

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Year Ended December 31, 2012



**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, 2012**

Office	Name	Term Expires
Commissioners		
1st District	Marge DeRuyter	January 2013
2nd District	Harold "Butch" Miller ²	January 2015
3rd District	Marvin Tinklenberg	January 2013
4th District	William Johnson	January 2015
5th District	Jerry Remund ¹	January 2017
Officers		
Elected		
Attorney	James O'Neill	January 2015
Auditor	Joyce Steinhoff ³	March 2013
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
Interim Family Services Director ⁴	Stacie Golombiecki	October 2012
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Family Services Board⁴		
Chair	Marvin Tinklenberg	January 2013
Vice Chair	Jerry Remund	January 2013
Secretary	Judy Zwart	January 2013
Member	Harold "Butch" Miller	January 2013
Member	Marge DeRuyter	January 2013
Member	William Johnson	January 2013
Member	Darlene Bouman	January 2013

¹Chair 2012

²Chair 2013

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

⁴Family Services joined Southwest Health and Human Services (SWHHS) effective January 2013. Director contracted with SWHHS effective November 2012.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County, Minnesota, as of and for the year ended December 31, 2012, including the Medical Center as of and for the six months ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the 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 other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of 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, 2012, including the Medical Center as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pipestone County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2013, on our consideration of Pipestone County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pipestone County’s internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Governmental activities' total net position is \$58,740,619, of which \$46,383,907 is invested in capital assets and \$2,398,064 is restricted for specific purposes. The unrestricted net position of \$9,958,648 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net position increased by \$2,690,159 for the year ended December 31, 2012. The increase is mainly attributable to the County investing in capital assets without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$3,319,168. The net cost was funded by general revenues totaling \$6,009,327.

Fund balances of the governmental funds decreased by \$32,239. Most of the decrease can be attributed to expenditures increasing more than revenue increases.

At the end of the current fiscal year, the County had an unrestricted (assigned and unassigned) General Fund fund balance of \$4,967,707. 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 64 percent of total General Fund expenditures of \$7,799,735.

The Pipestone County Medical Center's assets exceeded its liabilities by \$28,816,367 at June 30, 2012. The Medical Center recorded an increase in net position of \$773,755 for the six-month period ended June 30, 2012. The Medical Center adopted a new fiscal year-end of June 30, effective June 30, 2012. A short six-month period from January 1 to June 30, 2012, is presented in the financial statements to implement this change.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. 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 position on Exhibit 10.

Government-Wide Financial Analysis

Over time, net position serves as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$58,740,619 at the close of 2012. The largest portion of the net position (79 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 2011 is presented.

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Assets				
Current and other assets	\$ 13,346,643	\$ 13,697,601	\$ 22,741,787	\$ 22,349,049
Capital assets	46,644,076	43,958,306	11,780,463	11,545,914
Total Assets	\$ 59,990,719	\$ 57,655,907	\$ 34,522,250	\$ 33,894,963
Liabilities				
Long-term liabilities	\$ 477,718	\$ 355,925	\$ 3,422,218	\$ 3,680,382
Other liabilities	772,382	1,249,522	2,283,665	2,171,969
Total Liabilities	\$ 1,250,100	\$ 1,605,447	\$ 5,705,883	\$ 5,852,351
Net Position				
Net investment in capital assets	\$ 46,383,907	\$ 43,613,991	\$ 8,358,245	\$ 7,865,532
Restricted	2,398,064	2,649,296	289,095	289,095
Unrestricted	9,958,648	9,787,173	20,169,027	19,887,985
Total Net Position	\$ 58,740,619	\$ 56,050,460	\$ 28,816,367	\$ 28,042,612

Unrestricted net position (in the amount of \$9,958,648)--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 17 percent of the net position.

The County's governmental activities increased net position by more than four percent (\$58,740,619 for 2012 compared to \$56,050,460 for 2011). Key elements in this increase in net position are as follows with comparative amounts from 2011.

Changes in Net Position

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Revenues				
Program revenues				
Charges for services	\$ 2,860,016	\$ 2,514,296	\$ 11,886,889	\$ 23,321,327
Operating grants and contributions	6,005,348	6,442,737	-	-
Capital grants and contributions	1,726,248	946,778	-	-
General revenues				
Property taxes	4,388,574	3,961,973	-	-
Other	1,848,432	1,960,206	306,754	235,897
Total Revenues	\$ 16,828,618	\$ 15,825,990	\$ 12,193,643	\$ 23,557,224

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Expenses				
General government	\$ 3,639,323	\$ 2,995,239	\$ -	\$ -
Public safety	2,608,699	2,413,957	-	-
Highways and streets	3,897,447	3,916,349	-	-
Sanitation	255,388	173,379	-	-
Human services	2,747,332	2,621,323	-	-
Health	57,576	55,833	-	-
Culture and recreation	137,709	170,636	-	-
Conservation of natural resources	558,821	420,687	-	-
Economic development	7,775	8,365	-	-
Interest	710	671	-	-
Medical Center	-	-	11,533,736	22,762,789
Total Expenses	<u>\$ 13,910,780</u>	<u>\$ 12,776,439</u>	<u>\$ 11,533,736</u>	<u>\$ 22,762,789</u>
Excess (Deficiency) Before Transfers	\$ 2,917,838	\$ 3,049,551	\$ 659,907	\$ 794,435
Transfers	<u>(227,679)</u>	<u>(227,676)</u>	<u>113,848</u>	<u>227,676</u>
Increase in Net Position	\$ 2,690,159	\$ 2,821,875	\$ 773,755	\$ 1,022,111
Net Position - January 1	<u>56,050,460</u>	<u>53,228,585</u>	<u>28,042,612</u>	<u>27,020,501</u>
Net Position - December 31	<u>\$ 58,740,619</u>	<u>\$ 56,050,460</u>	<u>\$ 28,816,367</u>	<u>\$ 28,042,612</u>

Total governmental revenues for the County were \$16,828,618, total expenses were \$13,910,780, and total transfers out were \$227,679. This reflects a \$2,690,159 increase in net position for the year ended December 31, 2012.

The cost of all governmental activities for the year was \$13,910,780. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities was only \$3,319,168, because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,860,016; or by other governments and organizations that subsidized certain programs with grants and contributions--\$7,731,596. The County paid for the remaining "public benefit" portion of governmental activities with general revenues, primarily taxes (\$4,388,574) (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	
	2012	2011	2012	2011
Highways and streets	\$ 3,897,447	\$ 3,916,349	\$ (1,626,304)	\$ (1,597,951)
General government	3,639,323	2,995,239	2,707,956	2,165,345
Human services	2,747,332	2,621,323	1,247,830	1,057,490
Public safety	2,608,699	2,413,957	642,494	980,057
All others	1,017,979	829,571	347,192	267,687
Totals	<u>\$ 13,910,780</u>	<u>\$ 12,776,439</u>	<u>\$ 3,319,168</u>	<u>\$ 2,872,628</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 \$9,521,737, a decrease of \$32,239 in comparison with the prior year. Of the combined ending fund balances, \$8,777,101 represents unrestricted (committed, 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 \$4,967,707. 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 64 percent of total General Fund expenditures of \$7,799,735. During 2012, the ending fund balance decreased by \$370,095. Most of the decrease was due to an anticipated increase in capital asset purchases.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$2,328,583 at fiscal year-end, representing 38 percent of its 2012 expenditures. The ending fund balance increased \$278,901 during 2012.

