other certificates of deposit with brokers	N/A	N/A	N/A	Various	720,000
Total negotiable certificates of deposit with brokers					\$ 1,935,000
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 39,000
Total investments					\$ 4,776,375
Checking					9,410,170
Savings					2,469,995
Petty cash and change funds					3,125
Certificates of deposit					13,605,365
Total Cash and Investments					\$ 30,265,030

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poor's

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 52,419	\$ -
Special assessments	353,141	267,052
Due from other governments	2,781,464	-
Accounts receivable	102,431	-
Loans receivable	193,756	189,043
Interest	33,629	-
	\$ 3,516,840	\$ 456,095
Business-Type Activities		
Accounts receivable	\$ 68,363	\$ -
Due from minority interest partner	294,648	-
Patient and resident service revenue	2,322,075	-
	\$ 2,685,086	\$ -

In 2013, Pipestone County executed a promissory note totaling \$197,000 in order for Southwestern Mental Health Center, Inc., to complete a building project. The note has a payback of 30 years at three percent interest.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

A summary of net patient service revenue, contractual adjustments, and the provision for bad debts for the year ended June 30, 2013, is as follows:

Total patient and resident service revenue	\$	<u>31,453,117</u>
Contractual adjustments		
Medicare	\$	(5,182,901)
Medicaid		(2,247,857)
Clinic		(413,294)
Other		<u>(1,204,153)</u>
Total contractual adjustments	\$	<u>(9,048,205)</u>
Provision for bad debts	\$	<u>(364,109)</u>
Net Patient and Resident Service Revenue	\$	<u>22,040,803</u>

3. Capital Assets

Governmental Activities

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 1,124,479	\$ 14,492	\$ 10,000	\$ 1,128,971
Right-of-way	1,061,060	772	-	1,061,832
Construction in progress	657,085	39,141	657,085	39,141
Historical treasures	<u>35,924</u>	<u>-</u>	<u>-</u>	<u>35,924</u>
Total capital assets not depreciated	<u>\$ 2,878,548</u>	<u>\$ 54,405</u>	<u>\$ 667,085</u>	<u>\$ 2,265,868</u>
Capital assets depreciated				
Buildings	\$ 7,207,101	\$ 487,575	\$ 14,106	\$ 7,680,570
Land improvements	354,451	-	-	354,451
Machinery and equipment	4,949,671	804,190	224,728	5,529,133
Infrastructure	<u>50,475,225</u>	<u>1,370,329</u>	<u>74,587</u>	<u>51,770,967</u>
Total capital assets depreciated	<u>\$ 62,986,448</u>	<u>\$ 2,662,094</u>	<u>\$ 313,421</u>	<u>\$ 65,335,121</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 2,830,528	\$ 132,569	\$ 14,106	\$ 2,948,991
Land improvements	129,266	11,984	-	141,250
Machinery and equipment	3,073,921	394,682	103,425	3,365,178
Infrastructure	13,187,205	1,039,855	59,663	14,167,397
Total accumulated depreciation	\$ 19,220,920	\$ 1,579,090	\$ 177,194	\$ 20,622,816
Total capital assets depreciated, net	\$ 43,765,528	\$ 1,083,004	\$ 136,227	\$ 44,712,305
Governmental Activities Capital Assets, Net	\$ 46,644,076	\$ 1,137,409	\$ 803,312	\$ 46,978,173

Construction in progress at December 31, 2013, consists of amounts completed on an open building project.

Business-Type Activities

Capital asset activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 786,655	\$ 206,080	\$ -	\$ 992,735
Construction in progress	810,624	1,851,838	1,353,805	1,308,657
Total capital assets not depreciated	\$ 1,597,279	\$ 2,057,918	\$ 1,353,805	\$ 2,301,392
Capital assets depreciated				
Buildings	\$ 12,759,321	\$ 27,898	\$ 20,749	\$ 12,766,470
Land improvements	695,424	-	-	695,424
Fixed equipment	3,461,682	422,352	2,003	3,882,031
Major movable equipment	6,909,166	729,870	124,808	7,514,228
Total capital assets depreciated	\$ 23,825,593	\$ 1,180,120	\$ 147,560	\$ 24,858,153

