

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Year Ended December 31, 2011



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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2011

Office	Name	Term Expires
Commissioners		
1st District	Marge DeRuyter	January 2013
2nd District	Harold "Butch" Miller	January 2015
3rd District	Marvin Tinklenberg ¹	January 2013
4th District	William Johnson	January 2015
5th District	Jerry Remund ²	January 2013
Officers		
Elected		
Attorney	James O'Neill	January 2015
Auditor	Joyce Steinhoff	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
Family Services Director	Nicole Names	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Family Services Board		
Chair	Marvin Tinklenberg	January 2013
Vice Chair	Jerry Remund	January 2013
Secretary	Judy Zwart	July 2013
Member	Harold "Butch" Miller	January 2015
Member	Marge DeRuyter	January 2013
Member	William Johnson	January 2015
Member	Darlene Bouman	July 2012

¹Chair 2011

²Chair 2012

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pipestone County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.11. to the financial statements, for 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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 assets are \$56,050,460, of which \$43,613,991 is invested in capital assets and \$2,649,296 is restricted for specific purposes. The unrestricted net assets of \$9,787,173 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$2,821,875 for the year ended December 31, 2011. The increase is mainly attributable to the County investing in capital assets without increasing long-term debt, and a larger restricted for highways and streets amount due to the larger balance of deferred highway allotment revenue.

The net cost of governmental activities for the current fiscal year was \$2,872,628. The net cost was funded by general revenues totaling \$5,694,503.

Fund balances of the governmental funds increased by \$460,205. Most of the increase was due to overall decreases in expenditures county-wide.

At the end of the current fiscal year, the County had an unrestricted (assigned and unassigned) General Fund fund balance of \$5,256,643. 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 86 percent of total General Fund expenditures of \$6,099,679.

The Pipestone County Medical Center's assets exceeded its liabilities by \$28,042,612 at December 31, 2011. The Medical Center recorded an increase in net assets of \$1,022,111 for the fiscal year ending December 31, 2011.

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 assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will need 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 can be found on Exhibits 1 and 2 of this report.

Fund Level Financial Statements

The 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 and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

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

The County reports three major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, Road and Bridge Special Revenue Fund, and the Family Services Special Revenue Fund. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements.

The basic governmental fund financial statements can be found on 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 assets on Exhibit 10.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$56,050,460 at the close of 2011. The largest portion of the net assets (78 percent) reflects its 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. Comparative data for 2010 is presented.

Governmental Activities

	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 13,697,601	\$ 12,253,446
Capital assets	<u>43,958,306</u>	<u>42,820,815</u>
Total Assets	<u>\$ 57,655,907</u>	<u>\$ 55,074,261</u>
Liabilities		
Long-term liabilities	\$ 355,925	\$ 317,604
Other liabilities	<u>1,249,522</u>	<u>1,528,072</u>
Total Liabilities	<u>\$ 1,605,447</u>	<u>\$ 1,845,676</u>
Net Assets		
Invested in capital assets	\$ 43,613,991	\$ 42,596,597
Restricted	2,649,296	1,535,040
Unrestricted	<u>9,787,173</u>	<u>9,096,948</u>
Total Net Assets	<u>\$ 56,050,460</u>	<u>\$ 53,228,585</u>

Unrestricted net assets (in the amount of \$9,787,173)--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 17 percent of the net assets.

The County's governmental activities increased net assets by five percent (\$56,050,460 for 2011 compared to \$53,228,585 for 2010). Key elements in this increase in net assets are as follows with comparative amounts from 2010.

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues				
Program revenues				
Charges for services	\$ 2,514,296	\$ 2,604,595	\$ 23,321,327	\$ 24,865,987
Operating grants and contributions	6,442,737	5,123,557	-	-
Capital grants and contributions	946,778	944,342	-	-
General revenues				
Property taxes	3,961,973	3,741,979	-	-
Other	<u>1,960,206</u>	<u>1,987,582</u>	<u>235,897</u>	<u>776,869</u>
Total Revenues	<u>\$ 15,825,990</u>	<u>\$ 14,402,055</u>	<u>\$ 23,557,224</u>	<u>\$ 25,642,856</u>

	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
Expenses				
General government	\$ 2,995,239	\$ 2,812,922	\$ -	\$ -
Public safety	2,413,957	2,257,896	-	-
Highways and streets	3,916,349	3,571,511	-	-
Sanitation	173,379	195,353	-	-
Human services	2,621,323	2,673,076	-	-
Health	55,833	66,261	-	-
Culture and recreation	170,636	187,108	-	-
Conservation of natural resources	420,687	519,883	-	-
Economic development	8,365	8,365	-	-
Interest	671	763	-	-
Medical Center	-	-	22,762,789	24,118,901
Total Expenses	\$ 12,776,439	\$ 12,293,138	\$ 22,762,789	\$ 24,118,901
Excess (Deficiency) Before Transfers	\$ 3,049,551	\$ 2,108,917	\$ 794,435	\$ 1,523,955
Transfers	(227,676)	(239,152)	227,676	239,152
Increase in Net Assets	\$ 2,821,875	\$ 1,869,765	\$ 1,022,111	\$ 1,763,107
Net Assets - January 1	53,228,585	51,358,820	27,020,501	25,257,394
Net Assets - December 31	\$ 56,050,460	\$ 53,228,585	\$ 28,042,612	\$ 27,020,501

Total governmental revenues for the County were \$15,825,990, total expenses were \$12,776,439, and total transfers out were \$227,676. This reflects a \$2,821,875 increase in net assets for the year ended December 31, 2011.

The cost of all governmental activities for the year was \$12,776,439. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$3,961,973 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,514,296; or by other governments and organizations that subsidized certain programs with grants and contributions--\$7,389,515. The County paid for the remaining "public benefit" portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

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

Governmental Activities				
	Total Cost of Services		Net Cost (Revenue) of Services	
	2011	2010	2011	2010
Highways and streets	\$ 3,916,349	\$ 3,571,511	\$ (1,597,951)	\$ (567,332)
General government	2,995,239	2,812,922	2,165,345	1,963,843
Human services	2,621,323	2,673,076	1,057,490	1,124,360
Public safety	2,413,957	2,257,896	980,057	711,778
All others	829,571	977,733	267,687	387,995
Totals	<u>\$ 12,776,439</u>	<u>\$ 12,293,138</u>	<u>\$ 2,872,628</u>	<u>\$ 3,620,644</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 that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,553,976, an increase of \$460,205 in comparison with the prior year. Of the combined ending fund balances, \$8,729,207 represents unrestricted (assigned and unassigned) fund balances 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 committed for various reasons either by state law or grant agreements.

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 \$5,256,643. 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 86 percent of total General Fund expenditures of \$6,099,679. During 2011, the ending fund balance increased by \$289,514. Most of the increase was due to unanticipated increases in revenue and overall decreases in expenditures.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$2,054,829 at fiscal year-end, representing 39 percent of its 2011 expenditures. The ending fund balance decreased \$11,844 during 2011.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$1,417,735 at fiscal year-end, representing 53 percent of its 2011 expenditures. The ending fund balance increased \$176,782 during 2011.

Proprietary Fund

The statement of net assets at December 31, 2011, for the Pipestone County Medical Center indicates total assets of \$33,894,963, total liabilities of \$5,852,351, and net assets of \$28,042,612. Total current assets were \$9,224,371, and total current liabilities were \$2,557,000, for a current ratio of 3.61, up from 3.31 at December 31, 2010. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of \$23,321,327 and total operating expenses of \$22,454,639, for an operating income of \$866,688, nonoperating revenues of \$235,897, nonoperating expenses of \$308,150, and transfers in of \$227,676, which contributed to the increase in net assets from \$27,020,501 to \$28,042,612.

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 \$592,159 under the final budget amounts. The most significant variances occurred in Buildings and Plant and Recycling due to not proceeding with building projects in 2011.

Resources available for appropriation were \$208,972 over the final budgeted amount. Intergovernmental revenue and miscellaneous were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled \$43,958,306 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased by \$1,137,491 or 2.66 percent, over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure.