The Family Services Special Revenue Fund had an unrestricted fund balance of \$1,480,811 at fiscal year-end, representing 54 percent of its 2012 expenditures. The ending fund balance increased \$53,045 during 2012.

Proprietary Fund

The statement of net position at June 30, 2012, for the Pipestone County Medical Center indicates total assets of \$34,522,250, total liabilities of \$5,705,883, and net position of \$28,816,367. Total current assets were \$9,610,147, and total current liabilities were \$2,677,999, for a current ratio of 3.59, down from 3.61 at December 31, 2011. The statement of revenues, expenses, and changes in net position indicates total operating revenues of \$11,886,889 and total operating expenses of \$11,463,663, for an operating income of \$423,226, nonoperating revenues of \$306,754, nonoperating expenses of \$70,073, and transfers in of \$113,848, which contributed to the increase in net position from \$28,042,612 to \$28,816,367.

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 \$1,046,345 over the final budget amounts. The most significant variances occurred in Buildings and Plant, Sheriff, and E-911 due to unanticipated building maintenance and capital asset acquisition.

Resources available for appropriation were \$961,462 over the final budgeted amount. Intergovernmental revenue, charges for services, 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, 2012, totaled \$46,644,076 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,685,770 or about six 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)

	2012	2011
Land and other nondepreciated assets	\$ 2,878,548	\$ 2,231,084
Land improvements	225,185	237,169
Infrastructure	37,288,020	35,022,814
Buildings	4,376,573	4,532,798
Machinery and equipment	1,875,750	1,934,441
Total	<u>\$ 46,644,076</u>	<u>\$ 43,958,306</u>

(Unaudited)

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

Pipestone County Medical Center's capital assets at June 30, 2012, amounted to \$11,780,463 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2012, the County had no outstanding bonded debt.

Business-Type Activities

At June 30, 2012, the Pipestone County Medical Center had total long-term debt outstanding of \$3,422,218, 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 2013 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2012 was 5.9 percent. This is comparable with the average annual state unemployment rate of 5.6 percent at the end of 2012. The 2012 County population is 9,345, a decrease of 251 or 2.6 percent from the 2010 census of 9,596.
- Among Pipestone County residents, the overall poverty rate was 9.9 percent in 2011, compared to 11.9 percent in Minnesota.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 7,793,921	\$ 5,447,355	\$ 13,241,276
Investments	1,219,000	-	1,219,000
Receivables - net	4,143,499	3,067,496	7,210,995
Internal balances	(172,158)	94,665	(77,493)
Inventories	318,321	645,140	963,461
Prepaid items	44,060	355,491	399,551
Assets restricted as to use for			
Capital acquisition and debt redemption	-	11,870,442	11,870,442
Insurance	-	500,000	500,000
Restricted by contributors for capital acquisitions	-	289,095	289,095
Investment in joint venture	-	421,424	421,424
Capital assets			
Nondepreciable capital assets	2,878,548	1,597,279	4,475,827
Depreciable capital assets - net of accumulated depreciation	43,765,528	10,183,184	53,948,712
Other assets			
Deferred financing costs - net of accumulated amortization	-	50,679	50,679
	\$ 59,990,719	\$ 34,522,250	\$ 94,512,969
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 772,382	\$ 2,253,588	\$ 3,025,970
Accrued interest payable	-	30,077	30,077
Long-term liabilities			
Due within one year	101,698	394,334	496,032
Due in more than one year	376,020	3,027,884	3,403,904
	\$ 1,250,100	\$ 5,705,883	\$ 6,955,983
<u>Net Position</u>			
Net investment in capital assets	\$ 46,383,907	\$ 8,358,245	\$ 54,742,152
Restricted for			
Other purposes	249,585	289,095	538,680
Public safety	48,520	-	48,520
Highways and streets	2,020,383	-	2,020,383
Conservation of natural resources	20,220	-	20,220
Debt service	59,356	-	59,356
Unrestricted	9,958,648	20,169,027	30,127,675
	\$ 58,740,619	\$ 28,816,367	\$ 87,556,986

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, 2012**

<u>Functions/Programs</u>	Expenses	Fees, Charges, Fines, and Other
Primary Government		
Governmental activities		
General government	\$ 3,639,323	\$ 363,598
Public safety	2,608,699	1,382,977
Highways and streets	3,897,447	392,777
Sanitation	255,388	262,731
Human services	2,747,332	278,748
Health	57,576	-
Culture and recreation	137,709	-
Conservation of natural resources	558,821	179,185
Economic development	7,775	-
Interest	710	-
Total governmental activities	\$ 13,910,780	\$ 2,860,016
Business-type activities		
Medical Center	11,533,736	11,886,889
Total Primary Government	\$ 25,444,516	\$ 14,746,905

General Revenues

Property taxes
Mortgage registry and deed tax
Wind production tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Interest income
Miscellaneous
Minority interest

Transfers

Total general revenues and transfers

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 514,498	\$ 53,271	\$ (2,707,956)	\$ -	\$ (2,707,956)
583,228	-	(642,494)	-	(642,494)
3,457,997	1,672,977	1,626,304	-	1,626,304
55,950	-	63,293	-	63,293
1,220,754	-	(1,247,830)	-	(1,247,830)
-	-	(57,576)	-	(57,576)
46,823	-	(90,886)	-	(90,886)
126,098	-	(253,538)	-	(253,538)
-	-	(7,775)	-	(7,775)
-	-	(710)	-	(710)
\$ 6,005,348	\$ 1,726,248	\$ (3,319,168)	\$ -	\$ (3,319,168)
-	-	-	353,153	353,153
\$ 6,005,348	\$ 1,726,248	\$ (3,319,168)	\$ 353,153	\$ (2,966,015)
		\$ 4,388,574	\$ -	\$ 4,388,574
		7,227	-	7,227
		461,673	-	461,673
		67,582	-	67,582
		897,073	2,397	899,470
		113,195	94,037	207,232
		301,682	-	301,682
		-	210,320	210,320
		(227,679)	113,848	(113,831)
		\$ 6,009,327	\$ 420,602	\$ 6,429,929
		\$ 2,690,159	\$ 773,755	\$ 3,463,914
		56,050,460	28,042,612	84,093,072
		\$ 58,740,619	\$ 28,816,367	\$ 87,556,986

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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, 2012**

