

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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, 2014



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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	22
Proprietary Fund		
Medical Center Enterprise Fund		
Statement of Net Position	7	23
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	24
Statement of Cash Flows	9	25
Fiduciary Funds		
Statement of Fiduciary Net Position	10	27
Notes to the Financial Statements		28

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	77
Special Revenue Funds		
Road and Bridge Fund	A-2	80
Family Services Fund	A-3	81
Notes to the Required Supplementary Information		82
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	83
Combining Statement of Revenues, Expenditures, and Changes In Fund Balance	B-2	84
Budgetary Comparison Schedules		
Ditch Special Revenue Fund	B-3	85
Medical Facility Bonds Debt Service Fund	B-4	86
Agency Funds		87
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	C-1	88
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	90
Schedule of Expenditures of Federal Awards	D-2	91
Notes to the Schedule of Expenditures of Federal Awards		92
Management and Compliance Section		
Schedule of Findings and Questioned Costs		93
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		100
Report on Compliance for Each Federal Major Program and Report on Internal Control Over Compliance		103

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2014

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

¹Chair 2014

²Chair 2015

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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
Pipestone, Minnesota

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, 2014, including the Medical Center as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2014, including the Medical Center as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 27, 2015, on our consideration of Pipestone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pipestone County's internal control over financial reporting and compliance. It does not include the Medical Center, which was audited by other auditors.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 27, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(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, 2014. 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 \$60,668,352, of which \$48,955,932 is the County's net investment in capital assets and \$2,903,130 is restricted for specific purposes. The unrestricted net position of \$8,809,290 may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's net position increased by \$2,168,842 for the year ended December 31, 2014. 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 \$3,707,714. The net cost was funded by general revenues totaling \$5,876,556.
- Fund balances of the governmental funds decreased by \$1,441,362. Most of the decrease can be attributed to the retirement of the Series 2005 General Obligation Hospital Refunding Bonds in the amount of \$1,530,000 from the Medical Facility Bonds Debt Service Fund.
- For the year ended December 31, 2014, the assigned and unassigned balance of the General Fund was \$5,140,277, or 74.8 percent of the total General Fund expenditures for that year. This represents an increase from 2013, which had 70.0 percent of the total General Fund expenditures.
- The Pipestone County Medical Center's assets exceeded its liabilities by \$33,760,765 at June 30, 2014. The Medical Center recorded an increase in net position of \$3,201,615 for the year ended June 30, 2014.

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

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

The Statement of Net Position presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important to consider other nonfinancial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The Statement of Activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has the Pipestone County Medical Center reported under business-type activities.

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

Fund Level Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Ditch Special Revenue Fund, and the Medical Facility Bonds Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28 through 76 of this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$60,668,352 at the close of 2014. The largest portion of Pipestone County's net position (80.7 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending.

	Net Position			
	Governmental Activities		Business-Type Activities	
	2014	2013	2014	2013
Assets				
Current and other assets	\$ 13,020,164	\$ 14,264,254	\$ 25,480,011	\$ 23,731,220
Capital assets	48,955,932	46,978,173	13,374,666	12,494,632
Total Assets	\$ 61,976,096	\$ 61,242,427	\$ 38,854,677	\$ 36,225,852
Liabilities				
Long-term liabilities	\$ 445,393	\$ 438,111	\$ 2,687,035	\$ 3,044,915
Other liabilities	862,351	2,304,806	2,406,877	2,621,787
Total Liabilities	\$ 1,307,744	\$ 2,742,917	\$ 5,093,912	\$ 5,666,702
Net Position				
Net investment in capital assets	\$ 48,955,932	\$ 46,878,611	\$ 10,687,632	\$ 9,449,717
Restricted	2,903,130	4,374,082	-	-
Unrestricted	8,809,290	7,246,817	23,073,133	21,109,433
Total Net Position	\$ 60,668,352	\$ 58,499,510	\$ 33,760,765	\$ 30,559,150

Unrestricted net position (in the amount of \$8,809,932)--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 14.5 percent of the net position.

Governmental Activities

The County's governmental activities net position increased by 3.7 percent (\$60,668,352 for 2014 compared to \$58,499,510 for 2013). Key elements in this increase in net position are as follows for 2014, with comparative data for 2013.

	Changes in Net Position			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues				
Program revenues				
Charges for services	\$ 2,560,762	\$ 2,379,779	\$ 25,301,369	\$ 22,912,325
Operating grants and contributions	4,529,409	4,048,489	-	-
Capital grants and contributions	2,015,763	763,103	-	-
General revenues				
Property taxes	4,779,429	4,500,501	-	-
Other	1,394,390	1,365,341	1,237,381	478,803
Total Revenues	\$ 15,279,753	\$ 13,057,213	\$ 26,538,750	\$ 23,391,128
Expenses				
General government	\$ 3,190,964	\$ 3,389,018	\$ -	\$ -
Public safety	2,879,916	2,611,780	-	-
Highways and streets	4,796,603	4,448,667	-	-
Sanitation	225,968	182,079	-	-
Human services	1,054,742	1,120,600	-	-
Health	57,576	57,576	-	-
Culture and recreation	130,296	127,554	-	-
Conservation of natural resources	470,317	469,336	-	-
Economic development	6,775	9,975	-	-
Interest	491	601	-	-
Medical Center	-	-	23,583,641	21,904,103
Total Expenses	\$ 12,813,648	\$ 12,417,186	\$ 23,583,641	\$ 21,904,103
Change in Net Position Before Transfers and Special Item	\$ 2,466,105	\$ 640,027	\$ 2,955,109	\$ 1,487,025
Transfers	(297,263)	(208,389)	246,506	255,758
Special item	-	(672,747)	-	-
Change in Net Position	\$ 2,168,842	\$ (241,109)	\$ 3,201,615	\$ 1,742,783
Net Position - Beginning	58,499,510	58,740,619	30,559,150	28,816,367
Net Position - Ending	\$ 60,668,352	\$ 58,499,510	\$ 33,760,765	\$ 30,559,150

Total governmental activities revenues for the County were \$15,279,753, total expenses were \$12,813,648, and total transfers out were \$297,263. This reflects a \$2,168,842 increase in net position for the year ended December 31, 2014.

The cost of all governmental activities for the year was \$12,813,648. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities was only \$3,707,714 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,560,762; or by other governments and organizations that subsidized certain programs with grants and contributions--\$6,545,172. The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes--\$4,779,429 (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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

	Governmental Activities			
	Total Cost of Services		Net Cost (Revenue) of Services	
	2014	2013	2014	2013
Highways and streets	\$ 4,796,603	\$ 4,448,667	\$ (1,039,668)	\$ 363,221
General government	3,190,964	3,389,018	2,184,074	2,418,450
Public safety	2,879,916	2,611,780	1,243,555	958,166
Human services	1,054,742	1,120,600	1,054,742	1,116,413
All others	891,423	847,121	265,011	369,565
Totals	<u>\$ 12,813,648</u>	<u>\$ 12,417,186</u>	<u>\$ 3,707,714</u>	<u>\$ 5,225,815</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$9,073,603, a decrease of \$1,574,043 in comparison with the prior year. Of the combined ending fund balances, \$8,233,258 represents unrestricted (assigned and unassigned) fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$5,140,277. 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 74.8 percent of total General Fund expenditures of \$6,876,408. During 2014, the ending fund balance increased by \$264,135.