**Capital Assets at Year-End
(Net of Depreciation)**

	2011	2010
Land and other nondepreciated assets	\$ 2,231,084	\$ 3,686,349
Land improvements	237,169	249,153
Infrastructure	35,022,814	32,405,180
Buildings	4,532,798	4,612,983
Machinery and equipment	1,934,441	1,867,150
Total	\$ 43,958,306	\$ 42,820,815

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 December 31, 2011, amounted to \$11,545,914 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2011, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, the Pipestone County Medical Center had total long-term debt outstanding of \$3,680,382, 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 2012 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2011 was 4.8 percent. This compares favorably with the average annual state unemployment rate of 5.7 percent at the end of 2011. The 2011 County population is 9,501, a decrease of 95 or less than one percent from the 2010 census of 9,596.
- Among Pipestone County residents, the overall poverty rate was 9.9 percent in 2010, compared to 10.6 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 Sharon Hanson, County Administrator, 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 ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 8,902,369	\$ 5,002,554	\$ 13,904,923
Investments	1,219,000	-	1,219,000
Receivables - net	3,404,347	3,117,242	6,521,589
Internal balances	(169,667)	169,667	-
Inventories	290,448	685,778	976,226
Prepaid items	51,104	249,130	300,234
Assets restricted as to use for			
Capital acquisition and debt redemption	-	11,855,190	11,855,190
Insurance	-	500,000	500,000
Restricted by contributors for capital acquisitions	-	289,095	289,095
Investment in joint venture	-	425,348	425,348
Capital assets			
Nondepreciable capital assets	2,231,084	975,354	3,206,438
Depreciable capital assets - net of accumulated depreciation	41,727,222	10,570,560	52,297,782
Other assets			
Deferred financing costs - net of accumulated amortization	-	55,045	55,045
Total Assets	\$ 57,655,907	\$ 33,894,963	\$ 91,550,870
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,249,522	\$ 2,139,802	\$ 3,389,324
Accrued interest payable	-	32,167	32,167
Long-term liabilities			
Due within one year	24,653	385,031	409,684
Due in more than one year	331,272	3,295,351	3,626,623
Total Liabilities	\$ 1,605,447	\$ 5,852,351	\$ 7,457,798
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 43,613,991	\$ 7,865,532	\$ 51,479,523
Restricted for			
Other purposes	214,756	289,095	503,851
Public safety	178,093	-	178,093
Highways and streets	2,183,509	-	2,183,509
Conservation of natural resources	24,472	-	24,472
Debt service	48,466	-	48,466
Unrestricted	9,787,173	19,887,985	29,675,158
Total Net Assets	\$ 56,050,460	\$ 28,042,612	\$ 84,093,072

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, 2011**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,995,239	\$ 412,520
Public safety	2,413,957	1,146,584
Highways and streets	3,916,349	363,360
Sanitation	173,379	231,570
Human services	2,621,323	268,405
Health	55,833	-
Culture and recreation	170,636	-
Conservation of natural resources	420,687	91,857
Economic development	8,365	-
Interest	671	-
	\$ 12,776,439	\$ 2,514,296
Total governmental activities		
Business-type activities		
Medical Center	22,762,789	23,321,327
	\$ 35,539,228	\$ 25,835,623
	\$ 35,539,228	\$ 25,835,623

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

Transfers

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 417,374	\$ -	\$ (2,165,345)	\$ -	\$ (2,165,345)
287,316	-	(980,057)	-	(980,057)
4,204,162	946,778	1,597,951	-	1,597,951
55,950	-	114,141	-	114,141
1,295,428	-	(1,057,490)	-	(1,057,490)
-	-	(55,833)	-	(55,833)
79,661	-	(90,975)	-	(90,975)
102,846	-	(225,984)	-	(225,984)
-	-	(8,365)	-	(8,365)
-	-	(671)	-	(671)
\$ 6,442,737	\$ 946,778	\$ (2,872,628)	\$ -	\$ (2,872,628)
-	-	-	558,538	558,538
\$ 6,442,737	\$ 946,778	\$ (2,872,628)	\$ 558,538	\$ (2,314,090)
		\$ 3,961,973	\$ -	\$ 3,961,973
		4,893	-	4,893
		408,375	-	408,375
		67,813	-	67,813
		1,059,957	10,664	1,070,621
		128,889	205,791	334,680
		290,279	19,442	309,721
		(227,676)	227,676	-
		\$ 5,694,503	\$ 463,573	\$ 6,158,076
		\$ 2,821,875	\$ 1,022,111	\$ 3,843,986
		53,228,585	27,020,501	80,249,086
		\$ 56,050,460	\$ 28,042,612	\$ 84,093,072

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 5,839,836	\$ 1,229,263	\$ 1,493,585	\$ 231,177	\$ 8,793,861
Undistributed cash in agency funds	60,136	15,996	24,677	4,574	105,383
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,175,000	-	-	1,219,000
Taxes receivable					
Prior	24,667	8,340	12,501	7,457	52,965
Special assessments receivable					
Prior	15,048	-	-	-	15,048
Noncurrent	241,416	-	-	-	241,416
Accounts receivable	93,001	16,708	14,857	-	124,566
Accrued interest receivable	25,349	6,957	-	-	32,306
Due from other funds	4,526	11,047	-	-	15,573
Due from other governments	51,992	2,708,320	177,734	-	2,938,046
Inventories	-	290,448	-	-	290,448
Prepaid items	30,475	10,598	10,031	-	51,104
Total Assets	<u>\$ 6,433,471</u>	<u>\$ 5,472,777</u>	<u>\$ 1,733,385</u>	<u>\$ 243,208</u>	<u>\$ 13,882,841</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 166,814	\$ 18,276	\$ 76,822	\$ 603	\$ 262,515
Salaries payable	266,734	82,004	97,334	-	446,072
Contracts payable	-	344,315	-	-	344,315
Due to other funds	11,047	-	4,526	169,667	185,240
Due to other governments	8,612	73,572	114,436	-	196,620
Deferred revenue - unavailable	287,538	2,586,607	12,501	7,457	2,894,103
Total Liabilities	<u>\$ 740,745</u>	<u>\$ 3,104,774</u>	<u>\$ 305,619</u>	<u>\$ 177,727</u>	<u>\$ 4,328,865</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 290,448	\$ -	\$ -	\$ 290,448
Prepaid items	30,475	10,598	10,031	-	51,104
Restricted for					
Missing heirs	3,971	-	-	-	3,971
Law library	40,349	-	-	-	40,349
Recorder's technology fund	48,465	-	-	-	48,465
Recorder's compliance fund	91,491	-	-	-	91,491
Enhanced 911	141,343	-	-	-	141,343
Sheriff's contingency	2,352	-	-	-	2,352
Transit	29,938	-	-	-	29,938
Probation supervision	6,928	-	-	-	6,928
DUI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Jail canteen fund	4,227	-	-	-	4,227
Permit to carry	8,088	-	-	-	8,088
HAVA election funds	542	-	-	-	542
Septic/sewer loans	12,759	-	-	-	12,759
Uncompleted projects	-	12,128	-	-	12,128
Ditch maintenance and repair	-	-	-	24,472	24,472
Debt service	-	-	-	41,009	41,009
Assigned to					
Elections	82,756	-	-	-	82,756
Buildings	107,657	-	-	-	107,657
Capital improvements	360,441	-	-	-	360,441
Solid waste/recycling	654,301	-	-	-	654,301
County septic loan program	37,937	-	-	-	37,937
Radio communication systems	200,000	-	-	-	200,000
Computer software	65,000	-	-	-	65,000
Court expenses	3,812	-	-	-	3,812
Road and bridge	-	2,054,829	-	-	2,054,829
Family services	-	-	1,417,735	-	1,417,735
Unassigned	3,744,739	-	-	-	3,744,739
Total Fund Balances	\$ 5,692,726	\$ 2,368,003	\$ 1,427,766	\$ 65,481	\$ 9,553,976
Total Liabilities and Fund Balances	\$ 6,433,471	\$ 5,472,777	\$ 1,733,385	\$ 243,208	\$ 13,882,841