	<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	\$ 5,168,060	\$ 854,497	\$ 1,394,475	\$ 238,063	\$ 7,655,095
Undistributed cash in agency funds	78,121	21,804	30,882	4,894	135,701
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,175,000	-	-	1,219,000
Taxes receivable					
Prior	23,056	8,058	11,584	8,185	50,883
Special assessments receivable					
Prior	14,795	-	-	-	14,795
Noncurrent	336,259	-	-	-	336,259
Accounts receivable	111,161	4,555	1,385	-	117,101
Accrued interest receivable	33,782	5,666	-	-	39,448
Due from other funds	718	18,372	-	-	19,090
Due from other governments	287,250	3,182,565	114,606	592	3,585,013
Inventories	-	318,321	-	-	318,321
Prepaid items	44,060	-	-	-	44,060
Total Assets	\$ 6,144,287	\$ 5,588,938	\$ 1,552,932	\$ 251,734	\$ 13,537,891
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 194,075	\$ 71,039	\$ 12,831	\$ -	\$ 277,945
Salaries payable	140,188	42,754	47,706	-	230,648
Contracts payable	86,510	173,659	-	-	260,169
Due to other funds	18,372	718	-	172,158	191,248
Due to other governments	190	3,430	-	-	3,620
Deferred revenue - unavailable	382,321	2,650,434	11,584	8,185	3,052,524
Total Liabilities	\$ 821,656	\$ 2,942,034	\$ 72,121	\$ 180,343	\$ 4,016,154

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<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	\$ -	\$ 318,321	\$ -	\$ -	\$ 318,321
Prepaid items	44,060	-	-	-	44,060
Restricted for					
Missing heirs	10,467	-	-	-	10,467
Law library	34,060	-	-	-	34,060
Recorder's technology fund	59,023	-	-	-	59,023
Recorder's compliance fund	96,233	-	-	-	96,233
Enhanced 911	5,933	-	-	-	5,933
Sheriff's contingency	1,727	-	-	-	1,727
Transit	49,802	-	-	-	49,802
Probation supervision	9,884	-	-	-	9,884
DUI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Jail canteen fund	4,532	-	-	-	4,532
Permit to carry	11,289	-	-	-	11,289
Septic/sewer loans	12,759	-	-	-	12,759
Ditch maintenance and repair	-	-	-	20,220	20,220
Debt service	-	-	-	51,171	51,171
Committed for					
Loans	-	-	197,000	-	197,000
Assigned to					
Elections	112,540	-	-	-	112,540
Buildings	107,657	-	-	-	107,657
Capital improvements	360,441	-	-	-	360,441
Solid waste/recycling	479,376	-	-	-	479,376
County septic loan program	55,530	-	-	-	55,530
Computer software	235,000	-	-	-	235,000
Court expenses	921	-	-	-	921
Ambulance	30,000	-	-	-	30,000
Rock River septic loans	2,553	-	-	-	2,553
AgBMP septic loan	2,189	-	-	-	2,189
Capital equipment	-	381,500	-	-	381,500
Road and bridge	-	1,947,083	-	-	1,947,083
Family services	-	-	1,283,811	-	1,283,811
Unassigned	3,581,500	-	-	-	3,581,500
Total Fund Balances	\$ 5,322,631	\$ 2,646,904	\$ 1,480,811	\$ 71,391	\$ 9,521,737
Total Liabilities and Fund Balances	\$ 6,144,287	\$ 5,588,938	\$ 1,552,932	\$ 251,734	\$ 13,537,891

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balance - total governmental funds (Exhibit 3)	\$ 9,521,737
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	46,644,076
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	3,052,524
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (288,151)
Loans payable	(189,567)
	<u>(477,718)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 58,740,619</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 2,722,818	\$ 785,945	\$ 1,113,544	\$ 237,249	\$ 4,859,556
Special assessments	253,643	-	-	10,200	263,843
Licenses and permits	13,195	-	-	-	13,195
Intergovernmental	2,219,972	5,122,649	1,284,325	592	8,627,538
Charges for services	1,405,232	163,166	9,880	-	1,578,278
Fines and forfeits	9,325	-	-	-	9,325
Gifts and contributions	3,500	-	500	-	4,000
Investment earnings	96,895	15,100	-	-	111,995
Miscellaneous	703,988	229,611	268,868	-	1,202,467
Total Revenues	\$ 7,428,568	\$ 6,316,471	\$ 2,677,117	\$ 248,041	\$ 16,670,197
Expenditures					
Current					
General government	\$ 3,480,181	\$ -	\$ -	\$ -	\$ 3,480,181
Public safety	3,027,752	-	-	-	3,027,752
Highways and streets	-	5,784,134	-	-	5,784,134
Sanitation	538,304	-	-	-	538,304
Human services	-	-	2,739,072	-	2,739,072
Culture and recreation	85,058	-	-	-	85,058
Conservation of natural resources	544,349	-	-	14,452	558,801
Economic development	7,775	-	-	-	7,775
Intergovernmental	110,227	281,309	-	-	391,536
Debt service					
Principal	5,379	-	-	-	5,379
Interest	710	-	-	-	710
Total Expenditures	\$ 7,799,735	\$ 6,065,443	\$ 2,739,072	\$ 14,452	\$ 16,618,702
Excess of Revenues Over (Under)					
Expenditures	\$ (371,167)	\$ 251,028	\$ (61,955)	\$ 233,589	\$ 51,495

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<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)	-	-	(227,679)	(342,679)
Proceeds from loans	116,072	-	-	-	116,072
Total Other Financing Sources (Uses)	\$ 1,072	\$ -	\$ 115,000	\$ (227,679)	\$ (111,607)
Net Change in Fund Balance	\$ (370,095)	\$ 251,028	\$ 53,045	\$ 5,910	\$ (60,112)
Fund Balance - January 1	5,692,726	2,368,003	1,427,766	65,481	9,553,976
Increase (decrease) in inventories	-	27,873	-	-	27,873
Fund Balance - December 31	\$ 5,322,631	\$ 2,646,904	\$ 1,480,811	\$ 71,391	\$ 9,521,737

**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, 2012**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (60,112)

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	\$ 3,052,524	
Deferred revenue - January 1	<u>(2,894,103)</u>	158,421

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

Expenditures for general capital assets and infrastructure	\$ 4,232,539	
Net book value of capital assets disposed of	(30,500)	
Current year depreciation	<u>(1,516,269)</u>	2,685,770

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

Proceeds of new debt	\$ (116,072)	
Principal payments on debt	<u>5,379</u>	(110,693)

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	\$ (11,100)	
Change in inventories	<u>27,873</u>	<u>16,773</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,690,159

PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2012**

Assets

Current assets	
Cash and pooled investments	\$ 5,447,355
Accounts receivable - net	389,060
Patient and resident receivables - net	2,595,395
Due from minority interest partner	83,041
Due from other funds	94,665
Inventories	645,140
Prepaid items	355,491
	\$ 9,610,147
Total current assets	
Noncurrent assets	
Assets internally designated for	
Capital acquisition and debt redemption	\$ 11,870,442
Insurance	500,000
Restricted by contributors for capital acquisitions	289,095
Investment in joint venture	421,424
	\$ 13,080,961
Total noncurrent restricted assets	
	\$ 11,780,463
Capital assets - net	
Other assets	
Deferred financing costs - net of accumulated amortization of \$93,217	\$ 50,679
	\$ 34,522,250
Total Assets	