The Road and Bridge Special Revenue Fund had an assigned fund balance of \$2,367,515 at fiscal year-end, representing 35.3 percent of its 2014 expenditures. The ending fund balance decreased \$348,367 during 2014.

The Family Services Special Revenue Fund had an assigned fund balance of \$731,687 at fiscal year-end, representing 69.4 percent of its 2014 expenditures. The ending fund balance increased \$101,229 during 2014.

The Medical Facility Bonds Debt Service Fund had an unassigned fund balance of negative \$6,221.

The Ditch Special Revenue Fund has a restricted fund balance of \$18,259. The ending fund balance increased \$39,035 during 2014.

Proprietary Fund

The Statement of Net Position at June 30, 2014, for the Pipestone County Medical Center indicates total assets of \$38,880,090, total liabilities of \$5,119,325, and net position of \$33,760,765. Total current assets were \$12,529,936, and total current liabilities were \$2,804,090, for a current ratio of 4.47, up from 3.64 at December 31, 2014. The Statement of Revenues, Expenses, and Changes in Net Position indicates total operating revenues of \$25,301,369 and total operating expenses of \$23,502,487, for an operating income of \$1,798,882, nonoperating revenues of \$643,613, nonoperating expenses of \$81,154, grants and contributions for capital assets of \$593,768, and transfers in of \$246,506, which contributed to the increase in net position from \$30,559,150 to \$33,760,765.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget. Budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues and/or costs, and new grant awards.

With the adjustment, the actual charges to appropriations (expenditures) were \$347,174 over the final budget amounts. The most significant variances occurred in the Sheriff, Dispatch, and E-911 System accounts due to the purchase of the Hiawatha tower transmitter and a records management system.

Resources available for appropriation were \$634,731 over the final budgeted amount. Intergovernmental revenue, special assessments, gifts and contributions, and miscellaneous revenue were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2014, totaled \$48,955,932 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,977,759, or 4.2 percent over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure and machinery and equipment, offset by a decrease in land improvements and buildings.

Capital Assets at Year-End (Net of Depreciation)

	2014	2013
Land and other nondepreciated assets	\$ 2,330,530	\$ 2,265,868
Land improvements	169,248	213,201
Infrastructure	39,451,988	37,603,570
Buildings	4,687,271	4,731,579
Machinery and equipment	2,316,895	2,163,955
Total	<u>\$ 48,955,932</u>	<u>\$ 46,978,173</u>

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

Pipestone County Medical Center's capital assets at June 30, 2014, amounted to \$13,374,666 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2014, the County had no outstanding bonded debt.

Business-Type Activities

At June 30, 2014, the Pipestone County Medical Center had total long-term debt outstanding of \$2,687,035, 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 2015 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2014 was 3.4 percent. This compares favorably with the average annual state unemployment rate of 4.3 percent at the end of 2014. The 2014 estimated County population is 9,336, a decrease of 260, or 2.7 percent, from the 2010 census of 9,596.
- Among Pipestone County residents, the overall poverty rate was estimated to be 10.7 percent in 2014, compared to 11.5 percent in Minnesota.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 8,144,817	\$ 7,720,359	\$ 15,865,176
Investments	1,219,000	-	1,219,000
Receivables - net	3,311,280	3,637,582	6,948,862
Loans receivable	189,043	-	189,043
Inventories	107,822	661,577	769,399
Prepaid items	48,202	485,005	533,207
Assets restricted as to use for			
Capital acquisition and debt redemption	-	12,133,193	12,133,193
Insurance	-	500,000	500,000
Investment in joint venture	-	342,295	342,295
Capital assets			
Nondepreciable capital assets	2,330,530	3,488,054	5,818,584
Depreciable capital assets - net of accumulated depreciation	46,625,402	9,886,612	56,512,014
Total Assets	\$ 61,976,096	\$ 38,854,677	\$ 100,830,773
<u>Liabilities</u>			
Current liabilities			
Accounts payable and other current liabilities	\$ 614,616	\$ 2,255,956	\$ 2,870,572
Accrued interest payable	-	25,413	25,413
Unearned revenue	-	150,921	150,921
Internal balances	247,735	(25,413)	222,322
Long-term liabilities			
Due within one year	47,978	409,530	457,508
Due in more than one year	397,415	2,277,505	2,674,920
Total Liabilities	\$ 1,307,744	\$ 5,093,912	\$ 6,401,656
<u>Net Position</u>			
Net investment in capital assets	\$ 48,955,932	\$ 10,687,632	\$ 59,643,564
Restricted for			
Other purposes	204,080	-	204,080
Public safety	55,238	-	55,238
Highways and streets	2,625,553	-	2,625,553
Ditches	18,259	-	18,259
Unrestricted	8,809,290	23,073,133	31,882,423
Total Net Position	\$ 60,668,352	\$ 33,760,765	\$ 94,429,117

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

Page 14

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	Expenses	Fees, Charges, Fines, and Other
Governmental activities		
General government	\$ 3,190,964	\$ 506,096
Public safety	2,879,916	1,376,580
Highways and streets	4,796,603	287,802
Sanitation	225,968	258,940
Human services	1,054,742	-
Health	57,576	-
Culture and recreation	130,296	-
Conservation of natural resources	470,317	131,344
Economic development	6,775	-
Interest	491	-
	\$ 12,813,648	\$ 2,560,762
Business-type activities		
Medical Center	23,583,641	25,301,369
Total	\$ 36,397,289	\$ 27,862,131

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
\$ 391,116	\$ 109,678	\$ (2,184,074)	\$ -	\$ (2,184,074)
259,781	-	(1,243,555)	-	(1,243,555)
3,642,384	1,906,085	1,039,668	-	1,039,668
63,803	-	96,775	-	96,775
-	-	(1,054,742)	-	(1,054,742)
-	-	(57,576)	-	(57,576)
32,285	-	(98,011)	-	(98,011)
140,040	-	(198,933)	-	(198,933)
-	-	(6,775)	-	(6,775)
-	-	(491)	-	(491)
\$ 4,529,409	\$ 2,015,763	\$ (3,707,714)	\$ -	\$ (3,707,714)
-	-	-	1,717,728	1,717,728
\$ 4,529,409	\$ 2,015,763	\$ (3,707,714)	\$ 1,717,728	\$ (1,989,986)
		\$ 4,779,429	\$ -	\$ 4,779,429
		7,144	-	7,144
		409,274	-	409,274
		70,380	-	70,380
		662,769	593,768	1,256,537
		101,197	115,288	216,485
		143,626	-	143,626
		-	528,325	528,325
		(297,263)	246,506	(50,757)
		\$ 5,876,556	\$ 1,483,887	\$ 7,360,443
		\$ 2,168,842	\$ 3,201,615	\$ 5,370,457
		58,499,510	30,559,150	89,058,660
		\$ 60,668,352	\$ 33,760,765	\$ 94,429,117

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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, 2014**