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)	\$	9,553,976
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		43,958,306
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,894,103
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	\$ (277,051)	
Loans payable	<u>(78,874)</u>	<u>(355,925)</u>
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 56,050,460</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 2,423,111	\$ 670,599	\$ 1,035,010	\$ 236,474	\$ 4,365,194
Special assessments	246,384	-	-	3,300	249,684
Licenses and permits	14,030	-	-	-	14,030
Intergovernmental	1,854,878	4,013,799	1,409,013	-	7,277,690
Charges for services	1,223,768	173,090	15,982	-	1,412,840
Fines and forfeits	10,860	-	-	-	10,860
Gifts and contributions	3,400	-	-	-	3,400
Investment earnings	110,976	21,862	-	-	132,838
Miscellaneous	574,271	190,270	252,423	-	1,016,964
Total Revenues	\$ 6,461,678	\$ 5,069,620	\$ 2,712,428	\$ 239,774	\$ 14,483,500
Expenditures					
Current					
General government	\$ 2,751,172	\$ -	\$ -	\$ -	\$ 2,751,172
Public safety	2,495,760	-	-	-	2,495,760
Highways and streets	-	4,944,538	-	-	4,944,538
Sanitation	193,967	-	-	-	193,967
Human services	-	-	2,650,646	-	2,650,646
Culture and recreation	122,894	-	-	-	122,894
Conservation of natural resources	414,700	-	-	6,345	421,045
Economic development	8,365	-	-	-	8,365
Intergovernmental	107,484	271,861	-	-	379,345
Debt service					
Principal	4,666	-	-	-	4,666
Interest	671	-	-	-	671
Total Expenditures	\$ 6,099,679	\$ 5,216,399	\$ 2,650,646	\$ 6,345	\$ 13,973,069
Excess of Revenues Over (Under)					
Expenditures	\$ 361,999	\$ (146,779)	\$ 61,782	\$ 233,429	\$ 510,431

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ 115,000	\$ -	\$ 115,000
Transfers out	(115,000)	-	-	(227,676)	(342,676)
Proceeds from loans	42,515	-	-	-	42,515
Insurance recovery for loss of general capital assets	-	79,990	-	-	79,990
Total Other Financing Sources (Uses)	\$ (72,485)	\$ 79,990	\$ 115,000	\$ (227,676)	\$ (105,171)
Net Change in Fund Balance	\$ 289,514	\$ (66,789)	\$ 176,782	\$ 5,753	\$ 405,260
Fund Balance - January 1	5,403,212	2,379,847	1,250,984	59,728	9,093,771
Increase (decrease) in inventories	-	54,945	-	-	54,945
Fund Balance - December 31	\$ 5,692,726	\$ 2,368,003	\$ 1,427,766	\$ 65,481	\$ 9,553,976

**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, 2011**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 405,260

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 revenue - December 31	\$ 2,894,103	
Deferred revenue - January 1	<u>(1,631,603)</u>	1,262,500

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 2,669,791	
Net book value of capital assets disposed of	(119,506)	
Current year depreciation	<u>(1,412,794)</u>	1,137,491

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 assets.

Proceeds of new debt	\$ (42,515)	
Principal payments on debt	<u>4,666</u>	(37,849)

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	\$ (472)	
Change in inventories	<u>54,945</u>	<u>54,473</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,821,875

PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2011**

Assets

Current assets	
Cash and pooled investments	\$ 5,002,554
Accounts receivable - net	109,646
Patient and resident receivables - net	3,007,596
Due from other funds	169,667
Inventories	685,778
Prepaid items	249,130
	\$ 9,224,371
Noncurrent assets	
Assets internally designated for	
Capital acquisition and debt redemption	\$ 11,855,190
Insurance	500,000
Restricted by contributors for capital acquisitions	289,095
Investment in joint venture	425,348
	\$ 13,069,633
Capital assets - net	
	\$ 11,545,914
Other assets	
Deferred financing costs - net of accumulated amortization of \$88,851	\$ 55,045
	\$ 33,894,963

Liabilities

Current liabilities	
Accounts payable	\$ 1,185,052
Salaries payable	158,756
Paid time off	543,915
Payroll taxes and other	252,079
Interest	32,167
Current maturities of long-term debt	385,031
	\$ 2,557,000
Noncurrent liabilities	
Long-term debt, less current maturities	3,295,351
	\$ 5,852,351

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2011**

Net Assets

Invested in capital assets - net of related debt	\$ 7,865,532
Restricted expendable net assets	289,095
Unrestricted	<u>19,887,985</u>
Total Net Assets	<u>\$ 28,042,612</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

Operating Revenues

Net patient and resident service revenue - net of provisions for bad debts	\$ 22,995,208
Miscellaneous	326,119
	326,119
Total Operating Revenues	\$ 23,321,327

Operating Expenses

Professional care of patients and residents	\$ 16,524,199
General and administrative	2,987,265
Property and household	1,241,144
Depreciation and amortization	1,248,083
Dietary	453,948
	453,948
Total Operating Expenses	\$ 22,454,639

Operating Income (Loss)	\$ 866,688
--------------------------------	-------------------

Nonoperating Revenues (Expenses)

Interest income	\$ 205,791
Noncapital grants and contributions	10,664
Minority interest in joint ventures	(164,311)
Interest expense	(143,839)
Other revenue	19,442
	19,442
Total Nonoperating Revenues (Expenses)	\$ (72,253)

Income (Loss) Before Capital Contributions and Transfers	\$ 794,435
---	-------------------

Transfers in	227,676
	227,676

Change in net assets	\$ 1,022,111
-----------------------------	---------------------

Net Assets - January 1	27,020,501
	27,020,501

Net Assets - December 31	\$ 28,042,612
	28,042,612

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 22,752,231
Other receipts	372,335
Cash payments to employees for services	(10,370,633)
Cash payments to suppliers for goods and services	<u>(11,064,504)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,689,429</u>
Cash Flows from Noncapital Financing Activities	
Noncapital grants and contributions	<u>\$ 10,664</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (744,288)
Principal paid on long-term debt	(355,528)
Transfer from County	227,676
Interest paid on long-term debt	<u>(145,802)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (1,017,942)</u>
Cash Flows from Investing Activities	
Sales and maturities of investments	\$ 9,935
Interest income and other nonoperating cash flows	225,233
Capital contributed by joint venture partner	176,658
Distribution from joint venture	<u>159,109</u>
Net cash provided by (used in) investing activities	<u>\$ 570,935</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,253,086
Cash and Cash Equivalents - January 1	<u>4,039,467</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 5,292,553</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of	
Net Assets	
Cash and cash equivalents in current assets	\$ 5,002,554
Noncurrent cash	<u>289,999</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 5,292,553</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011
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>866,688</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 1,248,083
Loss on disposal of equipment	19,735
Non-cash patronage allocation	(246,592)
(Increase) decrease in receivables	(76,496)
(Increase) decrease in supplies	25,838
Increase (decrease) in prepaid expenses	(120,801)
Increase (decrease) in accounts payable	(86,210)
Increase (decrease) in accrued expenses	<u>59,184</u>
Total adjustments	\$ <u>822,741</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>1,689,429</u></u>

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FIDUCIARY FUNDS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

Assets

Cash and pooled investments	<u>\$ 207,051</u>
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Liabilities

Due to other governments	<u>\$ 207,051</u>
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen not to apply FASB pronouncements issued after that date to its business-type activities. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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.

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.	Separate financial statements can be obtained at: 911 Fifth Avenue S.W. P. O. Box 370 Pipestone, Minnesota 56164

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

The Medical Center will adopt a new fiscal year end of June 30, effective June 30, 2012. A short six-month fiscal year from January 1, 2012 to June 30, 2012 is planned to implement this change.

Joint Ventures

The County participates in joint ventures described in Note 6.B. The County also participates in the 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 assets 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 revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns: (a) are presented on a consolidated basis by column; and (b) 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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:

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

(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.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for 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 is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used for economic assistance and community social services programs.

**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 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 is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Debt Service Fund is used to account for property tax revenues for the payment of principal, interest, and related costs of bonded debt.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pipestone County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less, 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, 2011, 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 2011 were \$110,170.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

The Medical Center's investment income for the year ended December 31, 2011, was \$205,791 and is included in nonoperating revenues (expenses).

3. Receivables and Payables

Activities 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."

All receivables are shown net of an allowance for uncollectibles.

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

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Payments of patient and resident 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 and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident 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.

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 and Limited as to Use

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Restricted Assets and Limited as to Use (Continued)

Assets limited as to use include assets restricted by bond indentures and those set aside by the Board for future capital improvements, insurance, and debt redemption, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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.