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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				
Buildings	\$ 5,690,035	\$ 380,288	\$ 11,409	\$ 6,058,914
Land improvements	375,154	30,441	-	405,595
Fixed equipment	2,238,699	161,211	2,003	2,397,907
Major movable equipment	5,338,521	574,776	110,800	5,802,497
Total accumulated depreciation	\$ 13,642,409	\$ 1,146,716	\$ 124,212	\$ 14,664,913
Total capital assets depreciated, net	\$ 10,183,184	\$ 33,404	\$ 23,348	\$ 10,193,240
Business-Type Activities				
Capital Assets, Net	\$ 11,780,463	\$ 2,091,322	\$ 1,377,153	\$ 12,494,632

Construction in progress at June 30, 2013 consists of expenditures for a clinic and hospice building project and various other remodeling and equipment projects.

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

Governmental Activities	
General government	\$ 190,087
Public safety	164,231
Highways and streets, including depreciation of infrastructure assets	1,203,746
Sanitation	6,050
Human services	14,976
Total Depreciation Expense - Governmental Activities	\$ 1,579,090
Business-Type Activities	
Medical Center	\$ 1,146,716

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ 125	\$ 17,298
Road and Bridge Special Revenue Fund	17,298	125
Medical Facility Bonds Debt Service Fund	-	155,584
Total governmental funds	\$ 17,423	\$ 173,007
Medical Center Enterprise Fund	94,482	-
Total	\$ 111,905	\$ 173,007
Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2013	61,102	-
Total	\$ 173,007	\$ 173,007

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

	Interfund Transfer In	Interfund Transfer Out
Medical Facility Bonds Debt Service Fund	\$ -	\$ 208,389
Medical Center Enterprise Fund	255,758	-
Total	\$ 255,758	\$ 208,389
 Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2013	 (47,369)	 -
Total	\$ 208,389	\$ 208,389

The transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund was to provide funds for debt service.

3. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 25,000

The purpose of the advances from the General Fund to the Ditch Special Revenue Fund is to provide cash flow for various drainage systems. The advances will be repaid in future years through the use of special assessments levied on the benefited parcels.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 184,446	\$ 1,645,878
Salaries payable	208,637	175,507
Payroll taxes and other	-	78,862
Contracts payable	155,713	-
Due to other governments	59,113	-
Paid time off	-	524,098
	\$ 607,909	\$ 2,424,345
Total Payables	\$ 607,909	\$ 2,424,345

2. Internal Balances

	Governmental Activities	Business-Type Activities
Internal Balances	\$ 1,696,897	\$ (94,482)

The difference in internal balances between the governmental activities and business-type activities is due to a timing difference in transactions between the County's governmental activities, reported as of December 31, 2013, and business-type activities, reported as of June 30, 2013.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The County has active construction projects as of December 31, 2013. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund		
Tower roof	\$ 70,000	\$ 10,000
Business-Type Activities		
Medical Center Enterprise Fund		
Remodeling and equipment projects	1,308,657	1,370,000

4. Leases

Operating Leases

The Medical Center leases certain equipment under non-cancelable long-term lease agreements. Total lease expense for the year ended June 30, 2013, for all operating leases was \$288,927. Minimum future lease payments for the operating leases are as follows:

Year Ending June 30	Principal
2014	\$ 23,820
2015	23,820
2016	6,381
Total	\$ 54,021

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

B. Liabilities (Continued)

5. Long-Term Debt

Loans Payable

The County entered into loan agreements with the Minnesota Department of Agriculture and the Minnesota Pollution Control Agency for financing of failing septic systems. The loans are secured by special assessments placed on the individual parcels requesting funding on a project. Loan payments are reported in the General Fund.