Liabilities

Current liabilities	
Accounts payable	\$ 1,248,253
Salaries payable	159,989
Paid time off	582,509
Payroll taxes and other	262,837
Interest	30,077
Current maturities of long-term debt	394,334
	\$ 2,677,999
Total current liabilities	
Noncurrent liabilities	
Long-term debt, less current maturities	3,027,884
	\$ 5,705,883
Total Liabilities	

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2012**

Net Position

Net investment in capital assets	\$ 8,358,245
Restricted expendable net position	289,095
Unrestricted	<u>20,169,027</u>
Total Net Position	<u>\$ 28,816,367</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012**

Operating Revenues	
Net patient and resident service revenue - net of provisions for bad debts	\$ 11,692,704
Miscellaneous	194,185
	<hr/>
Total Operating Revenues	\$ 11,886,889
Operating Expenses	
Professional care of patients and residents	\$ 8,460,424
General and administrative	1,701,722
Property and household	559,537
Depreciation and amortization	507,659
Dietary	234,321
	<hr/>
Total Operating Expenses	\$ 11,463,663
Operating Income (Loss)	\$ 423,226
Nonoperating Revenues (Expenses)	
Interest income	\$ 94,037
Noncapital grants and contributions	2,397
Minority interest in joint ventures	210,320
Interest expense	(66,598)
Other expense	(3,475)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 236,681
Income (Loss) Before Capital Contributions and Transfers	\$ 659,907
Transfers in	113,848
	<hr/>
Change in net position	\$ 773,755
Net Position - January 1	28,042,612
	<hr/>
Net Position - December 31	\$ 28,816,367
	<hr/> <hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 11,604,905
Other receipts	276,299
Cash payments to employees for services	(5,346,936)
Cash payments to suppliers for goods and services	<u>(5,289,563)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,244,705</u>
Cash Flows from Noncapital Financing Activities	
Noncapital grants and contributions	<u>\$ 2,397</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (734,367)
Principal paid on long-term debt	(258,164)
Transfer from County	113,848
Interest paid on long-term debt	<u>(68,688)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (947,371)</u>
Cash Flows from Investing Activities	
Purchase of investments	\$ (15,252)
Interest income and other nonoperating cash flows	90,562
Distribution from joint venture	<u>69,761</u>
Net cash provided by (used in) investing activities	<u>\$ 145,071</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 444,802
Cash and Cash Equivalents - January 1	<u>5,292,553</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 5,737,355</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	\$ 5,447,355
Noncurrent cash	<u>290,000</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 5,737,355</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012
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>423,226</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 507,659
(Gain) loss on disposal of equipment	(3,475)
Non-cash patronage allocation	(65,837)
(Increase) decrease in receivables	207,789
(Increase) decrease in supplies	40,638
Increase (decrease) in prepaid expenses	(106,361)
Increase (decrease) in accounts payable	190,481
Increase (decrease) in accrued expenses	<u>50,585</u>
Total adjustments	\$ <u>821,479</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>1,244,705</u></u>

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FIDUCIARY FUNDS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2012**

Assets

Cash and pooled investments	<u>\$ 212,536</u>
-----------------------------	-------------------

Liabilities

Due to other governments	<u>\$ 212,536</u>
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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: 916 Fourth 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 adopted a new fiscal year end of June 30, effective June 30, 2012. A short six-month fiscal year from January 1 to June 30, 2012, is presented in these financial statements 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 position and the statement of activities) display information about Pipestone County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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 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 Position 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, 2012, 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 2012 were \$96,750.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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). The investment in the pool is measured at the net position value per share provided by the pool.

The Medical Center's investment income for the six-month period ended June 30, 2012, was \$94,037 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 receivables are uncollateralized customer and third-party payor obligations.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (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	25 - 60
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

In the fund financial statements, governmental 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 Position

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

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

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

Unrestricted - the portion of net position that is not included in the net investment in capital assets or restricted components.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classification of Fund Balances

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

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

Committed - 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.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Classification of Fund Balances (Continued)

Unassigned - the residual classification for the General Fund, it 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.

E. Medical Center - Net Patient Service Revenue

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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

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

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

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

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2012:

	Expenditures	Budget	Excess
General Fund	\$ 7,799,735	\$ 6,753,390	\$ 1,046,345
Special Revenue Funds			
Road and Bridge	6,065,443	4,997,471	1,067,972
Ditch	14,452	10,200	4,252

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 7,793,921
Investments	1,219,000
Business-type activities	
Cash and pooled investments	5,447,355
Restricted assets	
Capital improvements and debt redemption	11,870,442
Insurance	500,000
Restricted by contributors for capital acquisitions	289,095
Statement of fiduciary net assets	
Cash and pooled investments	212,536
Total Cash and Investments	\$ 27,332,349

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2012, 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, 2012, 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, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation note	AA+	S&P		02/22/2022	\$ 750,000
Federal Home Loan Mortgage Corporation note	AA+	S&P		03/21/2022	450,000
Total Federal Home Loan Mortgage Corporation notes			29.8%		\$ 1,200,000
Federal Home Loan Bank bond					
Federal Home Loan Bank bond	AA+	S&P		08/15/2022	\$ 299,875
Federal Home Loan Bank bond	AA+	S&P		09/28/2022	150,000
Federal Home Loan Bank bond	AA+	S&P		11/28/2022	300,000
Federal Home Loan Bank bond	AA+	S&P		12/28/2022	100,000
Total Federal Home Loan Bank bonds			21.1%		\$ 849,875
Investment pools/mutual funds					
Raymond James Money Market Account	N/R	N/A	N/A	N/A	\$ 2,500
Negotiable certificates of deposit with brokers					
Discover Bank	N/A	N/A	6.0%	07/03/2017	\$ 240,000
GE Capital Bank	N/A	N/A	6.1%	07/06/2018	245,000
Goldman Sachs	N/A	N/A	6.1%	12/31/2018	245,000
CIT Bank	N/A	N/A	6.0%	06/27/2019	240,000
GE Capital Retail Bank	N/A	N/A	6.1%	Various	245,000
Other certificates of deposit with brokers	N/A	N/A	N/A	Various	720,000
Total negotiable certificates of deposit with brokers					\$ 1,935,000
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 39,000
Total investments					\$ 4,026,375
Checking					7,273,259
Savings					2,457,751
Petty cash and change funds					3,125
Certificates of deposit					13,571,839
Total Cash and Investments					\$ 27,332,349

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, 2012, 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	\$ 50,883	\$ -
Special assessments	351,054	275,133
Due from other governments	3,585,013	-
Accounts	117,101	-
Interest	39,448	-
Total Governmental Activities	<u>\$ 4,143,499</u>	<u>\$ 275,133</u>
Business-Type Activities		
Accounts	\$ 389,060	\$ -
Due from minority interest partner	83,041	-
Patient and resident service revenue	2,595,395	-
Total Business-Type Activities	<u>\$ 3,067,496</u>	<u>\$ -</u>

A summary of net patient service revenue, contractual adjustments and the provision for bad debts for the six-month period ended June 30, 2012, is as follows:

Total patient and resident service revenue	<u>\$ 17,021,059</u>
Contractual adjustments	
Medicare	\$ (2,653,352)
Medicaid	(1,190,507)
Clinic	(255,583)
Other	(1,038,962)
Total contractual adjustments	<u>\$ (5,138,404)</u>
Provision for bad debts	<u>\$ (189,951)</u>
Net Patient and Resident Service Revenue	<u>\$ 11,692,704</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, 2012, 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	1,049,887	11,173	-	1,061,060
Construction in progress	20,794	657,085	20,794	657,085
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	<u>\$ 2,231,084</u>	<u>\$ 668,258</u>	<u>\$ 20,794</u>	<u>\$ 2,878,548</u>
Capital assets depreciated				
Buildings	\$ 7,242,521	\$ -	\$ 35,420	\$ 7,207,101
Land improvements	354,451	-	-	354,451
Machinery and equipment	4,661,881	306,592	18,802	4,949,671
Infrastructure	47,196,742	3,278,483	-	50,475,225
Total capital assets depreciated	<u>\$ 59,455,595</u>	<u>\$ 3,585,075</u>	<u>\$ 54,222</u>	<u>\$ 62,986,448</u>
Less: accumulated depreciation for				
Buildings	\$ 2,709,723	\$ 125,725	\$ 4,920	\$ 2,830,528
Land improvements	117,282	11,984	-	129,266
Machinery and equipment	2,727,440	365,283	18,802	3,073,921
Infrastructure	12,173,928	1,013,277	-	13,187,205
Total accumulated depreciation	<u>\$ 17,728,373</u>	<u>\$ 1,516,269</u>	<u>\$ 23,722</u>	<u>\$ 19,220,920</u>
Total capital assets depreciated, net	<u>\$ 41,727,222</u>	<u>\$ 2,068,806</u>	<u>\$ 30,500</u>	<u>\$ 43,765,528</u>
Governmental Activities Capital Assets, Net	<u>\$ 43,958,306</u>	<u>\$ 2,737,064</u>	<u>\$ 51,294</u>	<u>\$ 46,644,076</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	\$ 786,655	\$ -	\$ -	\$ 786,655
Construction in progress	188,699	876,738	254,813	810,624
Total capital assets not depreciated	\$ 975,354	\$ 876,738	\$ 254,813	\$ 1,597,279
Capital assets depreciated				
Buildings	\$ 12,942,258	\$ -	\$ 182,937	\$ 12,759,321
Land improvements	722,939	-	27,515	695,424
Fixed equipment	3,591,109	78,580	208,007	3,461,682
Major movable equipment	7,287,153	52,719	430,706	6,909,166
Total capital assets depreciated	\$ 24,543,459	\$ 131,299	\$ 849,165	\$ 23,825,593
Less: accumulated depreciation for				
Buildings	\$ 5,690,524	\$ 182,058	\$ 182,547	\$ 5,690,035
Land improvements	387,062	15,469	27,377	375,154
Fixed equipment	2,363,634	70,998	195,933	2,238,699
Major movable equipment	5,531,679	234,768	427,926	5,338,521
Total accumulated depreciation	\$ 13,972,899	\$ 503,293	\$ 833,783	\$ 13,642,409
Total capital assets depreciated, net	\$ 10,570,560	\$ (371,994)	\$ 15,382	\$ 10,183,184
Business-Type Activities				
Capital Assets, Net	<u>\$ 11,545,914</u>	<u>\$ 504,744</u>	<u>\$ 270,195</u>	<u>\$ 11,780,463</u>

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

Governmental Activities	
General government	\$ 183,748
Public safety	103,100
Highways and streets, including depreciation of infrastructure assets	1,221,238
Sanitation	505
Human services	7,678
Total Depreciation Expense - Governmental Activities	<u>\$ 1,516,269</u>
Business-Type Activities	
Medical Center	<u>\$ 503,293</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, 2012, is as follows:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ 718	\$ 18,372
Road and Bridge Special Revenue Fund	18,372	718
Nonmajor Debt Service Fund	-	172,158
Total governmental funds	\$ 19,090	\$ 191,248
Medical Center Enterprise Fund	94,665	-
Total	\$ 113,755	\$ 191,248
Change in Medical Center amounts from June 30 to December 31, 2012	77,493	-
Total	\$ 191,248	\$ 191,248

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

	Interfund Transfer In	Interfund Transfer Out
General Fund	\$ -	\$ 115,000
Family Services Special Revenue Fund	115,000	-
Nonmajor Debt Service Fund	-	227,679
	\$ 115,000	\$ 342,679
Total governmental funds		
Medical Center Enterprise Fund	113,848	-
	\$ 228,848	\$ 342,679
Total		
Change in Medical Center amounts from June 30 to December 31, 2012	113,831	-
	\$ 342,679	\$ 342,679
Total		

The transfer to the Medical Center Enterprise Fund from the Nonmajor Debt Service Fund was to provide funds for debt service. The transfer to the Family Services Special Revenue Fund from the General Fund was for appropriations.

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 277,945	\$ 1,248,253
Salaries	230,648	159,989
Payroll taxes and other	-	262,837
Contracts	260,169	-
Due to other governments	3,620	-
Paid time off	-	582,509
	\$ 772,382	\$ 2,253,588
Total Payables		

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2012. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 1,080,458	\$ 87,431
Business-Type Activities		
Medical Center Enterprise Fund		
Remodeling and equipment projects	810,624	70,000

3. Leases

Operating Leases

The Medical Center leases certain equipment under non-cancelable long-term lease agreements. Total lease expense for the six-month period ended June 30, 2012, for all operating leases was \$138,008. Minimum future lease payments for the operating leases are as follows:

Year Ending June 30	Principal
2013	\$ 138,669
2014	23,820
2015	23,820
2016	6,381
Total	\$ 192,690

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Semiannual Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2012</u>
2005 Redwood River CWP Project	2017	\$2,668	2.00	\$ 48,149	\$ 25,271
2009 Redwood River CWP Project	2021	\$376	2.00	6,783	6,164
2011 Rock River Septic Loan Program	2022	\$6,570	2.00	105,501	105,501
2011 Pipestone County Ag Best Management Loan Program	2020	\$2,705 - \$8,062	-	52,631	52,631
Total Loans Payable				<u>\$ 213,064</u>	<u>\$ 189,567</u>

Bonds and Notes Payable

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Annual Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance June 30, 2012</u>
G.O. Hospital Bonds of 2005	2022	\$155,000 - \$220,000	3.50 - 4.15	\$ 2,140,000	\$ 1,845,000
Health Facilities Revenue Note, Series 2001	2018	\$240,000 - \$290,000	Variable	3,075,000	1,577,218
Total G.O. Bonds and Revenue Notes				<u>\$ 5,215,000</u>	<u>\$ 3,422,218</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Governmental Activities

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 8,192	\$ 601
2014	12,544	491
2015	12,866	379
2016	13,195	264
2017	13,531	147
2018 - 2021	<u>23,738</u>	<u>131</u>
Totals	<u>\$ 84,066</u>	<u>\$ 2,013</u>

The debt service requirements for the loan of \$105,501 from the Minnesota Pollution Control Agency are not known as of December 31, 2012.