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	10 - 60
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 30

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

8. Deferred Revenue

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as 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.

10. Classification of Net Assets

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

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

Beginning in 2011, Pipestone County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

The County's fund balance policy established a minimum unassigned fund balance equal to 35 percent of total General Fund operating expenditures. The County's fund balance policy does not address what should be done in the event the unassigned fund balance drops below the established minimum level.

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

Nonspendable - the nonspendable fund balance classification includes 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 - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balances (Continued)

Assigned - the assigned fund balance classification includes 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 that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

Unassigned - unassigned fund balance is 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.

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

12. Use of Estimates

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Medical Center - Net Patient and Resident Service Revenue

Net patient and resident service revenue for the Medical Center are determined based on 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 and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Medicare - The Medical Center is licensed as a Critical Access Hospital (CAH). 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, 2009. 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

For the year ended December 31, 2011, the Road and Bridge and Ditch Special Revenue Funds' expenditures exceeded appropriations (the legal level of budgetary control) by \$1,323,015 and \$4,045, respectively.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 8,902,369
Investments	1,219,000
Business-type activities	
Cash and pooled investments	5,002,554
Restricted assets	
Capital acquisition and debt redemption	11,855,190
Insurance	500,000
Restricted by contributors for capital acquisitions	289,095
Statement of fiduciary net assets	
Cash and pooled investments	<u>207,051</u>
Total Cash and Investments	<u>\$ 27,975,259</u>

**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 that is 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. The County's deposits in banks at December 31, 2011, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, none of the County's investments were subject 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, 2011, 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 National Mortgage Association note	AA+	S&P		10/28/2020	\$ 100,000
Federal National Mortgage Association note	AA+	S&P		10/28/2020	150,000
Total Federal National Mortgage Association notes			6.0%		\$ 250,000
Federal Home Loan Mortgage Corporation notes					
Federal Home Loan Mortgage Corporation note	AA+	S&P		10/05/2018	\$ 100,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		09/30/2021	100,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		10/05/2018	199,875
Federal Home Loan Mortgage Corporation note	AA+	S&P		09/29/2021	200,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		11/15/2020	90,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		09/30/2021	200,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		12/29/2021	300,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		11/15/2025	90,000
Total Federal Home Loan Mortgage Corporation notes			30.5%		\$ 1,279,875
Federal Home Loan Bank bonds					
Federal Home Loan Bank bond	AA+	S&P		07/27/2018	\$ 100,000
Federal Home Loan Bank bond	AA+	S&P		08/25/2021	250,000
Federal Home Loan Bank bond	AA+	S&P		07/27/2018	400,000
Federal Home Loan Bank bond	AA+	S&P		11/23/2021	500,000
Total Federal Home Loan Bank bonds			29.8%		\$ 1,250,000
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					
Bank of Baroda	N/A	N/A	5.7%	06/20/2012	\$ 240,000
Bank of China	N/A	N/A	5.7%	06/22/2012	240,000
Goldman Sachs	N/A	N/A	5.8%	12/31/2018	245,000
Other certificates of deposit with brokers	N/A	N/A	N/A	Various	650,000
Total negotiable certificates of deposit with brokers					\$ 1,375,000
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 39,000
Total investments					\$ 4,196,375
Checking					6,212,885
Savings					3,933,203
Petty cash and change funds					23,350
Certificates of deposit					13,609,446
Total Cash and Investments					\$ 27,975,259

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, 2011, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 52,965	\$ -
Special assessments	256,464	195,601
Due from other governments	2,938,046	-
Accounts	124,566	-
Interest	32,306	-
	<u>\$ 3,404,347</u>	<u>\$ 195,601</u>
Business-Type Activities		
Accounts	\$ 109,646	\$ -
Patient and resident service revenue	3,007,596	-
	<u>\$ 3,117,242</u>	<u>\$ -</u>

A summary of net patient and resident service revenue and contractual adjustments is as follows:

Total patient and resident service revenue	<u>\$ 34,089,544</u>
Contractual adjustments	
Medicare	\$ (5,704,497)
Medicaid	(2,053,755)
Clinic	(527,153)
Other	(2,389,138)
	<u>(10,674,543)</u>
Total contractual adjustments	<u>\$ (10,674,543)</u>
Provision for bad debts	<u>\$ (419,793)</u>
Net Patient and Resident Service Revenue	<u>\$ 22,995,208</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,124,479	\$ -	\$ -	\$ 1,124,479
Right-of-way	1,049,015	872	-	1,049,887
Construction in progress	1,476,931	20,794	1,476,931	20,794
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	<u>\$ 3,686,349</u>	<u>\$ 21,666</u>	<u>\$ 1,476,931</u>	<u>\$ 2,231,084</u>
Capital assets depreciated				
Buildings	\$ 7,239,165	\$ 93,400	\$ 90,044	\$ 7,242,521
Land improvements	354,451	-	-	354,451
Machinery and equipment	4,455,555	466,315	259,989	4,661,881
Infrastructure	43,631,401	3,565,341	-	47,196,742
Total capital assets depreciated	<u>\$ 55,680,572</u>	<u>\$ 4,125,056</u>	<u>\$ 350,033</u>	<u>\$ 59,455,595</u>
Less: accumulated depreciation for				
Buildings	\$ 2,626,182	\$ 125,517	\$ 41,976	\$ 2,709,723
Land improvements	105,298	11,984	-	117,282
Machinery and equipment	2,588,405	327,586	188,551	2,727,440
Infrastructure	11,226,221	947,707	-	12,173,928
Total accumulated depreciation	<u>\$ 16,546,106</u>	<u>\$ 1,412,794</u>	<u>\$ 230,527</u>	<u>\$ 17,728,373</u>
Total capital assets depreciated, net	<u>\$ 39,134,466</u>	<u>\$ 2,712,262</u>	<u>\$ 119,506</u>	<u>\$ 41,727,222</u>
Governmental Activities Capital Assets, Net	<u>\$ 42,820,815</u>	<u>\$ 2,733,928</u>	<u>\$ 1,596,437</u>	<u>\$ 43,958,306</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 784,555	\$ 2,100	\$ -	\$ 786,655
Construction in progress	64,168	338,227	213,696	188,699
Total capital assets not depreciated	\$ 848,723	\$ 340,327	\$ 213,696	\$ 975,354
Capital assets depreciated				
Buildings	\$ 13,008,304	\$ -	\$ 66,046	\$ 12,942,258
Land improvements	709,605	15,434	2,100	722,939
Fixed equipment	3,387,420	205,347	1,658	3,591,109
Major movable equipment	7,360,377	406,391	479,615	7,287,153
Total capital assets depreciated	\$ 24,465,706	\$ 627,172	\$ 549,419	\$ 24,543,459
Less: accumulated depreciation for				
Buildings	\$ 5,376,485	\$ 380,085	\$ 66,046	\$ 5,690,524
Land improvements	356,936	30,126	-	387,062
Fixed equipment	2,235,519	129,773	1,658	2,363,634
Major movable equipment	5,293,626	690,516	452,463	5,531,679
Total accumulated depreciation	\$ 13,262,566	\$ 1,230,500	\$ 520,167	\$ 13,972,899
Total capital assets depreciated, net	\$ 11,203,140	\$ (603,328)	\$ 29,252	\$ 10,570,560
Business-Type Activities				
Capital Assets, Net	<u>\$ 12,051,863</u>	<u>\$ (263,001)</u>	<u>\$ 242,948</u>	<u>\$ 11,545,914</u>

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

Governmental Activities	
General government	\$ 182,186
Public safety	75,728
Highways and streets, including depreciation of infrastructure assets	1,150,502
Sanitation	505
Human Services	3,873
Total Depreciation Expense - Governmental Activities	<u>\$ 1,412,794</u>
Business-Type Activities	
Medical Center	<u>\$ 1,230,500</u>

**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, 2011, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Family Services	\$ 4,526
Road and Bridge	General	11,047
Medical Center	Nonmajor Debt Service	<u>169,667</u>
Total Due To/From Other Funds		<u>\$ 185,240</u>

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.