	<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	\$ 5,484,382	\$ 1,548,682	\$ 698,941	\$ 254,661	\$ 7,986,666
Undistributed cash in agency funds	92,243	24,525	32,746	5,512	155,026
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,175,000	-	-	1,219,000
Taxes receivable					
Delinquent	30,496	9,897	13,370	10,005	63,768
Special assessments receivable					
Delinquent	17,280	-	-	1,195	18,475
Noncurrent	307,040	-	-	-	307,040
Accounts receivable	87,686	10,307	-	-	97,993
Loans receivable	-	-	189,043	-	189,043
Accrued interest receivable	28,869	3,468	-	-	32,337
Due from other funds	-	19,145	-	-	19,145
Due from other governments	59,934	2,731,733	-	-	2,791,667
Inventories	-	107,822	-	-	107,822
Prepaid items	48,202	-	-	-	48,202
Total Assets	\$ 6,203,157	\$ 5,630,679	\$ 934,100	\$ 271,373	\$ 13,039,309
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 138,616	\$ 29,662	\$ -	\$ 400	\$ 168,678
Salaries payable	173,151	50,379	-	-	223,530
Contracts payable	-	169,481	-	-	169,481
Due to proprietary fund	-	-	-	247,735	247,735
Due to other funds	19,145	-	-	-	19,145
Due to other governments	43,020	9,907	-	-	52,927
Total Liabilities	\$ 373,932	\$ 259,429	\$ -	\$ 248,135	\$ 881,496
Deferred Inflows of Resources					
Unavailable revenue	\$ 361,671	\$ 2,697,969	\$ 13,370	\$ 11,200	\$ 3,084,210

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 107,822	\$ -	\$ -	\$ 107,822
Missing heirs	6,998	-	-	-	6,998
Prepaid items	48,202	-	-	-	48,202
Noncurrent loans receivable	-	-	189,043	-	189,043
Restricted for					
Uncompleted county projects	-	116,480	-	-	116,480
Fairgrounds food stand	3,151	-	-	-	3,151
Health cost management program	750	-	-	-	750
Law library	18,833	-	-	-	18,833
Recorder's technology fund	56,104	-	-	-	56,104
Recorder's compliance fund	125,242	-	-	-	125,242
Sheriff's contingency	3,894	-	-	-	3,894
Probation supervision	10,783	-	-	-	10,783
DUI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Jail canteen fund	3,472	-	-	-	3,472
Permit to carry	21,934	-	-	-	21,934
Highway allotments	-	81,464	-	-	81,464
Septic/sewer loans	12,759	-	-	-	12,759
Ditches	-	-	-	18,259	18,259
Assigned for					
Elections	114,239	-	-	-	114,239
Buildings	107,657	-	-	-	107,657
Capital improvements	212,878	-	-	-	212,878
Capital equipment	-	308,000	-	-	308,000
Ambulance	90,000	-	-	-	90,000
Solid waste/recycling	534,808	-	-	-	534,808
Fairgrounds food stand	45,000	-	-	-	45,000
County septic loan program	106,637	-	-	-	106,637
Radio communications system	45,000	-	-	-	45,000
Computer software	200,212	-	-	-	200,212
Rock River septic loans	17,148	-	-	-	17,148
AgBMP septic loan	13,525	-	-	-	13,525
Rock River septic loan	1,549	-	-	-	1,549
Road and bridge	-	2,059,515	-	-	2,059,515
Family services	-	-	731,687	-	731,687
Unassigned	3,651,624	-	-	(6,221)	3,645,403
Total Fund Balances	\$ 5,467,554	\$ 2,673,281	\$ 920,730	\$ 12,038	\$ 9,073,603
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,203,157	\$ 5,630,679	\$ 934,100	\$ 271,373	\$ 13,039,309

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balance - total governmental funds (Exhibit 3)	\$ 9,073,603
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	48,955,932
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.	3,084,210
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (223,639)
Loans payable	(221,754)
	<u>(445,393)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 60,668,352</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 3,051,692	\$ 820,355	\$ 1,095,315	\$ 217,136	\$ 5,184,498
Special assessments	282,892	-	-	39,665	322,557
Licenses and permits	14,050	-	-	-	14,050
Intergovernmental	1,623,962	5,344,349	55,936	-	7,024,247
Charges for services	1,529,598	121,899	-	-	1,651,497
Fines and forfeits	8,160	-	-	-	8,160
Gifts and contributions	6,686	-	-	-	6,686
Investment earnings	86,843	9,649	4,720	-	101,212
Miscellaneous	502,647	199,091	-	-	701,738
Total Revenues	\$ 7,106,530	\$ 6,495,343	\$ 1,155,971	\$ 256,801	\$ 15,014,645
Expenditures					
Current					
General government	\$ 3,105,175	\$ -	\$ -	\$ -	\$ 3,105,175
Public safety	2,884,863	-	-	-	2,884,863
Highways and streets	-	6,411,204	-	-	6,411,204
Sanitation	219,413	-	-	-	219,413
Culture and recreation	78,645	-	-	-	78,645
Conservation of natural resources	447,314	-	-	630	447,944
Economic development	6,775	-	-	-	6,775
Intergovernmental	109,227	299,825	1,054,742	-	1,463,794
Debt service					
Principal	22,494	-	-	-	22,494
Interest	2,502	-	-	-	2,502
Total Expenditures	\$ 6,876,408	\$ 6,711,029	\$ 1,054,742	\$ 630	\$ 14,642,809
Excess of Revenues Over (Under) Expenditures	\$ 230,122	\$ (215,686)	\$ 101,229	\$ 256,171	\$ 371,836

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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 out	\$ -	\$ -	\$ -	\$ (1,838,576)	\$ (1,838,576)
Loans issued	20,363	-	-	-	20,363
Bond issuance costs	-	-	-	(8,635)	(8,635)
Proceeds from sale of capital assets	13,650	-	-	-	13,650
Total Other Financing Sources (Uses)	\$ 34,013	\$ -	\$ -	\$ (1,847,211)	\$ (1,813,198)
Net Change in Fund Balance	\$ 264,135	\$ (215,686)	\$ 101,229	\$ (1,591,040)	\$ (1,441,362)
Fund Balance - January 1	5,203,419	3,021,648	819,501	1,603,078	10,647,646
Increase (decrease) in inventories	-	(132,681)	-	-	(132,681)
Fund Balance - December 31	\$ 5,467,554	\$ 2,673,281	\$ 920,730	\$ 12,038	\$ 9,073,603

**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, 2014**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,441,362)

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred inflows of resources - December 31	\$ 3,084,210	
Deferred inflows of resources - January 1	<u>(2,853,115)</u>	231,095

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 3,769,692	
Net book value of assets disposed of	(130,000)	
Current year depreciation and depletion	<u>(1,661,932)</u>	1,977,760

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	\$ (20,363)	
Principal payments on debt	<u>22,494</u>	2,131

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

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

Change in compensated absences	\$ (9,414)	
Change in inventories	<u>(132,681)</u>	<u>(142,095)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,168,842

PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2014**

Assets

Current assets	
Cash and pooled investments	\$ 7,720,359
Accounts receivable - net	200,329
Patient and resident receivables - net	2,926,262
Due from minority interest partner	510,991
Due from other funds	25,413
Inventories	661,577
Prepaid items	485,005
Total current assets	\$ 12,529,936
Noncurrent assets	
Assets internally designated for	
Capital acquisition and debt redemption	\$ 12,133,193
Insurance	500,000
Investment in joint venture	342,295
Total noncurrent restricted assets	\$ 12,975,488
Capital assets - net	\$ 13,374,666
Total Assets	\$ 38,880,090