Governmental Activities

Type of Indebtedness	Final Maturity	Semiannual Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
2005 Redwood River CWP Project	2017	\$2,668	2.00	\$ 48,149	\$ 20,416
2009 Redwood River CWP Project	2021	\$376	2.00	6,783	5,532
2011 Rock River Septic Loan Program	2022	\$6,570	2.00	105,501	103,016
2011 Pipestone County Ag Best Management Loan Program	2020	\$2,705 - \$8,062	N/A	80,683	77,978
2013 Rock River Septic Loan Program	2026	\$5,763	2.00	16,944	16,944
Total Loans Payable				<u>\$ 258,060</u>	<u>\$ 223,886</u>

N/A - Not Applicable

Bonds and Notes Payable

Business-Type Activities

Type of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance June 30, 2013
G.O. Hospital Bonds of 2005	2022	\$155,000 - \$220,000	3.50 - 4.15	\$ 2,140,000	\$ 1,690,000
Health Facilities Revenue Note, Series 2001	2018	\$240,000 - \$290,000	Variable	3,075,000	1,354,915
Total G.O. Bonds and Revenue Notes				<u>\$ 5,215,000</u>	<u>\$ 3,044,915</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2013, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 22,494	\$ 2,502
2015	26,674	2,189
2016	27,318	1,871
2017	27,975	1,545
2018	23,290	1,240
2019 - 2023	79,191	2,672
Totals	<u>\$ 206,942</u>	<u>\$ 12,019</u>

Loans of \$16,944 for the 2013 Rock River Septic Loan Program are not included in the debt service requirements because a fixed repayment schedule is not available.

Business-Type Activities

Debt service requirements at June 30, 2013, were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 408,178	\$ 107,495
2015	427,348	92,299
2016	436,858	76,415
2017	456,718	59,724
2018	454,367	42,093
2019 - 2022	861,446	69,430
Totals	<u>\$ 3,044,915</u>	<u>\$ 447,456</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

Governmental Activities

Activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 189,567	\$ 47,411	\$ 13,092	\$ 223,886	\$ 22,494
Compensated absences	288,151	170,630	244,556	214,225	16,834
Governmental Activities Long-Term Liabilities	<u>\$ 477,718</u>	<u>\$ 218,041</u>	<u>\$ 257,648</u>	<u>\$ 438,111</u>	<u>\$ 39,328</u>

Business-Type Activities

Activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 1,845,000	\$ -	\$ 155,000	\$ 1,690,000	\$ 160,000
Health Facilities Revenue Note, Series 2001	1,577,218	-	222,303	1,354,915	248,178
Business-Type Activities Long-Term Liabilities	<u>\$ 3,422,218</u>	<u>\$ -</u>	<u>\$ 377,303</u>	<u>\$ 3,044,915</u>	<u>\$ 408,178</u>

On December 18, 2013, Pipestone County issued General Obligation Hospital Refunding Bonds, Series 2013A, in the amount of \$1,520,000. Proceeds will be used to refund the Pipestone County Medical Center's General Obligation Bonds, Series 2005. Proceeds of the bond issuance were receipted in the County's Medical Facility Bonds Debt Service Fund and will be transferred to the Medical Center Enterprise Fund for the 2014 debt refunding and recognized as a liability.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Net Position

Of the \$21,109,433 of unrestricted net position in the Medical Center Enterprise Fund reported as of June 30, 2013, \$12,640,204 has been designated by the Board for capital acquisitions, debt redemption and insurance. Designated funds remain under the control of the Board, which may at its discretion use the funds for other purposes.

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Pipestone County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional 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).

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 remaining year. 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 remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional 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 Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional 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. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2013:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 729,050	\$ 528,363	\$ 806,576
Public Employees Police and Fire Fund	98,163	103,142	96,458
Public Employees Correctional Fund	36,569	36,798	35,023

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

B. Defined Contribution Plan

Two Board members of Pipestone 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 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,252	\$ 2,252
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

Pipestone 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 for which the County carries commercial insurance. To manage these risks, 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 group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. 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 \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Risk Management (Continued)

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant 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, 2013, the Lincoln-Pipestone Rural Water System had \$37,928,505 of general obligation bonds and other loans 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

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

In 2013, Lincoln County and Nobles County issued General Obligation Water System Refunding Bonds, Series 2013A, for \$3,055,000 and General Obligation Water Revenue Refunding Bonds, Series 2013A, \$2,910,000, respectively, on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2005 and 2007.

B. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 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 functions. Funding is provided by the member counties 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human service functions were assumed by SWHHS as of January 1, 2012. In 2012, Redwood County and Pipestone County petitioned to join SWHHS. Redwood County's health and human service functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

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 Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties as set forth in Minn. Stat. ch. 145A and made up of one County Commissioner and one alternate from each member county unless such county shall have a population in excess of twice that of any other member county, in which case it shall have two Commissioners and two alternates.