2. Interfund Transfers

There were two interfund transfers for the year ended December 31, 2011. One was a \$227,676 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, to provide funds for debt service. The other was a \$115,000 transfer to the Family Services Fund from the General Fund for appropriations.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 262,515	\$ 1,185,052
Salaries	446,072	158,756
Payroll taxes and other	-	252,079
Contracts	344,315	-
Due to other governments	196,620	-
Paid time off	-	543,915
	<u>\$ 1,249,522</u>	<u>\$ 2,139,802</u>
Total Payables		

2. Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	<u>\$ 299,521</u>	<u>\$ 211,604</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Leases

Operating Leases

The Medical Center leases certain equipment under non-cancelable long-term lease agreements. Total lease expense for the year ended December 31, 2011, for all operating leases was \$248,652. Minimum future lease payments for the operating leases are as follows:

Year Ending December 31	Principal
2012	\$ 144,889
2013	80,208
2014	23,820
2015	17,035
2016	5,024
Total	\$ 270,976

4. 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 against benefited properties. Loan payments are reported in the General Fund.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2005 Redwood River CWP Project	2017	\$2,668.17	2.00	\$ 48,149	\$ 30,030
2009 Redwood River CWP Project	2021	\$3,892.39	2.00	6,329	6,329
2011 Rock River Septic Loan Program	2022	\$6,570.04	2.00	21,774	21,774
2011 Pipestone County Ag Best Management Loan Program	2019	\$2,705.00 - \$3,238.98	-	20,741	20,741
Total Loans Payable				\$ 96,993	\$ 78,874

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Bonds and Notes Payable

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
G.O. Hospital Bonds of 2005	2022	\$150,000 - \$220,000	3.35 - 4.15	\$ 2,140,000	\$ 1,995,000
Health Facilities Revenue Note, Series 2001	2018	\$200,000 - \$275,000	variable	3,075,000	1,685,382
Total G.O. Bonds and Revenue Notes				<u>\$ 5,215,000</u>	<u>\$ 3,680,382</u>

5. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 4,759	\$ 577
2013	4,855	481
2014	4,953	384
2015	5,052	284
2016	5,154	183
2017	5,257	79
Totals	<u>\$ 30,030</u>	<u>\$ 1,988</u>

The debt service requirements for loan SRF0166 of \$6,329, and loan SRF0227 of \$21,774 from the Minnesota Pollution Control Agency, and \$20,741 from the Minnesota Department of Agriculture are not known at December 31, 2011.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	Principal	Interest
2012	\$ 385,031	\$ 131,399
2013	398,716	117,549
2014	412,721	102,952
2015	432,060	87,588
2016	441,744	71,529
2017 - 2021	1,390,110	157,885
2022	220,000	4,565
Totals	<u>\$ 3,680,382</u>	<u>\$ 673,467</u>

6. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 41,025	\$ 42,515	\$ 4,666	\$ 78,874	\$ 4,759
Compensated absences	276,579	472	-	277,051	19,894
Governmental Activities Long-Term Liabilities	<u>\$ 317,604</u>	<u>\$ 42,987</u>	<u>\$ 4,666</u>	<u>\$ 355,925</u>	<u>\$ 24,653</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 2,140,000	\$ -	\$ 145,000	\$ 1,995,000	\$ 150,000
Health Facilities Revenue Note, Series 2001	1,895,910	-	210,528	1,685,382	235,031
Business-Type Activities Long-Term Liabilities	<u>\$ 4,035,910</u>	<u>\$ -</u>	<u>\$ 355,528</u>	<u>\$ 3,680,382</u>	<u>\$ 385,031</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Net Assets

Of the \$19,887,985 of unrestricted net assets in the Medical Center Enterprise Fund, \$12,355,190 has been designated by the Board for capital acquisitions 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 services (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. 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 average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. 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 were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were 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 2011:

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

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

	2011	2010	2009
General Employees Retirement Fund	\$ 806,576	\$ 780,390	\$ 781,067
Public Employees Police and Fire Fund	96,458	92,148	94,483
Public Employees Correctional Fund	35,023	33,741	29,265

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

B. Defined Contribution Plan

Two employees 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.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,215	\$ 2,215
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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.

Lincoln-Pipestone Rural Water System

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

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues. 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 2012, Lincoln County issued a General Obligation Water System Refunding Bond for \$1,050,000 on behalf of the Lincoln-Pipestone Rural Water System to crossover advance refund the General Obligation Water System Refunding Bonds, Series 2003.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

B. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. Ch 145A and Minn. Stat. §471.59 by terminating the joint powers agreements for Lincoln, Lyon, and Murray Human Services (LLMHS); and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both the LLMHS and LLMPPHS would continue to exist after dissolution, as long as necessary to conclude the affairs of the agencies. SWHHS began official operation on January 1, 2011, to perform health and human service functions. In 2011, funding was based on the percentages used in prior years for LLMHS and LLMPPHS. For 2012 and beyond, financing will be provided by the member counties based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Security Expenditure and Grant Reconciliation Report (SEAGR); each factor to be weighted equally.

In 2011, Rock County petitioned to join SWHHS. Rock County's health and human services functions were assumed by SWHHS as of January 1, 2012. In 2012, Pipestone County petitioned for its human services function to join SWHHS. Pipestone County's human services function will join SWHHS as of January 1, 2013 (Note 6.E.). In 2012, Redwood County petitioned to join SWHHS. Redwood County's health and human services functions will join SWHHS as of January 1, 2013.

SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards; and one lay person from each participating county. The Community Health Board is 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 grants and appropriations from member counties. In 2011, Pipestone County's contribution to Health Services was \$175,553.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

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

Complete financial statements of SWHHS can be obtained at 607 West Main, Marshall, Minnesota, 56258.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with several other governmental entities to create the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Consortium Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that will serve 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.

The following is a summary of the Consortium Board's annual financial report for the year ended December 31, 2009 (the latest available):

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenditures	4,327,451
Net change in net assets	(55,765)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Board reported no long-term obligations at December 31, 2009.

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 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 system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it serves. The cost of providing these services is recovered through user charges. The Lincoln-Pipestone Rural Water System is governed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Regional Solid Waste Commission

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

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

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

Primewest Central County-Based Purchasing Initiative

The Primewest Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Pipestone County and 12 other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Primewest Central County-Based Purchasing Initiative (Continued)

Control of the Primewest Central County-Based Purchasing Initiative is vested in a Joint Powers Board comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or 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.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Pipestone County provided \$40,000 in the form of an initial start-up loan to the Primewest Central County-Based Purchasing Initiative.

Douglas County acts as fiscal agent for the Primewest Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at Primewest Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established July 2007 by a joint powers agreement among Pipestone County and 11 other counties under the authority of Minn. Stat. §§ 145A.17 and 471.59. 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 2011, the County did not make any contributions to the partnership.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County Auditor-Treasurer's Office, 2391 Hennepin Avenue N., 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.

CMDI provides the equipment for computer tomography scans. The Medical Center billed and collected the revenue for these services to patients and paid CMDI \$388,500 for the use of equipment during the year ended December 31, 2011. At December 31, 2011, 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 southwest Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

For 2011, Pipestone County paid a total of \$220,876 to 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.

**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 \$2,470 of the County levy 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 and to foster the diversification of the economic climate 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 2011, Pipestone County paid \$2,500 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid \$780 of the County levy to the RCRCA.

Pipestone County Economic Development Authority

The Pipestone County Economic Development Authority promotes economic development activities in Pipestone County. The County, along with nine cities within the County, makes up the Authority. During the year, the County appropriated no portion of the County levy to the Authority.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 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). During 2011, Pipestone County contributed \$2,646 to the Joint Powers Board.

Workforce Investment Act

The Workforce Investment Act (WIA) of 1998 is to consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States. During the year, the County contributed \$2,245 to the WIA.

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force provides drug enforcement services for member organizations. During the year, the County provided \$23,355 to the Task Force.

Transit Consortium

In May of 2011, 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 2011, the County did not contribute any funding to the Transit Consortium.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

D. Agricultural Best Management Loan Program

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

E. Subsequent Events

During June 2012, the Pipestone County Board voted for the County's human services function to join Southwest Health and Human Services (SWHHS) as of January 1, 2013. The Joint Board of SWHHS approved the request in July 2012. The health function for Pipestone County is already part of SWHHS (Note 6.B.)