Liabilities

Current liabilities	
Accounts payable	\$ 1,413,450
Salaries payable	209,517
Paid time off	558,808
Payroll taxes and other	74,181
Interest	25,413
Unearned revenues - current portion	113,191
Current maturities of long-term debt	409,530
Total current liabilities	\$ 2,804,090
Noncurrent liabilities	
Long-term debt, less current maturities	2,277,505
Other liabilities	
Unearned revenues - less current portion	37,730
Total Liabilities	\$ 5,119,325

Net Position

Net investment in capital assets	\$ 10,687,632
Unrestricted	23,073,133
Total Net Position	\$ 33,760,765

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

Page 23

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

Operating Revenues	
Net patient and resident service revenue - net of provisions for bad debts	\$ 23,942,275
Miscellaneous	1,359,094
	<hr/>
Total Operating Revenues	\$ 25,301,369
Operating Expenses	
Salaries and wages	\$ 8,297,541
Employee benefits	2,444,976
Purchased services	5,843,080
Supplies and other expenses	5,743,763
Depreciation and amortization	1,173,127
	<hr/>
Total Operating Expenses	\$ 23,502,487
Operating Income (Loss)	\$ 1,798,882
Nonoperating Revenues (Expenses)	
Interest income	\$ 115,288
Minority interest in joint ventures	528,325
Interest expense	(53,429)
Other expense	(27,725)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 562,459
Income (Loss) Before Capital Contributions and Transfers	\$ 2,361,341
Grants and contributions for capital assets	593,768
Transfers in	246,506
	<hr/>
Change in net position	\$ 3,201,615
Net Position - July 1	30,559,150
	<hr/>
Net Position - June 30	\$ 33,760,765
	<hr/> <hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 23,099,898
Other receipts	1,296,197
Cash payments to employees for services	(10,678,478)
Cash payments to suppliers for goods and services	<u>(12,197,614)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,520,003</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (1,737,788)
Principal paid on long-term debt	(1,920,519)
Transfer from County	246,506
Proceeds from sale of capital assets	27,167
Proceeds from long-term debt	1,562,639
Grants and contributions for capital assets	593,768
Interest paid on long-term debt	<u>(55,829)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (1,284,056)</u>
Cash Flows from Investing Activities	
Sales and maturities of investments	\$ 7,011
Interest income and other nonoperating cash flows	87,563
Capital contributed by joint venture partner	311,982
Distribution from joint venture	<u>104,731</u>
Net cash provided by (used in) investing activities	<u>\$ 511,287</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 747,234
Cash and Cash Equivalents - July 1	<u>7,262,964</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 8,010,198</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	\$ 7,720,359
Noncurrent cash	<u>289,839</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 8,010,198</u></u>

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

Page 25

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ <u>1,798,882</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 1,173,127
Non-cash patronage allocation	(85,494)
(Increase) decrease in receivables	(667,084)
(Increase) decrease in inventories	39,057
Increase (decrease) in prepaid items	(114,366)
Increase (decrease) in accounts payable	(574,968)
Increase (decrease) in accrued expenses	64,039
Increase (decrease) in unearned revenue	<u>(113,190)</u>
Total adjustments	\$ <u>(278,879)</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u><u>1,520,003</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activities	
Accounts payable - construction in progress	\$ <u><u>342,540</u></u>

FIDUCIARY FUNDS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014

<u>Assets</u>	
Cash and pooled investments	\$ <u>222,815</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>222,815</u>

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. 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 that are so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Pipestone County has one blended component unit.

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

**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. The fiscal year of July 1, 2013 to June 30, 2014, is presented in these financial statements.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental funds 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 accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Family Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.

**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 Medical Facility Bonds Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.
- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- Fiduciary funds - Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

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

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, excluding assets limited as to use.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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, 2014, 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 2014 were \$88,762.

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. The investment in the pool is measured at the amortized cost per share provided by the pool which would approximate fair value.

The Medical Center Enterprise Fund's investment income for the year ended June 30, 2014, was \$115,288 and is included in nonoperating revenues (expenses).

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

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

Special assessments receivable consist of delinquent special assessments payable in the years 2009 through 2014 and deferred special assessments payable in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material. The County had no accounts receivable scheduled to be collected beyond one year.

All enterprise fund receivables are shown net of an allowance for uncollectibles.

Patient receivables are uncollateralized customer and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. For the year ended June 30, 2014, the Medical Center had capitalized interest of \$54,000.

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

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

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

Assets	Years
Land improvements	5 - 30
Buildings and fixed equipment	5 - 40
Major movable equipment	5 - 20

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. A liability for compensated absences is reported on the governmental funds only if they have matured, for example as a result of employee

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences (Continued)

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

8. Long-Term Obligations

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

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

9. Deferred Outflows/Inflows of Resources

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

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

10. Unearned/Unavailable Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned. Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

11. Classification of Net Position

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

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the portion of net position that does not meet the definition of restricted or net investment in capital assets.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances

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

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.
- Unassigned - the residual classification for the General Fund, and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

13. Minimum Fund Balance

Pipestone County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore the County Board has determined it needs to maintain a minimum unassigned fund balance at least equal to 35 to 50 percent of total General Fund operating expenditures. At December 31, 2014, unassigned fund balance for the General Fund was at or above the minimum fund balance level.

14. Use of Estimates

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

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Future Change in Accounting Standards (Continued)

benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

F. Medical Center - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include reimbursed cost, 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.

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

Medicare - The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most acute care services at cost with financial settlement determined after submission of annual cost reports by the Medical Center and are 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, 2011. 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Medical Facility Bonds Debt Service Fund had a deficit fund balance of \$6,221 as of December 31, 2014. The fund balance deficit will be eliminated by future levy of property taxes.

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	\$	8,144,817
Investments		1,219,000
Business-type activities		
Cash and pooled investments		7,720,359
Restricted assets		
Capital improvements and debt redemption		12,133,193
Insurance		500,000
Statement of fiduciary net position		
Cash and pooled investments		222,815
		<hr/>
Total Cash and Investments	\$	29,940,184
		<hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County has adopted a policy to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available, and that they qualify under Minn. Stat. § 118A.06 to hold investments. Securities purchased that exceed available SIPC coverage, or are purchased by a broker that does not qualify under Minn. Stat. § 118A.06 to hold investments, shall be transferred to the County's custodian. At December 31, 2014, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2014, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest Rate	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Risk Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank bond	AA+	S&P		12/19/2019	\$ 340,000
Federal Home Loan Bank bond	AA+	S&P		05/22/2023	250,000
Federal Home Loan Bank bond	AA+	S&P		05/23/2023	100,000
Federal Home Loan Bank bond	AA+	S&P		05/23/2023	199,875
Federal Home Loan Bank bond	AA+	S&P		06/19/2024	250,000
Federal Home Loan Bank bond	AA+	S&P		07/10/2024	250,000
Total Federal Home Loan Bank bonds			30.7%		\$ 1,389,875
Investment pools/mutual funds					
Raymond James Inc., Money Market Account	N/R	N/A	N/A	N/A	\$ 2,501
Negotiable certificates of deposit with brokers					
Ally Bank	N/A	N/A	N/A	11/19/2015	\$ 90,000
Merrick Bank South, Jordan, UT	N/A	N/A	N/A	11/27/2015	180,000
Discover Bank	N/A	N/A	5.3%	07/03/2017	240,000
Boston Private Bank	N/A	N/A	N/A	08/29/2017	180,000
Safra National Bank	N/A	N/A	N/A	12/13/2017	90,000
GE Capital Retail	N/A	N/A	N/A	07/06/2018	135,000
GE Capital Bank	N/A	N/A	7.8%	Various	355,000
BMW BK North America Salt Lake	N/A	N/A	N/A	10/01/2018	180,000
Goldman Sachs	N/A	N/A	5.4%	12/31/2018	245,000
CIT Bank	N/A	N/A	5.3%	06/27/2019	240,000
Sallie Mae Bank	N/A	N/A	N/A	09/03/2019	50,000
Commenity Bank	N/A	N/A	N/A	09/04/2019	200,000
State Bank of India	N/A	N/A	5.4%	09/26/2019	245,000
Capital One Bank	N/A	N/A	N/A	10/01/2019	200,000
American Express Bank	N/A	N/A	5.4%	10/02/2019	245,000
Washington Tr. Co.	N/A	N/A	N/A	10/08/2019	210,000
Total negotiable certificates of deposit with brokers					\$ 3,085,000