Financing is provided by state and federal grants and appropriations from member counties. Pipestone County's contribution in 2013 for the human services function was \$1,150,292, and its contribution to the health services function was \$57,576.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; and Southwest Health and Human Services representing Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board shall take actions and enters into such agreements as necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that serves the needs of adults with serious and persistent mental illness. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at the Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Lincoln-Pipestone Rural Water System

Pipestone County, along with Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, 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 Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. 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, 2013, were \$37,928,505.

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

Southwest Regional Solid Waste Commission

Pipestone County has entered into a joint powers agreement with 11 other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation, pursuant to Minn. Stat. chs. 400 and 115A, to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

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

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 N. Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Prime West Health System

In December 1998, Pipestone County became a member of the Prime West Central County-Based Purchasing Initiative Joint Powers Board (since renamed Prime West Health System) with Big Stone, Douglas, Grant, McLeod, Meeker, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the Prime West Health System. Pipestone County, in partnership with these twelve counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of the Prime West Health System is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the Prime West Health System and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at Prime West Health, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2013, Pipestone County did not make a contribution to the Partnership.

McLeod County acts as fiscal agent for the Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at 830 - 11th Street East, Glencoe, Minnesota 55336.

Central Minnesota Diagnostics, Inc.

The Medical Center and other hospitals (all unrelated parties to the Medical Center) formed a non-profit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed-upon shared services to those hospitals who are members of this corporation. CMDI operates as a non-profit cooperative and allocates income to its member hospitals based on the services the member hospitals purchase from CMDI. The Medical Center records its investment in CMDI on the equity method of accounting, which approximates the Medical Center's equity in the underlying book value of CMDI.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Diagnostics, Inc. (Continued)

CMDI provides the equipment for computer tomography (CT) scans for the Medical Center's patients. The Medical Center billed and collected the revenue for these services to patients and paid CMDI \$307,360 in the year ended June 30, 2013, for the use of the equipment. At June 30, 2013, the Medical Center owned 1.0 percent of CMDI.

Southwestern Mental Health Center, Inc.

The Southwestern Mental Health Center, Inc., is a private, non-profit agency established in 1959 by Cottonwood, Jackson, Nobles, Pipestone, and Rock Counties in southwestern Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

In 2013, Pipestone County paid \$490 to the Southwestern Mental Health Center, Inc. for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc. can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Murray, Nobles, Pipestone, and Rock Counties and the Cities of Adrian, Fulda, Slayton, and Worthington. The Task Force provides drug enforcement services for member organizations.

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of the Chiefs of Police and Sheriff from each party.

Fiscal agent responsibilities for the Task Force are with the City of Worthington. During the year, Pipestone County provided \$28,788 to the Task Force.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc. (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of Southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine.

SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member County. Pipestone County provided \$2,245 to this organization in 2013.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

Southwest Minnesota Regional Radio Board

The Southwest Minnesota Regional Radio Board Joint Powers Board was established April 22, 2008, between Pipestone County, the City of Marshall, the City of Worthington, and 12 other counties under the 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.

Financing is provided by the appropriations from member parties and by state and federal grants. During 2013, Pipestone County contributed \$1,823 to the Joint Powers Board.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

C. Jointly-Governed Organizations

Pipestone 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 cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$2,483 to the Project.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2013, Pipestone County paid \$2,000 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, the County made payments of \$780 to the RCRCA.

Pipestone County Economic Development Authority

The Pipestone County Economic Development Authority is a not-for-profit economic development authority created by a joint powers agreement between all of the cities in Pipestone County and the Board of County Commissioners. The Board is comprised of two County Commissioners and one individual from each of the seven city members (generally the mayor or their designee). The purpose of the Authority is to fulfill a

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Pipestone County Economic Development Authority (Continued)

community need for government assistance to promote economic growth in distressed areas and in times when growth is dormant or in decline. The County did not contribute to the Authority in 2013.