Business-Type Activities

Debt service requirements at June 30, 2012, were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 394,334	\$ 121,932
2014	408,178	107,495
2015	427,348	92,299
2016	436,858	81,415
2017	456,718	59,724
2018 - 2022	<u>1,298,782</u>	<u>111,523</u>
Totals	<u>\$ 3,422,218</u>	<u>\$ 574,388</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Governmental Activities

Activity for the year ended December 31, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 78,874	\$ 116,072	\$ 5,379	\$ 189,567	\$ 8,192
Compensated absences	277,051	11,100	-	288,151	93,506
Governmental Activities Long-Term Liabilities	<u>\$ 355,925</u>	<u>\$ 127,172</u>	<u>\$ 5,379</u>	<u>\$ 477,718</u>	<u>\$ 101,698</u>

Business-Type Activities

Activity for the six-month period ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 1,995,000	\$ -	\$ 150,000	\$ 1,845,000	\$ 155,000
Health Facilities Revenue Note, Series 2001	1,685,382	-	108,164	1,577,218	239,334
Business-Type Activities Long-Term Liabilities	<u>\$ 3,680,382</u>	<u>\$ -</u>	<u>\$ 258,164</u>	<u>\$ 3,422,218</u>	<u>\$ 394,334</u>

D. Net Position

Of the \$20,169,027 of unrestricted net position in the Medical Center Enterprise Fund reported as of June 30, 2012, \$12,370,442 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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.

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 528,363	\$ 806,576	\$ 780,390
Public Employees Police and Fire Fund	103,142	96,458	92,148
Public Employees Correctional Fund	36,798	35,023	33,741

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans (Continued)

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,259	\$ 2,259
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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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 \$1.0 million per claim and an annual aggregate limit of \$3.0 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, 2012, the Lincoln-Pipestone Rural Water System had \$36,231,499 of general obligation bonds outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specially benefited by the applicable expansion, extension, or enlargement of the system and from the net revenues. 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 functions were assumed by SWHHS as of January 1, 2013. In 2012, Redwood County petitioned to join SWHHS. Redwood County's health and human services functions were assumed by 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 2012, Pipestone County's contribution to SWHHS was \$57,576.

**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 (the latest available), 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, 2011 (the latest available):

Total assets	\$ 2,127,562
Total liabilities	564,148
Total net assets	1,563,414
Total revenues	3,744,479
Total expenditures	4,103,387
Net change in net assets	(358,908)

**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, 2011.

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, 2012, are \$36,231,499.

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

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

**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 2012, 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 the 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 \$148,350 for the use of equipment during the six-month period ended June 30, 2012. At June 30, 2012, 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 2012, Pipestone County paid a total of \$209,084 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 2012, Pipestone County paid \$2,000 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 2012, Pipestone County contributed \$1,823 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 \$28,788 to the Task Force.

Transit Consortium

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include the counties of Meeker, Pipestone, Sherburne, Wright, Brown, and Martin. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During 2012, 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.).

Subsequent to the Medical Center's June 30, 2012, year-end, the Medical Center entered into a construction contract in the amount of \$580,000 for the purposes of completing a building addition and remodeling project.

Evaluation of a new clinic at the Medical Center is currently taking place. The project is in its preliminary stage and is estimated to cost \$22,000,000. Construction could begin as early as fall 2013.

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,688,678	\$ 2,688,678	\$ 2,722,818	\$ 34,140
Special assessments	211,500	211,500	253,643	42,143
Licenses and permits	13,780	13,780	13,195	(585)
Intergovernmental	1,641,979	1,641,979	2,219,972	577,993
Charges for services	1,346,645	1,346,645	1,405,232	58,587
Fines and forfeits	9,500	9,500	9,325	(175)
Gifts and contributions	-	-	3,500	3,500
Investment earnings	100,000	100,000	96,895	(3,105)
Miscellaneous	455,024	455,024	703,988	248,964
Total Revenues	\$ 6,467,106	\$ 6,467,106	\$ 7,428,568	\$ 961,462
Expenditures				
Current				
General government				
Commissioners	\$ 182,330	\$ 182,330	\$ 163,569	\$ 18,761
Travel management	8,000	8,000	2,547	5,453
Court administration	31,000	31,000	44,227	(13,227)
Law library	15,000	15,000	16,388	(1,388)
County administrator	114,510	114,510	113,913	597
Auditor	224,483	224,483	216,191	8,292
Treasurer	182,809	182,809	173,376	9,433
Independent audit	60,700	60,700	57,019	3,681
Personnel	64,195	64,195	55,465	8,730
Data processing	75,962	75,962	77,122	(1,160)
Elections	67,975	67,975	43,367	24,608
Information technology	135,131	135,131	154,762	(19,631)
Attorney	199,016	199,016	190,909	8,107
Recorder	171,343	171,343	157,893	13,450
Assessor	200,984	200,984	192,259	8,725
Planning and zoning	40,014	40,014	41,267	(1,253)
Geographic information system	4,600	4,600	4,240	360
Buildings and plant	518,830	518,830	818,988	(300,158)
Fairgrounds	27,500	27,500	33,154	(5,654)
Veterans service officer	50,840	50,840	53,132	(2,292)
County-wide transportation	406,063	406,063	471,743	(65,680)
Other general government	371,658	371,658	398,650	(26,992)
Total general government	\$ 3,152,943	\$ 3,152,943	\$ 3,480,181	\$ (327,238)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<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	\$ 1,214,504	\$ 1,214,504	\$ 1,431,693	\$ (217,189)
Dispatch	272,588	272,588	233,636	38,952
Coroner	3,000	3,000	-	3,000
County jail	404,755	404,755	390,939	13,816
Probation	82,660	82,660	86,399	(3,739)
Emergency management	84,072	84,072	83,657	415
E-911 system	80,300	80,300	491,592	(411,292)
County ambulance	344,458	344,458	309,836	34,622
Total public safety	\$ 2,486,337	\$ 2,486,337	\$ 3,027,752	\$ (541,415)
Sanitation				
Recycling	\$ 515,959	\$ 515,959	\$ 538,304	\$ (22,345)
Culture and recreation				
Senior citizens	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Parks	2,600	2,600	3,776	(1,176)
Hiawatha trails	30,000	30,000	43,479	(13,479)
Other	35,320	35,320	34,803	517
Total culture and recreation	\$ 70,920	\$ 70,920	\$ 85,058	\$ (14,138)
Conservation of natural resources				
Extension	\$ 178,933	\$ 178,933	\$ 175,832	\$ 3,101
Agricultural inspection	26,309	26,309	26,273	36
Other	159,587	159,587	342,244	(182,657)
Total conservation of natural resources	\$ 364,829	\$ 364,829	\$ 544,349	\$ (179,520)
Economic development				
Economic development	\$ 7,775	\$ 7,775	\$ 7,775	\$ -