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 39,000
Total investments					\$ 4,516,376
Checking					9,544,052
Savings					2,278,277
Petty cash and change funds					3,125
Certificates of deposit					13,598,354
Total Cash and Investments					<u>\$ 29,940,184</u>

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

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 63,768	\$ -
Special assessments	325,515	307,040
Due from other governments	2,791,667	-
Accounts	97,993	-
Loans receivable	189,043	184,216
Interest	32,337	-
Total Governmental Activities	<u>\$ 3,500,323</u>	<u>\$ 491,256</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

In 2013, Pipestone County executed two promissory notes totaling \$197,000 in order for Southwestern Mental Health Center, Inc., to complete a building project. The notes have a payback of 30 years at two and three percent interest. Principal balances owed the County as of December 31, 2014, under these promissory notes total \$189,043.

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts - net	\$ 200,329	\$ -
Due from minority interest partner	510,991	-
Patient and resident service revenue - net	2,926,262	-
Total Business-Type Activities	\$ 3,637,582	\$ -

A summary of net patient service revenue, contractual adjustments, and the provision for bad debts for the year ended June 30, 2014, is as follows:

Total patient service revenue	\$ 33,513,362
Less: contractual adjustments	(9,080,853)
Net patient service revenue	\$ 24,432,509
Less: provision for bad debts	(490,234)
Net Patient Service Revenue, Less Provision for Bad Debts	\$ 23,942,275

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental Activities

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,128,971	\$ 10,000	\$ -	\$ 1,138,971
Right-of-way	1,061,832	93,803	-	1,155,635
Construction in progress	39,141	-	39,141	-
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	<u>\$ 2,265,868</u>	<u>\$ 103,803</u>	<u>\$ 39,141</u>	<u>\$ 2,330,530</u>
Capital assets depreciated				
Buildings	\$ 7,680,570	\$ 110,766	\$ -	\$ 7,791,336
Land improvements	354,451	-	58,132	296,319
Machinery and equipment	5,529,133	651,274	382,748	5,797,659
Infrastructure	51,770,967	2,942,989	-	54,713,956
Total capital assets depreciated	<u>\$ 65,335,121</u>	<u>\$ 3,705,029</u>	<u>\$ 440,880</u>	<u>\$ 68,599,270</u>
Less: accumulated depreciation for				
Buildings	\$ 2,948,991	\$ 155,075	\$ -	\$ 3,104,066
Land improvements	141,250	10,046	24,225	127,071
Machinery and equipment	3,365,178	402,240	286,655	3,480,763
Infrastructure	14,167,397	1,094,571	-	15,261,968
Total accumulated depreciation	<u>\$ 20,622,816</u>	<u>\$ 1,661,932</u>	<u>\$ 310,880</u>	<u>\$ 21,973,868</u>
Total capital assets depreciated, net	<u>\$ 44,712,305</u>	<u>\$ 2,043,097</u>	<u>\$ 130,000</u>	<u>\$ 46,625,402</u>
Governmental Activities Capital Assets, Net	<u>\$ 46,978,173</u>	<u>\$ 2,146,900</u>	<u>\$ 169,141</u>	<u>\$ 48,955,932</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 992,735	\$ 113,721	\$ -	\$ 1,106,456
Construction in progress	1,308,657	2,032,526	959,585	2,381,598
Total capital assets not depreciated	<u>\$ 2,301,392</u>	<u>\$ 2,146,247</u>	<u>\$ 959,585</u>	<u>\$ 3,488,054</u>
Capital assets depreciated				
Buildings	\$ 12,766,470	\$ 703,495	\$ 7,149	\$ 13,462,816
Land improvements	695,424	-	-	695,424
Fixed equipment	3,882,031	43,886	-	3,925,917
Major movable equipment	7,514,228	132,687	98,843	7,548,072
Total capital assets depreciated	<u>\$ 24,858,153</u>	<u>\$ 880,068</u>	<u>\$ 105,992</u>	<u>\$ 25,632,229</u>
Less: accumulated depreciation for				
Buildings	\$ 6,058,914	\$ 384,740	\$ 7,149	\$ 6,436,505
Land improvements	405,595	29,371	-	434,966
Fixed equipment	2,397,907	162,743	-	2,560,650
Major movable equipment	5,802,497	596,273	85,274	6,313,496
Total accumulated depreciation	<u>\$ 14,664,913</u>	<u>\$ 1,173,127</u>	<u>\$ 92,423</u>	<u>\$ 15,745,617</u>
Total capital assets depreciated, net	<u>\$ 10,193,240</u>	<u>\$ (293,059)</u>	<u>\$ 13,569</u>	<u>\$ 9,886,612</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 12,494,632</u>	<u>\$ 1,853,488</u>	<u>\$ 973,154</u>	<u>\$ 13,374,666</u>

Construction in progress at June 30, 2014, consists of expenditures for a clinic and hospice building project and various other remodeling and equipment projects.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	205,695
Public safety		175,448
Highways and streets, including depreciation of infrastructure assets		1,274,234
Sanitation		<u>6,555</u>
Total Depreciation Expense - Governmental Activities	\$	<u>1,661,932</u>
Business-Type Activities		
Medical Center	\$	<u>1,173,127</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 19,145
Road and Bridge Special Revenue Fund	19,145	-
Medical Facility Bonds Debt Service Fund	-	<u>247,735</u>
Total governmental funds	\$ 19,145	\$ 266,880
Medical Center Enterprise Fund	<u>25,413</u>	<u>-</u>
Total	\$ 44,558	\$ 266,880
Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2014	<u>222,322</u>	<u>-</u>
Total	<u>\$ 266,880</u>	<u>\$ 266,880</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

2. Interfund Transfers

	Interfund Transfer In	Interfund Transfer Out
Medical Facility Bonds Debt Service Fund	\$ -	\$ 1,838,576
Medical Center Enterprise Fund	246,506	-
Total	\$ 246,506	\$ 1,838,576
Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2014	1,592,070	-
Total	\$ 1,838,576	\$ 1,838,576

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 168,678	\$ 1,413,450
Salaries payable	223,530	209,517
Payroll taxes and other	-	74,181
Contracts payable	169,481	-
Due to other governments	52,927	-
Paid time off	-	558,808
	\$ 614,616	\$ 2,255,956
Total Payables		

2. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of special assessments, taxes, state grants and interest not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Special Assessments	Taxes	Grants	Interest	Total
Governmental funds					
General Fund	\$ 324,320	\$ 30,496	\$ -	\$ 6,855	\$ 361,671
Special Revenue Funds					
Road and Bridge	-	9,897	2,686,060	2,012	2,697,969
Family Services	-	13,370	-	-	13,370
Ditch	1,195	-	-	-	1,195
Medical Facility Bonds					
Debt Service Fund	-	10,005	-	-	10,005
	\$ 325,515	\$ 63,768	\$ 2,686,060	\$ 8,867	\$ 3,084,210
Total					
Deferred inflows of resources					
Unavailable revenue	\$ 325,515	\$ 63,768	\$ 2,686,060	\$ 8,867	\$ 3,084,210

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Unearned Revenues/Deferred Inflows of Resources (Continued)

The Medical Center Enterprise Fund is reporting current and noncurrent portions, \$113,191 and \$37,730, respectively, of unearned revenues. From time to time, the Medical Center receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met.