In November 2011, the County Board approved a loan of \$107,000 to the Southwestern Mental Health Center, Inc., for a future building project, to be paid from the Family Services Special Revenue Fund. In April 2012, the Board approved an additional loan amount of \$90,000. The loan has a payback period of 30 years at 3% interest. Final terms will be made upon agreement between Southwestern Mental Health Center, Inc. and Pipestone County. The loan is expected to be made in October 2012.

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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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,488,477	\$ 2,488,477	\$ 2,423,111	\$ (65,366)
Special assessments	181,500	181,500	246,384	64,884
Licenses and permits	10,760	10,760	14,030	3,270
Intergovernmental	1,757,829	1,757,829	1,854,878	97,049
Charges for services	1,225,263	1,225,263	1,223,768	(1,495)
Fines and forfeits	9,500	9,500	10,860	1,360
Gifts and contributions	-	-	3,400	3,400
Investment earnings	175,000	175,000	110,976	(64,024)
Miscellaneous	404,377	404,377	574,271	169,894
Total Revenues	\$ 6,252,706	\$ 6,252,706	\$ 6,461,678	\$ 208,972
Expenditures				
Current				
General government				
Commissioners	\$ 184,730	\$ 184,730	\$ 167,060	\$ 17,670
Travel management	25,000	25,000	21,306	3,694
Court administration	32,000	32,000	28,762	3,238
Law library	13,000	13,000	15,658	(2,658)
County administrator	112,430	112,430	110,688	1,742
Auditor	215,445	215,445	211,227	4,218
Treasurer	175,564	175,564	166,509	9,055
Independent audit	50,000	50,000	56,802	(6,802)
Personnel	60,785	60,785	68,544	(7,759)
Data processing	102,618	102,618	125,567	(22,949)
Elections	13,952	13,952	8,132	5,820
Information technology	131,106	131,106	155,775	(24,669)
Attorney	199,932	199,932	185,725	14,207
Recorder	147,505	147,505	155,062	(7,557)
Assessor	198,645	198,645	190,284	8,361
Planning and zoning	38,637	38,637	36,784	1,853
Geographic information system	6,500	6,500	2,530	3,970
Buildings and plant	479,340	479,340	256,870	222,470
Fairgrounds	27,500	27,500	23,146	4,354
Veterans service officer	49,654	49,654	49,605	49
County-wide transportation	404,303	404,303	412,853	(8,550)
Other general government	450,963	450,963	302,283	148,680
Total general government	\$ 3,119,609	\$ 3,119,609	\$ 2,751,172	\$ 368,437

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, 2011**

	<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	\$ 1,149,412	\$ 1,149,412	\$ 1,195,333	\$ (45,921)
Dispatch	230,756	230,756	231,127	(371)
Coroner	3,000	3,000	3,823	(823)
County jail	384,797	384,797	395,958	(11,161)
Probation	81,455	81,455	83,352	(1,897)
Emergency management	83,414	83,414	79,024	4,390
E-911 system	80,600	80,600	44,341	36,259
County ambulance	448,315	448,315	462,802	(14,487)
Total public safety	\$ 2,461,749	\$ 2,461,749	\$ 2,495,760	\$ (34,011)
Sanitation				
Recycling	\$ 509,399	\$ 509,399	\$ 193,967	\$ 315,432
Health				
Nursing services	\$ 14,281	\$ 14,281	\$ -	\$ 14,281
Culture and recreation				
Senior citizens	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Parks	2,600	2,600	4,100	(1,500)
Hiawatha trails	30,000	30,000	79,661	(49,661)
Other	34,060	34,060	36,133	(2,073)
Total culture and recreation	\$ 69,660	\$ 69,660	\$ 122,894	\$ (53,234)
Conservation of natural resources				
Extension	\$ 175,289	\$ 175,289	\$ 174,980	\$ 309
Agricultural inspection	25,948	25,948	25,813	135
Other	159,787	159,787	213,907	(54,120)
Total conservation of natural resources	\$ 361,024	\$ 361,024	\$ 414,700	\$ (53,676)
Economic development				
Economic development	\$ 8,465	\$ 8,465	\$ 8,365	\$ 100

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT A-1
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Sanitation	\$ 40,000	\$ 40,000	\$ -	\$ 40,000
Health	56,000	56,000	55,833	167
Culture and recreation	51,651	51,651	51,651	-
Total intergovernmental	\$ 147,651	\$ 147,651	\$ 107,484	\$ 40,167
Debt service				
Principal	\$ -	\$ -	\$ 4,666	\$ (4,666)
Interest	-	-	671	(671)
Total debt service	\$ -	\$ -	\$ 5,337	\$ (5,337)
Total Expenditures	\$ 6,691,838	\$ 6,691,838	\$ 6,099,679	\$ 592,159
Excess of Revenues Over (Under)				
Expenditures	\$ (439,132)	\$ (439,132)	\$ 361,999	\$ 801,131
Other Financing Sources (Uses)				
Transfer out	\$ (115,000)	\$ (115,000)	\$ (115,000)	\$ -
Proceeds from loans	-	-	42,515	42,515
Total Other Financing Sources (Uses)	\$ (115,000)	\$ (115,000)	\$ (72,485)	\$ 42,515
Net Change in Fund Balance	\$ (554,132)	\$ (554,132)	\$ 289,514	\$ 843,646
Fund Balance - January 1	5,403,212	5,403,212	5,403,212	-
Fund Balance - December 31	\$ 4,849,080	\$ 4,849,080	\$ 5,692,726	\$ 843,646

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 753,390	\$ 753,390	\$ 670,599	\$ (82,791)
Intergovernmental	2,868,944	2,868,944	4,013,799	1,144,855
Charges for services	150,000	150,000	173,090	23,090
Investment earnings	40,000	40,000	21,862	(18,138)
Miscellaneous	81,050	81,050	190,270	109,220
Total Revenues	\$ 3,893,384	\$ 3,893,384	\$ 5,069,620	\$ 1,176,236
Expenditures				
Current				
Highways and streets				
Administration	\$ 251,369	\$ 251,369	\$ 281,274	\$ (29,905)
Construction	1,869,161	1,869,161	3,133,808	(1,264,647)
Maintenance	1,115,291	1,115,291	1,080,682	34,609
Equipment and maintenance shops	410,656	410,656	448,774	(38,118)
Total highways and streets	\$ 3,646,477	\$ 3,646,477	\$ 4,944,538	\$ (1,298,061)
Intergovernmental				
Highways and streets	246,907	246,907	271,861	(24,954)
Total Expenditures	\$ 3,893,384	\$ 3,893,384	\$ 5,216,399	\$ (1,323,015)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (146,779)	\$ (146,779)
Other Financing Sources (Uses)				
Insurance recovery for loss of general capital assets	-	-	79,990	(79,990)
Net Change in Fund Balance	\$ -	\$ -	\$ (66,789)	\$ (66,789)
Fund Balance - January 1	2,379,847	2,379,847	2,379,847	-
Increase (decrease) in inventories	-	-	54,945	54,945
Fund Balance - December 31	\$ 2,379,847	\$ 2,379,847	\$ 2,368,003	\$ (11,844)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,163,155	\$ 1,163,155	\$ 1,035,010	\$ (128,145)
Intergovernmental	1,298,150	1,298,150	1,409,013	110,863
Charges for services	10,500	10,500	15,982	5,482
Miscellaneous	226,500	226,500	252,423	25,923
Total Revenues	\$ 2,698,305	\$ 2,698,305	\$ 2,712,428	\$ 14,123
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,055,545	\$ 1,055,545	\$ 1,034,414	\$ 21,131
Social services	1,773,315	1,773,315	1,616,232	157,083
Total Expenditures	\$ 2,828,860	\$ 2,828,860	\$ 2,650,646	\$ 178,214
Excess of Revenues Over (Under) Expenditures	\$ (130,555)	\$ (130,555)	\$ 61,782	\$ 192,337
Other Financing Sources (Uses)				
Transfer in	115,000	115,000	115,000	-
Net Change in Fund Balance	\$ (15,555)	\$ (15,555)	\$ 176,782	\$ 192,337
Fund Balance - January 1	1,250,984	1,250,984	1,250,984	-
Fund Balance - December 31	\$ 1,235,429	\$ 1,235,429	\$ 1,427,766	\$ 192,337

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds and the 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

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, the Road and Bridge Special Revenue Fund's expenditures exceeded appropriations (the legal level budgetary control) by \$1,323,015.