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<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	57,576	57,576	57,576	-
Culture and recreation	51,651	51,651	52,651	(1,000)
Total intergovernmental	\$ 149,227	\$ 149,227	\$ 110,227	\$ 39,000
Debt service				
Principal	\$ 4,600	\$ 4,600	\$ 5,379	\$ (779)
Interest	800	800	710	90
Total debt service	\$ 5,400	\$ 5,400	\$ 6,089	\$ (689)
Total Expenditures	\$ 6,753,390	\$ 6,753,390	\$ 7,799,735	\$ (1,046,345)
Excess of Revenues Over (Under)				
Expenditures	\$ (286,284)	\$ (286,284)	\$ (371,167)	\$ (84,883)
Other Financing Sources (Uses)				
Transfer out	\$ (115,000)	\$ (115,000)	\$ (115,000)	\$ -
Proceeds from loans	-	-	116,072	116,072
Total Other Financing Sources (Uses)	\$ (115,000)	\$ (115,000)	\$ 1,072	\$ 116,072
Net Change in Fund Balance	\$ (401,284)	\$ (401,284)	\$ (370,095)	\$ 31,189
Fund Balance - January 1	5,692,726	5,692,726	5,692,726	-
Fund Balance - December 31	\$ 5,291,442	\$ 5,291,442	\$ 5,322,631	\$ 31,189

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 783,838	\$ 783,838	\$ 785,945	\$ 2,107
Intergovernmental	3,926,037	3,926,037	5,122,649	1,196,612
Charges for services	168,000	168,000	163,166	(4,834)
Investment earnings	35,000	35,000	15,100	(19,900)
Miscellaneous	84,596	84,596	229,611	145,015
Total Revenues	\$ 4,997,471	\$ 4,997,471	\$ 6,316,471	\$ 1,319,000
Expenditures				
Current				
Highways and streets				
Administration	\$ 225,587	\$ 225,587	\$ 264,940	\$ (39,353)
Construction	2,901,574	2,901,574	4,157,931	(1,256,357)
Maintenance	1,065,725	1,065,725	1,007,232	58,493
Equipment and maintenance shops	536,946	536,946	354,031	182,915
Total highways and streets	\$ 4,729,832	\$ 4,729,832	\$ 5,784,134	\$ (1,054,302)
Intergovernmental				
Highways and streets	267,639	267,639	281,309	(13,670)
Total Expenditures	\$ 4,997,471	\$ 4,997,471	\$ 6,065,443	\$ (1,067,972)
Net Change in Fund Balance	\$ -	\$ -	\$ 251,028	\$ 251,028
Fund Balance - January 1	2,368,003	2,368,003	2,368,003	-
Increase (decrease) in inventories	-	-	27,873	27,873
Fund Balance - December 31	\$ 2,368,003	\$ 2,368,003	\$ 2,646,904	\$ 278,901

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 1,113,544	\$ (49,611)
Intergovernmental	1,238,666	1,238,666	1,284,325	45,659
Charges for services	12,700	12,700	9,880	(2,820)
Gifts and contributions	-	-	500	500
Miscellaneous	214,000	214,000	268,868	54,868
Total Revenues	\$ 2,628,521	\$ 2,628,521	\$ 2,677,117	\$ 48,596
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,085,690	\$ 1,085,690	\$ 1,044,501	\$ 41,189
Social services	1,759,735	1,759,735	1,694,571	65,164
Total Expenditures	\$ 2,845,425	\$ 2,845,425	\$ 2,739,072	\$ 106,353
Excess of Revenues Over (Under) Expenditures	\$ (216,904)	\$ (216,904)	\$ (61,955)	\$ 154,949
Other Financing Sources (Uses)				
Transfer in	115,000	115,000	115,000	-
Net Change in Fund Balance	\$ (101,904)	\$ (101,904)	\$ 53,045	\$ 154,949
Fund Balance - January 1	1,427,766	1,427,766	1,427,766	-
Fund Balance - December 31	\$ 1,325,862	\$ 1,325,862	\$ 1,480,811	\$ 154,949

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for 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

The following funds had expenditures in excess of appropriation for the year ended December 31, 2012:

	<u>Expenditures</u>	<u>Appropriation</u>	<u>Excess</u>
General Fund	\$ 7,799,735	\$ 6,753,390	\$ 1,046,345
Road and Bridge Special Revenue Fund	6,065,443	4,997,471	1,067,972

The excess of expenditures over appropriation was funded by unanticipated revenues and available fund balance.

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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, 2012**

	<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	\$ 20,158	\$ 217,905	\$ 238,063
Undistributed cash in agency funds	62	4,832	4,894
Taxes receivable			
Prior	-	8,185	8,185
Due from other governments	-	592	592
	\$ 20,220	\$ 231,514	\$ 251,734
<u>Liabilities and Fund Balances</u>			
Liabilities			
Due to other funds	\$ -	\$ 172,158	\$ 172,158
Deferred revenue - unavailable	-	8,185	8,185
	\$ -	\$ 180,343	\$ 180,343
Fund Balances			
Restricted for			
Ditch maintenance and repair	\$ 20,220	\$ -	\$ 20,220
Debt service	-	51,171	51,171
	\$ 20,220	\$ 51,171	\$ 71,391
Total Liabilities and Fund Balances	\$ 20,220	\$ 231,514	\$ 251,734

**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, 2012**

	Special Revenue Ditch	Debt Service Medical Facility Bonds	Total
Revenues			
Taxes	\$ -	\$ 237,249	\$ 237,249
Special assessments	10,200	-	10,200
Intergovernmental	-	592	592
	\$ 10,200	\$ 237,841	\$ 248,041
Expenditures			
Current			
Conservation of natural resources	14,452	-	14,452
	\$ (4,252)	\$ 237,841	\$ 233,589
Excess of Revenues Over (Under) Expenditures			
	\$ (4,252)	\$ 237,841	\$ 233,589
Other Financing Sources (Uses)			
Transfers out	-	(227,679)	(227,679)
	\$ (4,252)	\$ 10,162	\$ 5,910
Net Change in Fund Balance			
	\$ (4,252)	\$ 10,162	\$ 5,910
Fund Balance - January 1	24,472	41,009	65,481
Fund Balance - December 31	\$ 20,220	\$ 51,171	\$ 71,391