3. Internal Balances

	Governmental Activities	Business-Type Activities
Internal Balances	\$ 247,735	\$ (25,413)

The difference in internal balances between the governmental activities and business-type activities is due to a timing difference in transactions between the County's governmental activities, reported as of December 31, 2014, and business-type activities, reported as of June 30, 2014.

4. Construction Commitments

The County has active construction projects as of December 31, 2014. The projects include the following:

	Spent-to-Date	Remaining Commitment
Business-Type Activities		
Medical Center Enterprise Fund		
Remodeling and equipment projects	\$ 2,381,598	\$ 33,000,000

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Leases

Operating Leases

The Medical Center leases certain equipment under non-cancelable long-term lease agreements. Total lease expense for the year ended June 30, 2014, for all operating leases was \$248,069. Minimum future lease payments for the operating leases are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2015	\$ 23,820
2016	<u>6,381</u>
Total	<u>\$ 30,201</u>

6. Long-Term Debt

Loans Payable

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Long-Term Debt (Continued)

Governmental Activities

Type of Indebtedness	Final Maturity	Semi-Annual Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
2005 Redwood River CWP Project	2017	\$2,668	2.00	\$ 48,149	\$ 15,463
2009 Redwood River CWP Project	2021	\$376	2.00	6,783	4,888
2011 Rock River Septic Loan Program	2022	\$5,980	2.00	105,501	93,065
2011 Pipestone County Ag Best Management Loan Program	2020	\$1,324 - \$9,491	N/A	80,683	71,032
2013 Rock River Septic Loan Program	2026	\$5,763	2.00	37,306	37,306
Total Loans Payable				<u>\$ 278,422</u>	<u>\$ 221,754</u>

N/A - Not Applicable

Bonds and Notes Payable

Business-Type Activities

Type of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance June 30, 2014
G.O. Hospital Refunding Bonds, 2013A	2022	\$170,000 - \$205,000	2.25	\$ 1,562,639	\$ 1,562,639
Health Facilities Revenue Note, Series 2001	2018	\$240,000 - \$290,000	Variable	3,075,000	1,124,396
Total G.O. Bonds and Revenue Notes				<u>\$ 4,637,639</u>	<u>\$ 2,687,035</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

7. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2014, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 26,674	\$ 2,189
2016	27,318	1,871
2017	27,975	1,546
2018	23,290	1,240
2019	23,883	1,010
2020 - 2023	55,308	1,662
Totals	<u>\$ 184,448</u>	<u>\$ 9,518</u>

Loans of \$37,306 for the 2013 Rock River Septic Loan Program are not included in the debt service requirements because a fixed repayment schedule is not available.

Business-Type Activities

Debt service requirements at June 30, 2014, were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 409,530	\$ 76,367
2016	427,917	58,400
2017	442,067	45,199
2018	569,882	31,138
2019	195,000	17,888
2020 - 2022	600,000	27,225
Unamortized Bond Premium	42,639	-
Totals	<u>\$ 2,687,035</u>	<u>\$ 256,217</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

8. Changes in Long-Term Liabilities

Governmental Activities

Activity for the year ended December 31, 2014, 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	\$ 223,885	\$ 20,363	\$ 22,494	\$ 221,754	\$ 26,674
Compensated absences	214,225	190,135	180,721	223,639	21,304
Governmental Activities Long-Term Liabilities	<u>\$ 438,110</u>	<u>\$ 210,498</u>	<u>\$ 203,215</u>	<u>\$ 445,393</u>	<u>\$ 47,978</u>

Business-Type Activities

Activity for the year ended June 30, 2014, 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					
G.O. Refunding Bonds, Series 2005	\$ 1,690,000	\$ -	\$ 1,690,000	\$ -	\$ -
G.O. Refunding Bonds, Series 2013A	-	1,562,639	-	1,562,639	170,000
Health Facilities Revenue Note, Series 2001	1,354,915	-	230,519	1,124,396	239,530
Business-Type Activities Long-Term Liabilities	<u>\$ 3,044,915</u>	<u>\$ 1,562,639</u>	<u>\$ 1,920,519</u>	<u>\$ 2,687,035</u>	<u>\$ 409,530</u>

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Net Position

Of the \$22,933,133 of unrestricted net position in the Medical Center Enterprise Fund reported as of June 30, 2014, \$12,633,193 has been designated by the Medical Center Board for capital acquisitions, debt redemption and insurance. Designated funds remain under the control of the Board, which may at its discretion use the funds for other purposes.

4. Pension Plan

A. Defined Benefit Plan

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 five years of credited service.

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plan

A. Defined Benefit Plan

Plan Description (Continued)

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

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plan

A. Defined Benefit Plan

Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plan

A. Defined Benefit Plan

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 742,879	\$ 729,050	\$ 528,363
Public Employees Police and Fire Fund	108,517	98,163	103,142
Public Employees Correctional Fund	37,203	36,569	36,798

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plan

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,208	\$ 2,208
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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 for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Risk Management (Continued)

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2014, the Lincoln-Pipestone Rural Water System had \$33,742,008 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

B. Joint Ventures

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is provided by the member counties based upon consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR); each factor to be weighted equally.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

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

SWHHS is governed by the:

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

Financing is provided by state and federal grants and appropriations from member counties. Pipestone County's contribution in 2014 for the human services function was \$1,054,646, and its contribution to the health services function was \$57,576.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

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

Lincoln-Pipestone Rural Water System

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

The Lincoln-Pipestone Rural Water System is governed by a Board appointed by the District Court. The Rural Water System's Board is solely responsible for the budgeting and financing of the Rural Water System.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2014, were \$33,742,008.

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

Southwest Regional Solid Waste Commission

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

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

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 North Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

PrimeWest Health System

In December 1998, Pipestone County became a member of the PrimeWest Central County-Based Purchasing Initiative Joint Powers Board (since renamed PrimeWest Health System) with Big Stone, Douglas, Grant, McLeod, Meeker, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Health System. Pipestone County has since joined Southwest Health and Human Services for public health and human service functions. Pipestone County, in partnership with these 12 counties, is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board is comprised of one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock Counties in this agreement. 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 2014, Pipestone County did not make a contribution to the Partnership, as a contribution was made by Southwest Health and Human Services.