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SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Ditch - to account for funds to be used for the maintenance, repair, and construction of the County ditch system. Financing is provided by special assessments levied against benefited property owners.

DEBT SERVICE FUND

Medical Facility Bonds - to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of bonded debt on the medical building.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Ditch</u>	<u>Medical</u>	
		<u>Facility Bonds</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 24,996	\$ 206,181	\$ 231,177
Undistributed cash in agency funds	79	4,495	4,574
Taxes receivable			
Prior	-	7,457	7,457
	-	7,457	7,457
Total Assets	\$ 25,075	\$ 218,133	\$ 243,208
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 603	\$ -	\$ 603
Due to other funds	-	169,667	169,667
Deferred revenue - unavailable	-	7,457	7,457
	-	7,457	7,457
Total Liabilities	\$ 603	\$ 177,124	\$ 177,727
Fund Balances			
Restricted for			
Ditch maintenance and repair	\$ 24,472	\$ -	\$ 24,472
Debt service	-	41,009	41,009
	-	41,009	41,009
Total Fund Balances	\$ 24,472	\$ 41,009	\$ 65,481
Total Liabilities and Fund Balances	\$ 25,075	\$ 218,133	\$ 243,208

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-2

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

	<u>Special Revenue</u> <u>Ditch</u>	<u>Debt Service</u> <u>Medical</u> <u>Facility Bonds</u>	<u>Total</u>
Revenues			
Taxes	\$ -	\$ 236,474	\$ 236,474
Special assessments	<u>3,300</u>	<u>-</u>	<u>3,300</u>
Total Revenues	\$ 3,300	\$ 236,474	\$ 239,774
Expenditures			
Current			
Conservation of natural resources	<u>6,345</u>	<u>-</u>	<u>6,345</u>
Excess of Revenues Over (Under)			
Expenditures	\$ (3,045)	\$ 236,474	\$ 233,429
Other Financing Sources (Uses)			
Transfers out	<u>-</u>	<u>(227,676)</u>	<u>(227,676)</u>
Net Change in Fund Balance	\$ (3,045)	\$ 8,798	\$ 5,753
Fund Balance - January 1	<u>27,517</u>	<u>32,211</u>	<u>59,728</u>
Fund Balance - December 31	<u>\$ 24,472</u>	<u>\$ 41,009</u>	<u>\$ 65,481</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 3,300	\$ 3,300
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	<u>2,300</u>	<u>2,300</u>	<u>6,345</u>	<u>(4,045)</u>
Net Change in Fund Balance	\$ (2,300)	\$ (2,300)	\$ (3,045)	\$ (745)
Fund Balance - January 1	<u>27,517</u>	<u>27,517</u>	<u>27,517</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 25,217</u></u>	<u><u>\$ 25,217</u></u>	<u><u>\$ 24,472</u></u>	<u><u>\$ (745)</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 238,560	\$ 238,560	\$ 236,474	\$ (2,086)
Excess of Revenues Over (Under)				
Expenditures	\$ 238,560	\$ 238,560	\$ 236,474	\$ (2,086)
Other Financing Sources (Uses)				
Transfers out	(238,560)	(238,560)	(227,676)	10,884
Net Change in Fund Balance	\$ -	\$ -	\$ 8,798	\$ 8,798
Fund Balance - January 1	<u>32,211</u>	<u>32,211</u>	<u>32,211</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 32,211</u>	<u>\$ 32,211</u>	<u>\$ 41,009</u>	<u>\$ 8,798</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.

Forfeited Tax Sale - to account for funds received from the sale of lands forfeited for unpaid tax to be held for distribution to the various funds and taxing districts.

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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,745	\$ 139,137	\$ 129,981	\$ 12,901
<u>Liabilities</u>				
Due to other governments	\$ 3,745	\$ 139,137	\$ 129,981	\$ 12,901
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 38,907	\$ 1,500,705	\$ 1,498,912	\$ 40,700
<u>Liabilities</u>				
Due to other governments	\$ 38,907	\$ 1,500,705	\$ 1,498,912	\$ 40,700
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 5,309	\$ 109	\$ 5,200
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 5,309	\$ 109	\$ 5,200

**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, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 133,334</u>	<u>\$ 12,331,805</u>	<u>\$ 12,316,889</u>	<u>\$ 148,250</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 133,334</u>	<u>\$ 12,331,805</u>	<u>\$ 12,316,889</u>	<u>\$ 148,250</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 175,986</u>	<u>\$ 13,976,956</u>	<u>\$ 13,945,891</u>	<u>\$ 207,051</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 175,986</u>	<u>\$ 13,976,956</u>	<u>\$ 13,945,891</u>	<u>\$ 207,051</u>

OTHER SCHEDULES

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-1

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

Shared Revenue

State

Highway users tax	\$ 3,443,501
County program aid	691,843
PERA rate reimbursement	14,804
Disparity reduction aid	71,298
Police aid	78,163
E-911	82,062
Market value credit	282,012

Total shared revenue **\$ 4,663,683**

Reimbursement for Services

State

Minnesota Department of Corrections	\$ 23,340
Minnesota Department of Human Services	198,606

Total reimbursement for services **\$ 221,946**

Payments

Local

Payments in lieu of taxes	<u>\$ 67,813</u>
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Grants

State

Minnesota Department/Board of Corrections	\$ 10,257
Human Services	401,590
Natural Resources	30,645
Public Safety	71,901
Transportation	526,974
Veterans Affairs	6,990
Water and Soil Resources	99,446
Pollution Control Agency	55,950

Total state **\$ 1,203,753**

Federal

Department of Agriculture	\$ 87,600
Housing and Urban Development	64,283
Transportation	219,206
Health and Human Services	659,849
Homeland Security	89,557

Total federal **\$ 1,120,495**

Total state and federal grants **\$ 2,324,248**

Total Intergovernmental Revenue **\$ 7,277,690**

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	\$ 87,600
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	\$ 64,283
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster (Note 4) Highway Planning and Construction	20.205	\$ 64,549
Formula Grants for Other Than Urbanized Areas Cluster (Note 4) Formula Grants for Other Than Urbanized Areas	20.509	94,657
Passed Through Minnesota Department of Natural Resources Highway Planning and Construction Cluster (Note 4) Recreational Trails Program	20.219	<u>60,000</u>
Total U.S. Department of Transportation		\$ 219,206
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 3,857
Temporary Assistance for Needy Families (TANF) Cluster (Note 4) Temporary Assistance for Needy Families	93.558	81,273
Emergency Contingency Fund for TANF State Program - ARRA	93.714	2,775
Child Support Enforcement	93.563	191,201
Child Care and Development Cluster (Note 4) Child Care and Development Block Grant	93.575	2,846
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	3,326
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,526
Foster Care - Title IV-E	93.658	29,869
Social Services Block Grant	93.667	78,405
Chafee Foster Care Independence Program	93.674	2,923
Children's Health Insurance Program	93.767	54
Medical Assistance Program	93.778	<u>261,794</u>
Total U.S. Department of Health and Human Services		\$ 659,849

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT D-2
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 82,650
Passed Through Lyon County Interoperable Emergency Communications	97.055	2,190
Homeland Security Grant Program	97.067	<u>4,717</u>
Total U.S. Department of Homeland Security		<u>\$ 89,557</u>
Total Cash Federal Awards		\$ 1,120,495
Non-Cash Awards		
U.S. Department of Transportation		
Passed Through Meeker County Formula Grants for Other Than Urbanized Areas Cluster (Note 4) Formula Grants for Other Than Urbanized Areas - ARRA	20.509	<u>\$ 33,430</u>
Total Federal Awards		<u><u>\$ 1,153,925</u></u>

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

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

3. Summary of Significant Account Policies

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

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Planning and Construction Cluster	\$	124,549
Formula Grants for Other Than Urbanized Areas Cluster		128,087
Temporary Assistance for Needy Families Cluster		84,048
Child Care and Development Cluster		6,172

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,120,495
Non-cash awards	<u>33,430</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 1,153,925</u>

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

7. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unqualified for all major programs except for Child Support Enforcement (CFDA #93.563) which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	CFDA #10.561
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Medical Assistance	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Segregation of Duties

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

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

Context: Due to the limited number of staff within some County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not always possible.