Intelligent Transit System (ITS) Transit Consortium

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include the counties of Meeker, Pipestone, Sherburne, Wright, Brown, and Martin. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During 2013, the County did not contribute any funding to the Transit Consortium.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

The Region Five - Southwest Minnesota Security Emergency Management Organization (SWRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SWRHSEM region. Control is vested in the Board, which is composed of representatives appointed by each Board of County Commissioners. Pipestone County's responsibility does not extend beyond making this appointment.

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Pipestone County expended \$57,847 to the MCCC.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the Joint Powers.

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, and the City of Marshall and City of Worthington under authority of Minn. Stat. § 471.59. The purpose of the agreement is to formulate regional and local emergency communications recording and logging services between the parties.

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In 2013, Pipestone County made payments of \$4,000 to the Southwest Minnesota Public Safety Board.

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

E. Subsequent Events

Subsequent to the Medical Center's June 30, 2013, year-end, Pipestone County approved issuance of the Series 2013A General Obligation Hospital Refunding Bonds in the amount of \$1,520,000 on September 24, 2013. These were used to refund the Center's Series 2005 bonds.

On March 4, 2014, the Pipestone County Board approved a United States Department of Agriculture (USDA) Rural Development Loan for \$25 million to construct a replacement clinic (including new exam rooms, entrance, lobby, admissions area, specialty clinic, and outpatient laboratory) and new inpatient unit with a rooftop helipad at the Pipestone County Medical Center. \$18 million is a direct loan from the USDA Rural Development, and the remaining \$7 million is a bank loan (with a 90 percent guarantee by the USDA) to pay for construction, costs of issuance, capitalized interest, if any, and a reserve fund, if required. Total estimated commitments and cost of this project is \$33,056,128. The remainder of the funding to cover the project's cost will come from the Hospital's cash and investments.

REQUIRED SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,881,379	\$ 2,881,379	\$ 2,809,621	\$ (71,758)
Special assessments	227,000	227,000	261,493	34,493
Licenses and permits	12,980	12,980	12,438	(542)
Intergovernmental	1,265,075	1,265,075	1,703,204	438,129
Charges for services	1,421,770	1,421,770	1,376,153	(45,617)
Fines and forfeitures	9,000	9,000	7,190	(1,810)
Gifts and contributions	3,000	3,000	3,500	500
Investment earnings	90,000	90,000	82,557	(7,443)
Miscellaneous	368,520	368,520	422,672	54,152
Total Revenues	\$ 6,278,724	\$ 6,278,724	\$ 6,678,828	\$ 400,104
Expenditures				
Current				
General government				
Commissioners	\$ 183,087	\$ 183,087	\$ 170,041	\$ 13,046
Travel management	8,000	8,000	2,532	5,468
Court administration	34,000	34,000	54,330	(20,330)
Law library	16,000	16,000	16,732	(732)
County administrator	118,469	118,469	115,609	2,860
Auditor	223,950	223,950	207,778	16,172
Treasurer	182,665	182,665	178,654	4,011
Independent audit	60,000	60,000	51,734	8,266
Human resources	66,725	66,725	55,723	11,002
Data processing	150,977	150,977	75,763	75,214
Elections	4,630	4,630	7,998	(3,368)
Information technology	208,539	208,539	237,171	(28,632)
Attorney	208,249	208,249	196,187	12,062
Recorder	127,115	127,115	128,129	(1,014)
Assessor	202,677	202,677	194,772	7,905
Planning and zoning	41,355	41,355	36,714	4,641
Geographic information system	4,500	4,500	4,000	500
County recorder	45,100	45,100	40,620	4,480
Building and plant	276,396	276,396	479,786	(203,390)
Fairgrounds	27,500	27,500	22,834	4,666
Public service building	-	-	90,114	(90,114)
Veterans service	54,618	54,618	57,996	(3,378)
County-wide transportation	407,226	407,226	521,875	(114,649)
Other general government	263,830	263,830	462,765	(198,935)
Total general government	\$ 2,915,608	\$ 2,915,608	\$ 3,409,857	\$ (494,249)