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

Central Minnesota Diagnostics, Inc.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Diagnostics, Inc. (Continued)

CMDI provides the equipment for computer tomography (CT) scans for the Medical Center's patients. The Medical Center billed and collected the revenue for these services to patients and paid CMDI \$166,772 in the year ended June 30, 2014, for the use of the equipment. At June 30, 2014, the Medical Center owned 1.0 percent of CMDI.

Southwestern Mental Health Center, Inc.

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

In 2014, Pipestone County paid \$650 to the Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 E. Luverne Street, Luverne, Minnesota 56156.

Buffalo Ridge Drug Task Force

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwest Minnesota Private Industry Council, Inc.

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

SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member County. Pipestone County did not provide support to this organization in 2014.

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

Southwest Minnesota Regional Emergency Communications Joint Powers Board

As of August 23, 2013, the Southwest Minnesota Regional Radio Board changed its name to the Southwest Minnesota Regional Emergency Communications Joint Powers Board. The Southwest Minnesota Regional Emergency Communications Joint Powers Board was established April 22, 2008, between Pipestone County, the Cities of Marshall and Worthington, and 12 other counties under the authority of Minn. Stat. §§ 471.59 and 403.39. The purpose of the agreement is to formulate a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Minnesota Regional Emergency Communications Joint Powers Board
(Continued)

Financing is provided by the appropriations from member parties and by state and federal grants. During 2014, Pipestone County did not contribute to the Joint Powers Board.

Buffalo Ridge Regional Transit

Buffalo Ridge Regional Transit (BRRT) was established between Murray, Pipestone, and Rock Counties, and the City of Worthington-Nobles County Public Transportation Partnership - Joint Powers Agreement, a joint powers entity. The Buffalo Ridge Regional Transit Board was established in 2012 under the authority of Minn. Stat. §§ 471.59 and 174.21 through 174.27.

The purpose of BRRT is to establish cross-country public transportation in the four-county area using existing public transit systems and to increase efficiency by having established scheduled route times. The Southwest Minnesota Opportunity Council, Inc., is the fiscal agent. As of December 31, 2014, BRRT no longer provides transportation routes between the counties, but the Transit Board meets quarterly to discuss issues and efficiencies among the transportation departments.

Funding for operations shall be provided by grant funds and passenger revenues. In the event that grant funds and passenger revenues are insufficient to cover operation costs, each county shall agree to provide one-fourth of 15 percent of the operating budget for any calendar year provided, that in no event, shall any county pay more than \$5,118 for calendar year 2014. This funding cap is set for each year not later than September 1 of the preceding calendar year.

**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, Pipestone County contributed \$2,483 to the Project.

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2014, Pipestone County paid \$1,000 to the Board.

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During 2014, Pipestone County contributed \$975 to the RCRCA.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Intelligent Transit System (ITS) Transit Consortium

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include the counties of Meeker, Pipestone, Sherburne, Wright, Brown, and Martin. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During 2014, Pipestone County did not contribute any funding to the Transit Consortium.

Region Five - Southwest Minnesota Homeland Security Emergency Management Organization

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

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Pipestone County expended \$58,429 to the MCCC.

Minnesota Criminal Justice Data Communications Network

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Southwest Minnesota Public Safety Board

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

Control is vested in a Joint Powers Board consisting of one County Commissioner or one City Council member for each party to the agreement and the Sheriff or the Chief of Police from each party to the agreement. The members representing counties and cities shall be appointed by their respective governing bodies for the membership of that governing body. In 2014, Pipestone County contributed \$4,000 to the Southwest Minnesota Public Safety Board.

D. Agricultural Best Management Loan Program

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

E. Subsequent Events - Medical Center

The Medical Center entered into a commitment of \$33,056,000 subsequent to June 30, 2014, for the construction of a new clinic building and a hospital renovation and expansion project. Also, in connection with the project the Medical Center entered into loan agreements to fund the construction subsequent to June 30, 2014, in the amount of \$25,065,000.

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REQUIRED SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,223,316	\$ 3,223,316	\$ 3,051,692	\$ (171,624)
Special assessments	216,500	216,500	282,892	66,392
Licenses and permits	12,925	12,925	14,050	1,125
Intergovernmental	1,219,835	1,219,835	1,623,962	404,127
Charges for services	1,494,960	1,494,960	1,529,598	34,638
Fines and forfeits	9,000	9,000	8,160	(840)
Gifts and contributions	3,000	3,000	6,686	3,686
Investment earnings	90,000	90,000	86,843	(3,157)
Miscellaneous	202,263	202,263	502,647	300,384
Total Revenues	\$ 6,471,799	\$ 6,471,799	\$ 7,106,530	\$ 634,731
Expenditures				
Current				
General government				
Commissioners	\$ 183,765	\$ 183,765	\$ 169,794	\$ 13,971
Travel management	8,000	8,000	2,736	5,264
Court administration	42,500	42,500	76,157	(33,657)
Law library	16,000	16,000	16,441	(441)
County administrator	121,836	121,836	119,567	2,269
Auditor	216,250	216,250	221,530	(5,280)
Treasurer	192,300	192,300	185,800	6,500
Independent audit	60,000	60,000	47,470	12,530
Human resources	80,822	80,822	81,821	(999)
Data processing	82,757	82,757	78,258	4,499
Elections	43,325	43,325	43,245	80
Information technology	184,375	184,375	179,526	4,849
Attorney	208,162	208,162	201,558	6,604
Recorder	132,227	132,227	124,873	7,354
Assessor	242,813	242,813	207,707	35,106
Planning and zoning	44,146	44,146	52,202	(8,056)
Geographic information system	5,600	5,600	1,760	3,840
County recorder	66,900	66,900	21,969	44,931
Building and plant	263,529	263,529	237,734	25,795
Fairgrounds	29,500	29,500	119,423	(89,923)
Public service building	19,105	19,105	40,905	(21,800)
Veterans service	58,745	58,745	56,967	1,778
County-wide transportation	505,995	505,995	592,828	(86,833)
Other general government	292,400	292,400	224,904	67,496
Total general government	\$ 3,101,052	\$ 3,101,052	\$ 3,105,175	\$ (4,123)

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

Page 77

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<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	\$ 1,111,606	\$ 1,116,606	\$ 1,235,162	\$ (118,556)
Dispatch	293,518	293,518	383,557	(90,039)
Coroner	3,000	3,000	2,946	54
County jail	428,913	428,913	424,761	4,152
Probation	88,934	88,934	90,652	(1,718)
Emergency management	107,556	107,556	75,756	31,800
E-911 system	91,500	91,500	231,671	(140,171)
County ambulance	451,955	451,955	440,358	11,597
Total public safety	\$ 2,576,982	\$ 2,581,982	\$ 2,884,863	\$ (302,881)
Sanitation				
SCORE/recycling/solid waste	\$ 226,662	\$ 226,662	\$ 219,413	\$ 7,249
Culture and recreation				
Senior citizen service	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Hiawatha falls	30,000	30,000	32,285	(2,285)
Parks	3,700	3,700	5,085	(1,385)
Other	37,806	37,806	38,275	(469)
Total culture and recreation	\$ 74,506	\$ 74,506	\$ 78,645	\$ (4,139)
Conservation of natural resources				
Agricultural inspection	\$ 28,934	\$ 28,934	\$ 30,718	\$ (1,784)
County extension	183,249	183,249	158,415	24,834
Other	191,247	191,247	258,181	(66,934)
Total conservation of natural resources	\$ 403,430	\$ 403,430	\$ 447,314	\$ (43,884)
Economic development				
Economic development	\$ 6,775	\$ 6,775	\$ 6,775	\$ -
Intergovernmental				
Sanitation	\$ 20,000	\$ 20,000	\$ -	\$ 20,000
Health	57,576	57,576	57,576	-
Culture and recreation	51,651	51,651	51,651	-
Total intergovernmental	\$ 129,227	\$ 129,227	\$ 109,227	\$ 20,000