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 10,200	\$ 10,200	\$ 10,200	\$ -
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	10,200	10,200	14,452	(4,252)
Net Change in Fund Balance	\$ -	\$ -	\$ (4,252)	\$ (4,252)
Fund Balance - January 1	<u>24,472</u>	<u>24,472</u>	<u>24,472</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 24,472</u></u>	<u><u>\$ 24,472</u></u>	<u><u>\$ 20,220</u></u>	<u><u>\$ (4,252)</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 238,534	\$ 238,534	\$ 237,249	\$ (1,285)
Intergovernmental	-	-	592	592
Total Revenues	<u>\$ 238,534</u>	<u>\$ 238,534</u>	<u>\$ 237,841</u>	<u>\$ (693)</u>
Excess of Revenues Over (Under) Expenditures	\$ 238,534	\$ 238,534	\$ 237,841	\$ (693)
Other Financing Sources (Uses)				
Transfers out	(238,534)	(238,534)	(227,679)	10,855
Net Change in Fund Balance	\$ -	\$ -	\$ 10,162	\$ 10,162
Fund Balance - January 1	<u>41,009</u>	<u>41,009</u>	<u>41,009</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 41,009</u></u>	<u><u>\$ 41,009</u></u>	<u><u>\$ 51,171</u></u>	<u><u>\$ 10,162</u></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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 12,901	\$ 137,218	\$ 146,836	\$ 3,283
<u>Liabilities</u>				
Due to other governments	\$ 12,901	\$ 137,218	\$ 146,836	\$ 3,283
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 40,700	\$ 1,585,280	\$ 1,575,519	\$ 50,461
<u>Liabilities</u>				
Due to other governments	\$ 40,700	\$ 1,585,280	\$ 1,575,519	\$ 50,461
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,200	\$ -	\$ 5,200	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 5,200	\$ -	\$ 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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 148,250</u>	<u>\$ 13,070,011</u>	<u>\$ 13,059,469</u>	<u>\$ 158,792</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 148,250</u>	<u>\$ 13,070,011</u>	<u>\$ 13,059,469</u>	<u>\$ 158,792</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 207,051</u>	<u>\$ 14,792,509</u>	<u>\$ 14,787,024</u>	<u>\$ 212,536</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 207,051</u>	<u>\$ 14,792,509</u>	<u>\$ 14,787,024</u>	<u>\$ 212,536</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, 2012**

Shared Revenue

State

Highway users tax	\$ 3,607,734
County program aid	691,843
PERA rate reimbursement	14,804
Disparity reduction aid	71,312
Police aid	77,670
Disaster credit	12,391
E-911	80,681
Market value credit	106,723
	106,723

Total shared revenue **\$ 4,663,158**

Reimbursement for Services

State

Minnesota Department of Corrections	\$ 23,693
Minnesota Department of Human Services	157,105
	157,105

Total reimbursement for services **\$ 180,798**

Payments

Local

Payments in lieu of taxes	<u>\$ 67,582</u>
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Grants

State

Minnesota Department/Board of Corrections	\$ 10,936
Human Services	364,209
Natural Resources	46,823
Public Safety	198,524
Transportation	1,607,680
Veterans Affairs	3,698
Water and Soil Resources	122,598
Historical Society	80,000
Pollution Control Agency	55,950
	55,950

Total state **\$ 2,490,418**

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT D-1
(Continued)***

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

Grants (Continued)

Federal

Department of	
Agriculture	\$ 74,045
Commerce	39,885
Housing and Urban Development	118,693
Transportation	160,350
Health and Human Services	648,446
Homeland Security	184,163
	<hr/>

Total federal **\$ 1,225,582**

Total state and federal grants **\$ 3,716,000**

Total Intergovernmental Revenue **\$ 8,627,538**

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	<u>\$ 74,045</u>
U.S. Department of Commerce		
Passed Through Lyon County Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 39,885</u>
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	<u>\$ 118,693</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 15,529
Formula Grants for Other Than Urbanized Areas	20.509	<u>144,821</u>
Total U.S. Department of Transportation		<u>\$ 160,350</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 6,801
Temporary Assistance for Needy Families (TANF) Cluster TANF	93.558	86,882
Emergency Contingency Fund for TANF State Program - ARRA	93.714	817
Child Support Enforcement	93.563	166,863
Refugee and Entrant Assistance - State Administered Programs	93.566	125
Child Care and Development Block Grant	93.575	4,854
Stephanie Tubbs Jones Child Welfare Services Program	93.645	2,584
Foster Care - Title IV-E	93.658	25,841
Social Services Block Grant	93.667	78,312
Chafee Foster Care Independence Program	93.674	4,154
Medical Assistance Program	93.778	<u>271,213</u>
Total U.S. Department of Health and Human Services		<u>\$ 648,446</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

*EXHIBIT D-2
(Continued)*

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 38,539
Emergency Management Performance Grants	97.042	29,942
Passed Through Lyon County		
Homeland Security Grant Program	97.067	115,682
Total U.S. Department of Homeland Security		\$ 184,163
Total Federal Awards		\$ 1,225,582

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by 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, 2012. 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 position, or cash flows for Pipestone County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	\$ 87,699
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. 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.

6. Subrecipients

During 2012, 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, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

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 a low-risk auditee? **Yes**

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, and 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.

ITEM ARISING THIS YEAR

12-1 Audit Adjustments

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

Condition: During our audit, we proposed audit adjustments which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

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

Effect: Audit adjustments were necessary for additional receivables related to family services activities and an additional payable in the Debt Service Fund.

Cause: Pipestone County staff did not fully understand the recognition of certain family services revenue and certain debt service expenditures.

Recommendation: We recommend the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

The County is aware of the internal control weaknesses, stated above, that could lead to material misstatements. Department heads are in the process of discussing possible solutions, and will implement the procedures once they are completed.

PREVIOUSLY REPORTED ITEM RESOLVED

Credit Card Usage (09-1)

The County had not consistently followed its Credit Card Policy. The number of credit cards in use by County personnel was excessive.

Resolution

The County has implemented controls over credit card usage. The number of credit cards being used by County personnel has decreased.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-2 Eligibility Testing

Programs: U.S. Department of Health and Human Services' 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)

Pass-Through Agency: Minnesota Department of Human Services

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 40 cases tested are as follows:

- Two individuals who were receiving benefits did not have proof of U.S. citizenship in the case files.
- There were nine cases where income and/or asset information did not match information in the case files.

Questioned Costs: Not applicable. The County administers the program. 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 Action:

Lyn Rayburn, Eligibility Worker Supervisor, at Southwest Health and Human Services

Corrective Action Planned:

- *Periodic reviews (supervisory and peer reviews) of participant case files, case notes, and data entered into MAXIS and MMIS;*
- *Workers will set reminders/alerts in advance of expiring documentation to request verifications from non-citizens; and*
- *Research options for education and training.*

Anticipated Completion Date:

The plan is in process and ongoing. Peer reviews will begin at regular intervals. In the absence of training opportunities, staff are utilizing supervisory and lead worker expertise as well as direction from the Minnesota Department of Human Services (DHS) policy staff in order to process eligibility as accurately as possible.

PREVIOUSLY REPORTED ITEM RESOLVED

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

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.

Resolution

A revised CAP, which included a corrected calculation of centralized costs to the Child Support Enforcement program, was submitted to and accepted by the DHS.

IV. OTHER FINDINGS AND RECOMMENDATIONS

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*

Independent Auditor's Report

Board of County Commissioners
Pipestone County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2012, which include the Medical Center as of and for the six months ending June 30, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 26, 2013. 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

In planning and performing our audit of the financial statements, we considered Pipestone County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 99-3, 06-5, and 12-1, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Pipestone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2013

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

Independent Auditor's Report

Board of County Commissioners
Pipestone County

Report on Compliance for Each Major Federal Program

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 the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pipestone County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Pipestone County complied, in all material respects, with the types of 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, 2012.

Report on Internal Control Over Compliance

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

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

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

material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 11-2, that we consider to be a significant deficiency.

Pipestone County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Pipestone County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 26, 2013