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,241,185	\$ 1,241,185	\$ 1,272,675	\$ (31,490)
Dispatch	276,758	276,758	243,663	33,095
Coroner	3,000	3,000	3,005	(5)
County jail	426,750	426,750	417,301	9,449
Probation	84,465	84,465	107,420	(22,955)
Emergency management	87,794	87,794	87,045	749
E-911 system	80,300	80,300	87,801	(7,501)
County ambulance	363,970	363,970	346,570	17,400
Total public safety	\$ 2,564,222	\$ 2,564,222	\$ 2,565,480	\$ (1,258)
Sanitation				
SCORE/recycling/solid waste	\$ 214,617	\$ 214,617	\$ 214,010	\$ 607
Culture and recreation				
Senior citizen service	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Hiawatha falls	30,000	30,000	30,812	(812)
Parks	2,600	2,600	4,056	(1,456)
Other	37,806	37,806	39,035	(1,229)
Total culture and recreation	\$ 73,406	\$ 73,406	\$ 76,903	\$ (3,497)
Conservation of natural resources				
Agricultural inspection	\$ 27,717	\$ 27,717	\$ 27,603	\$ 114
County extension	180,641	180,641	162,659	17,982
Other	182,728	182,728	233,549	(50,821)
Total conservation of natural resources	\$ 391,086	\$ 391,086	\$ 423,811	\$ (32,725)
Economic development				
Economic development	\$ 9,975	\$ 9,975	\$ 9,975	\$ -
Intergovernmental				
Sanitation	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Health	57,576	57,576	57,576	-
Culture and recreation	51,651	51,651	50,651	1,000
Total intergovernmental	\$ 129,227	\$ 129,227	\$ 128,227	\$ 1,000

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ 4,000	\$ 4,000	\$ 13,093	\$ (9,093)
Interest	600	600	4,095	(3,495)
Total debt service	<u>\$ 4,600</u>	<u>\$ 4,600</u>	<u>\$ 17,188</u>	<u>\$ (12,588)</u>
Total Expenditures	<u>\$ 6,302,741</u>	<u>\$ 6,302,741</u>	<u>\$ 6,845,451</u>	<u>\$ (542,710)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (24,017)</u>	<u>\$ (24,017)</u>	<u>\$ (166,623)</u>	<u>\$ (142,606)</u>
Other Financing Sources (Uses)				
Loans issued	-	-	47,411	47,411
Net Change in Fund Balance	<u>\$ (24,017)</u>	<u>\$ (24,017)</u>	<u>\$ (119,212)</u>	<u>\$ (95,195)</u>
Fund Balance - January 1	<u>5,322,631</u>	<u>5,322,631</u>	<u>5,322,631</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 5,298,614</u></u>	<u><u>\$ 5,298,614</u></u>	<u><u>\$ 5,203,419</u></u>	<u><u>\$ (95,195)</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 867,250	\$ 867,250	\$ 830,342	\$ (36,908)
Intergovernmental	3,958,559	3,958,559	3,976,900	18,341
Charges for services	210,000	210,000	130,157	(79,843)
Investment earnings	22,500	22,500	9,415	(13,085)
Miscellaneous	88,800	88,800	184,025	95,225
Total Revenues	\$ 5,147,109	\$ 5,147,109	\$ 5,130,839	\$ (16,270)
Expenditures				
Current				
Highways and streets				
Administration	\$ 263,816	\$ 263,816	\$ 386,298	\$ (122,482)
Maintenance	1,239,952	1,239,952	990,244	249,708
Construction	2,821,520	2,821,520	2,627,490	194,030
Equipment maintenance and shops	540,512	540,512	424,808	115,704
Total highways and streets	\$ 4,865,800	\$ 4,865,800	\$ 4,428,840	\$ 436,960
Intergovernmental				
Highways and streets	\$ 281,309	\$ 281,309	\$ 289,562	\$ (8,253)
Total Expenditures	\$ 5,147,109	\$ 5,147,109	\$ 4,718,402	\$ 428,707
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 412,437	\$ 412,437
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	40,125	40,125
Net Change in Fund Balance	\$ -	\$ -	\$ 452,562	\$ 452,562
Fund Balance - January 1	2,646,904	2,646,904	2,646,904	-
Increase (decrease) in inventories	-	-	(77,818)	(77,818)
Fund Balance - December 31	\$ 2,646,904	\$ 2,646,904	\$ 3,021,648	\$ 374,744