Effect: Without proper segregation of duties, errors or irregularities may not be detected timely, loss or misuse of County assets may occur.

Cause: The size of Pipestone County and its staffing, limits the internal control that management can design and implement into the organization. This arrangement 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 internal control point of view.

Recommendation: We recommend that Pipestone County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff. In addition, management may want to implement other controls. For example, a mandatory vacation policy or periodic rotation of duties among employees would allow management to observe any noticeable change, while another person is performing the duties. These alternative controls also help lessen potential disruptions caused by employee turnover.

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.

06-5 Accounting Policies and Procedures Manual

Criteria: County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. All governments should document their accounting policies and procedures. Although other methods may suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system. These policies and procedures should be designed to help detect and deter fraud, and include monitoring procedures.

Condition: The County does not have approved guidelines or instructions to follow in the form of a current and comprehensive accounting policies and procedures manual.

Context: County management has not documented the significant internal controls in its accounting system or created a formal plan, to monitor its internal control structure and to ensure that Board approved practices are followed as intended.

Effect: Without approved policies and procedures, internal controls over financial reporting are weakened and the possibility of materially misstated balances being reported is increased.

Cause: No formal action has been taken to provide County personnel with procedures to perform consistent treatment of accounting transactions.

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

Client's Response:

The County has compiled some internal control narratives from Departments and imported into a draft Accounting Policies and Procedures Manual. Final Manual approval is pending further review by Department Heads.

09-1 Credit Card Usage

Criteria: Counties have authority to make purchases using credit cards. The statutes authorizing credit card use by public entities restrict the use of credit cards to purchases for the public entity. No personal use of the credit card is permitted.

The County Board has adopted a Credit Card Policy which includes management and internal control procedures. Internal control procedures over the use of credit cards include the timely submission to department heads of itemized proof of purchases and the monthly reconciliation of credit card statements by department heads.

Condition: Every year in March, expired credit cards are collected and new credit cards are re-issued. Over the past three years, we noted a decrease in the number of credit cards being issued by the County; 29 credit cards issued during 2011, 33 during 2010, and 37 during 2009. In the past, we also noted that the County had not consistently followed its Credit Card Policy.

Context: During our testing, we noted improvements in the internal control procedures over credit card usage. An inventory of the credit cards is being maintained, proof of purchase is being submitted with credit card charges, reconciliations of monthly credit card statements are being performed by department heads, and credit cards have an expiration date of one year. Although improvements have been made, we feel that the number of credit cards is still excessive.

Effect: The excessive use of credit cards increases the likelihood for misuse of both the credit cards and County funds.

Cause: The County Board has authorized more than 30 percent of its employees and officials to make purchases on behalf of the County.

Recommendation: We recommend that the County minimize the number of credit cards issued to County personnel. Minimizing the number of credit cards approved will greatly reduce exposure to loss of public funds through theft or misuse of a credit card.

Client's Response:

The County will review the number of credit cards issued and minimize the number of credit cards approved to reduce the possible exposure to loss of public funds through theft and misuse of the credit card.

PREVIOUSLY REPORTED ITEMS RESOLVED

Audit Adjustments (06-1)

Management and employees, in the normal course of performing their assigned functions, were not able to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Resolution

There were no material and significant audit adjustments required in our audit of the County's financial statements.

Preparation of the Schedule of Expenditures of Federal Awards (10-1)

The County did not have a process in place to adequately identify federal programs.

Resolution

The County prepared the Schedule of Expenditures of Federal Awards.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-1 Error in the Preparation of the Cost Allocation Plan (CAP)

Program: Child Support Enforcement (CFDA No. 93.563)

Criteria: OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" prescribes the cost accounting policies associated with the administration of federal awards by local governments.

Condition: The annual CAP submitted to the Minnesota Department of Human Services (DHS) contained an error in the calculation for the allocation of certain centralized costs to the Child Support Enforcement program.

Questioned Costs: Not applicable. The allocation of these centralized costs is an allowable cost allocation according to OMB Circular A-87.

Context: The County provides services on a centralized basis. As explained in OMB Circular A-87, when these centralized costs support federal programs, the County may assign an appropriate portion of the costs to the benefiting programs by preparing a CAP. A CAP is used to distribute central costs on a reasonable and consistent basis, using formal accounting and other records that support the propriety of the costs assigned to federal awards. Annually, the County hires an outside consultant to prepare the CAP. The plan is submitted to DHS, and the County receives federal funding based on the costs allocated to the program.

Effect: Costs allocated to the Child Support Enforcement program were overstated by \$23,292 which represent an overstatement of \$15,373 in federal expenditures for 2011. Because the CAP process involves adjusting for differences between the allocated and known costs (carry-forward adjustment), a portion of this overstatement would be corrected in the 2013 funding when the 2011 known funding is used for preparation of the CAP.

Cause: The preparer of the County's CAP made an error while calculating the allocation units to be used for the allocation of certain centralized costs to the Child Support Enforcement program.

Recommendation: We recommend the County be aware that errors may occur in the CAP which are ultimately the County's responsibility. The County may consider implementing additional review procedures to identify errors. A revised CAP should be prepared and submitted to DHS so overpayments can be recovered as necessary.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Plan:

County Auditor Joyce Steinhoff

County Administrator Sharon Hanson

Corrective Action Planned:

The County contacted the preparer of the County's CAP, and the preparer provided a correction which will produce a drawdown of the reimbursed funds for 2013 to make up the overstatement of \$15,373 in federal expenditures.

Anticipated Completion Date:

Completed

11-2 Eligibility Testing

Programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558); ARRA - Emergency Contingency Fund for TANF State Program (CFDA No. 93.714); Medical Assistance (MA) (CFDA No. 93.778)

Criteria: The Office of Budget and Management (OMB) Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Specific criteria are established with respect to eligibility for assistance. During our testing of the intake function related to eligibility, we noted noncompliance with the following requirements:

- Per 8 U.S.C. § 1611(a), “Notwithstanding any other provision of law and except as provided in subsection (b) of this section, an alien who is not a qualified alien (as defined in section 1641 of this title) is not eligible for any federal public benefit (as defined in subsection (c) of this section).”
- Per Minn. Stat. § 256B.056, subd. 10(c), “The commissioner shall verify assets and income for all applicants, and for all recipients upon renewal.”

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. In some cases, documentation was not available to support that the client was eligible for benefits. In other cases, information was input into MAXIS incorrectly. Some specific instances noted in our sample of 50 cases tested are as follows:

- Two individuals who were receiving benefits did not have a birth certificate copy on record to document their U.S. citizenship.
- There were five cases where income and/or asset information did not match information in the case files.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility); while the state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: Inappropriate benefits could be approved, causing an inappropriate expenditure of federal awards.

Cause: Program personnel entering case documentation into MAXIS did not ensure all required information was obtained and/or retained and entered into MAXIS correctly.

Recommendation: We recommend that the County implement review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained and properly input into MAXIS. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Plan:

County Administrator Sharon Hanson

Corrective Action Planned:

A review will be conducted with staff regarding proper intake documentation and entering into MAXIS system. In addition, an audit will be performed on sample of cases post-review to ensure proper intake documentation has been obtained and/or retained.

Anticipated Completion Date:

December 31, 2012

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Publication of Vendors (09-2)

The County did not publish individual vendors paid with credit cards, as specified by Minnesota statutes.

Resolution

The County adopted procedures to allow for the publication of individual vendors paid with credit cards and has begun to publish such individual vendors.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-7

Disaster Recovery Plan

Criteria: A disaster recovery plan gives assurance 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 its 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.



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

Board of County Commissioners
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 as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Pipestone County Medical Center, a component unit of Pipestone County, which represents the amounts shown as the business-type activities and the Medical Center Enterprise Fund, 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

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

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 99-3, 06-5, and 09-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County has no tax increment financing districts.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

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

Board of County Commissioners
Pipestone County

Compliance

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

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

As described in item 11-1 in the accompanying Schedule of Findings and Questioned Costs, Pipestone County did not comply with requirements regarding the allowable costs/cost principles that are applicable to its Child Support Enforcement program, CFDA #93.563. Compliance with such requirements is necessary, in our opinion, for Pipestone County to comply with requirements applicable to that program.

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

Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-2 to be a significant deficiency.

Pipestone County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012