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,150,292	\$ 1,150,292	\$ 1,101,741	\$ (48,551)
Intergovernmental	1,154,159	11,558	59,671	48,113
Charges for services	7,700	-	-	-
Investment earnings	-	-	1,472	1,472
Miscellaneous	197,500	1,000	4,187	3,187
Total Revenues	\$ 2,509,651	\$ 1,162,850	\$ 1,167,071	\$ 4,221
Expenditures				
Intergovernmental				
Human services				
Income maintenance	\$ 918,960	\$ 67,900	\$ -	\$ 67,900
Social services	1,590,691	1,184,622	1,155,634	28,988
Total Expenditures	\$ 2,509,651	\$ 1,252,522	\$ 1,155,634	\$ 96,888
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (89,672)	\$ 11,437	\$ 101,109
Special Item				
Transfer of family service operation to Southwest Health and Human Services	-	(570,000)	(672,747)	(102,747)
Net Change in Fund Balance	\$ -	\$ (659,672)	\$ (661,310)	\$ (1,638)
Fund Balance - January 1	1,480,811	1,480,811	1,480,811	-
Fund Balance - December 31	\$ 1,480,811	\$ 821,139	\$ 819,501	\$ (1,638)

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds, and the Medical Facility Bonds Debt Service 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 the major special revenue funds.

2. Budget Basis of Accounting

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

3. Budget Amendments

Revenue budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
Family Services Special Revenue Fund	\$ 2,509,651	\$ (1,346,801)	\$ 1,162,850

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
Family Services Special Revenue Fund	\$ 2,509,651	\$ (1,257,129)	\$ 1,252,522

4. Excess of Expenditures Over Appropriations

	Expenditures	Appropriation	Excess
General Fund	\$ 6,845,451	\$ 6,302,741	\$ 542,710

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SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 238,088	\$ 238,088	\$ 238,144	\$ 56
Investment earnings	-	-	1,615	1,615
Total Revenues	\$ 238,088	\$ 238,088	\$ 239,759	\$ 1,671
Expenditures				
Debt service				
Principal	\$ 168,000	\$ -	\$ -	\$ -
Interest	70,088	70,088	-	70,088
Total Expenditures	\$ 238,088	\$ 70,088	\$ -	\$ 70,088
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ 168,000	\$ 239,759	\$ 71,759
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (208,389)	\$ 208,389
Proceeds from sale of refunding bonds	-	-	1,496,332	(1,496,332)
Premium on sale of refunding bonds	-	-	44,981	(44,981)
Total Other Sources	\$ -	\$ -	\$ 1,332,924	\$ (1,332,924)
Net Change in Fund Balance	\$ -	\$ 168,000	\$ 1,572,683	\$ (1,261,165)
Fund Balance - January 1	51,171	51,171	51,171	-
Fund Balance - December 31	\$ 51,171	\$ 219,171	\$ 1,623,854	\$ (1,261,165)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-2

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 10,400	\$ 10,400	\$ 40,996	\$ (30,596)
Net Change in Fund Balance	\$ (10,400)	\$ (10,400)	\$ (40,996)	\$ (30,596)
Fund Balance - January 1	<u>20,220</u>	<u>20,220</u>	<u>20,220</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 9,820</u>	<u>\$ 9,820</u>	<u>\$ (20,776)</u>	<u>\$ (30,596)</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

AGENCY FUNDS

Lincoln-Pipestone Rural Water System - to account for the collection and disbursement of funds to the Lincoln-Pipestone Rural Water System.

State - to account for the collection and disbursement of the state's share of fees, fines, and mortgage registry and state deed taxes.

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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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,283	\$ 160,877	\$ 160,455	\$ 3,705
<u>Liabilities</u>				
Due to other governments	\$ 3,283	\$ 160,877	\$ 160,455	\$ 3,705
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 50,461	\$ 1,758,336	\$ 1,767,381	\$ 41,416
<u>Liabilities</u>				
Due to other governments	\$ 50,461	\$ 1,758,336	\$ 1,767,381	\$ 41,416
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 158,792	\$ 13,679,800	\$ 13,695,327	\$ 143,265
<u>Liabilities</u>				
Due to other governments	\$ 158,792	\$ 13,679,800	\$ 13,695,327	\$ 143,265

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 212,536</u>	<u>\$ 15,599,013</u>	<u>\$ 15,623,163</u>	<u>\$ 188,386</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 212,536</u>	<u>\$ 15,599,013</u>	<u>\$ 15,623,163</u>	<u>\$ 188,386</u>

OTHER SCHEDULE

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 3,156,447
County program aid	471,158
PERA rate reimbursement	14,804
Disparity reduction aid	69,076
Police aid	86,861
Enhanced 911	80,681
Market value credit	107,331
	\$ 3,986,358
Reimbursement for Services	
State	
Minnesota Department of Corrections	\$ 23,973
	\$ 23,973
Payments	
Local	
Payments in lieu of taxes	\$ 69,895
	\$ 69,895
Grants	
State	
Minnesota Department/Board/Office of Corrections	\$ 10,783
Natural Resources	40,811
Public Safety	72,441
Transportation	970,187
Veterans Affairs	7,500
Water and Soil Resources	101,502
Historical Society	20,000
Pollution Control Agency	55,950
	\$ 1,279,174
Federal	
Department of Agriculture	\$ 3,667
Health and Human Services	21,607
Homeland Security	13,349
Housing and Urban Development	72,246
Transportation	269,506
	\$ 380,375
Total federal	\$ 380,375
Total state and federal grants	\$ 1,659,549
Total Intergovernmental Revenue	\$ 5,739,775

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1999-003

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 Pipestone 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, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

Client’s Response:

Pipestone County Commissioners are aware of our limited staffing and the internal control weaknesses it may create. Department Heads utilize their staff to accommodate internal control as much as possible

PREVIOUSLY REPORTED ITEMS RESOLVED

Accounting Policies and Procedures Manual (2006-005)

The County did not have a formal comprehensive accounting policies and procedures manual.

Resolution

The County Board approved a draft version of an Accounting Policies and Procedures Manual on July 8, 2014.

Audit Adjustments (2012-001)

During the previous audit, audit adjustments were proposed and recorded in the financial statements for additional receivables related to family services activities and an additional payable in the Medical Facility Bonds Debt Service Fund.

Resolution

During the 2013 audit, there were no similar adjustments noted.

II. OTHER FINDINGS AND RECOMMENDATIONS

PREVIOUSLY REPORTED ITEM RESOLVED

Eligibility Testing (CFDA Nos. 93.558, 93.714, and 93.778) (2011-002)

The Minnesota Department of Human Services maintains the computer system, MAXIS, used by the County to support the eligibility determination process. During our previous audit, we noted that while periodic supervisory case reviews are performed to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly.

Resolution

As of January 1, 2013, all human service functions of Pipestone County were assumed by the joint powers entity Southwest Health and Human Services. The County is no longer responsible for using MAXIS to support the eligibility determination process.

III. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2007-007

Disaster Recovery Plan

Criteria: A disaster recovery plan gives assurance that the County is prepared for a disaster or major computer breakdown. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: Pipestone County does not have a disaster recovery plan. Should a major disaster or computer breakdown occur in the County, the County needs to continue to provide services to County residents after a disaster and during a major computer breakdown.

Context: Services that need to be addressed include the continuance of several important applications processed by the County's computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

Effect: Without a disaster recovery plan, the County may not be prepared to continue operations after an unexpected interruption.

Cause: The County has not adopted a policy for assessing risk nor has it set up a plan for continuing its operations should a disaster occur.

Recommendation: We recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

Client's Response:

In conjunction with a business continuity plan, a disaster recovery plan will be developed.



REBECCA OTTO
STATE AUDITOR

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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
Pipestone 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, each major fund, and the aggregate remaining fund information of Pipestone County, Minnesota, as of and for the year ended December 31, 2013, which include the Medical Center as of and for the year ended June 30, 2013, 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 18, 2014. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Pipestone County Medical Center, as described in our report on Pipestone 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 Pipestone 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 a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 1999-003, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pipestone 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 in connection with the audit of the County's financial statements: 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 Pipestone County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Pipestone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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

Also included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Pipestone County's Response to Findings

Pipestone County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. The County's responses were not subjected 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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 18, 2014