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ 5,000	\$ 5,000	\$ 22,494	\$ (17,494)
Interest	600	600	2,502	(1,902)
Total debt service	\$ 5,600	\$ 5,600	\$ 24,996	\$ (19,396)
Total Expenditures	\$ 6,524,234	\$ 6,529,234	\$ 6,876,408	\$ (347,174)
Excess of Revenues Over (Under)				
Expenditures	\$ (52,435)	\$ (57,435)	\$ 230,122	\$ 287,557
Other Financing Sources (Uses)				
Loans issued	\$ 20,000	\$ 20,000	\$ 20,363	\$ 363
Proceeds from sale of capital assets	-	-	13,650	13,650
Total Other Financing Sources (Uses)	\$ 20,000	\$ 20,000	\$ 34,013	\$ 14,013
Net Change in Fund Balance	\$ (32,435)	\$ (37,435)	\$ 264,135	\$ 301,570
Fund Balance - January 1	5,203,419	5,203,419	5,203,419	-
Fund Balance - December 31	\$ 5,170,984	\$ 5,165,984	\$ 5,467,554	\$ 301,570

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 853,776	\$ 853,776	\$ 820,355	\$ (33,421)
Intergovernmental	4,992,694	4,992,694	5,344,349	351,655
Charges for services	250,000	250,000	121,899	(128,101)
Investment earnings	15,000	15,000	9,649	(5,351)
Miscellaneous	97,124	97,124	199,091	101,967
Total Revenues	\$ 6,208,594	\$ 6,208,594	\$ 6,495,343	\$ 286,749
Expenditures				
Current				
Highways and streets				
Administration	\$ 256,147	\$ 256,147	\$ 273,671	\$ (17,524)
Maintenance	1,328,957	1,328,957	1,271,920	57,037
Construction	3,826,597	3,826,597	4,404,455	(577,858)
Equipment maintenance and shops	506,893	506,893	461,158	45,735
Total highways and streets	\$ 5,918,594	\$ 5,918,594	\$ 6,411,204	\$ (492,610)
Intergovernmental				
Highways and streets	290,000	290,000	299,825	(9,825)
Total Expenditures	\$ 6,208,594	\$ 6,208,594	\$ 6,711,029	\$ (502,435)
Net Change in Fund Balance	\$ -	\$ -	\$ (215,686)	\$ (215,686)
Fund Balance - January 1	3,021,648	3,021,648	3,021,648	-
Increase (decrease) in inventories	-	-	(132,681)	(132,681)
Fund Balance - December 31	\$ 3,021,648	\$ 3,021,648	\$ 2,673,281	\$ (348,367)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,139,836	\$ 1,139,836	\$ 1,095,315	\$ (44,521)
Intergovernmental	-	-	55,936	55,936
Investment earnings	-	-	4,720	4,720
Total Revenues	\$ 1,139,836	\$ 1,139,836	\$ 1,155,971	\$ 16,135
Expenditures				
Intergovernmental				
Human services				
Social services	1,139,836	1,139,836	1,054,742	85,094
Net Change in Fund Balance	\$ -	\$ -	\$ 101,229	\$ 101,229
Fund Balance - January 1	819,501	819,501	819,501	-
Fund Balance - December 31	\$ 819,501	\$ 819,501	\$ 920,730	\$ 101,229

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds, and the Medical Facility Bonds Debt Service Fund. The expenditure budget is approved at the fund level.

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

2. Budget Basis of Accounting

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

3. Budget Amendments

There were no revenue budgets that were amended.

Expenditure budgets were amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 6,524,234	\$ 5,000	\$ 6,529,234

4. Excess of Expenditures Over Appropriations

	Expenditures	Appropriation	Excess
General Fund	\$ 6,876,408	\$ 6,529,234	\$ 347,174
Road and Bridge Special Revenue Fund	6,711,029	6,208,594	502,435

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SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	<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	\$ 16,654	\$ 238,007	\$ 254,661
Undistributed cash in agency funds	2,005	3,507	5,512
Taxes receivable			
Delinquent	-	10,005	10,005
Special assessments receivable			
Delinquent	1,195	-	1,195
	\$ 19,854	\$ 251,519	\$ 271,373
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 400	\$ -	\$ 400
Due to proprietary fund	-	247,735	247,735
	\$ 400	\$ 247,735	\$ 248,135
 Deferred Inflows of Resources			
Unavailable revenue	\$ 1,195	\$ 10,005	\$ 11,200
 Fund Balances			
Restricted for			
Ditches	\$ 18,259	\$ -	\$ 18,259
Unassigned	-	(6,221)	(6,221)
	\$ 18,259	\$ (6,221)	\$ 12,038
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 19,854	\$ 251,519	\$ 271,373

**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, 2014**

	<u>Special Revenue</u> <u>Ditch</u>	<u>Debt Service</u> <u>Medical</u> <u>Facility Bonds</u>	<u>Total</u>
Revenues			
Taxes	\$ -	\$ 217,136	\$ 217,136
Special assessments	39,665	-	39,665
Total Revenues	\$ 39,665	\$ 217,136	\$ 256,801
Expenditures			
Current			
Conservation of natural resources	630	-	630
Excess of Revenues Over (Under)			
Expenditures	\$ 39,035	\$ 217,136	\$ 256,171
Other Financing Sources (Uses)			
Transfers out	\$ -	\$ (1,838,576)	\$ (1,838,576)
Bond issuance costs	-	(8,635)	(8,635)
Total Other Financing Sources (Uses)	\$ -	\$ (1,847,211)	\$ (1,847,211)
Net Change in Fund Balance	\$ 39,035	\$ (1,630,075)	\$ (1,591,040)
Fund Balance - January 1	(20,776)	1,623,854	1,603,078
Fund Balance - December 31	\$ 18,259	\$ (6,221)	\$ 12,038

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 40,800	\$ 40,800	\$ 39,665	\$ (1,135)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	15,800	15,800	630	15,170
Excess of Revenues Over(Under)				
Expenditures	\$ 25,000	\$ 25,000	\$ 39,035	\$ 14,035
Other Financing Sources (Uses)				
Transfers in	(25,000)	(25,000)	-	25,000
Net Change in Fund Balance	\$ -	\$ -	\$ 39,035	\$ 39,035
Fund Balance - January 1	(20,776)	(20,776)	(20,776)	-
Fund Balance - December 31	<u>\$ (20,776)</u>	<u>\$ (20,776)</u>	<u>\$ 18,259</u>	<u>\$ 39,035</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 220,395	\$ 220,395	\$ 217,136	\$ (3,259)
Expenditures				
Debt service				
Principal	\$ 178,500	\$ 178,500	\$ -	\$ 178,500
Interest	41,895	41,895	-	41,895
Total Expenditures	\$ 220,395	\$ 220,395	\$ -	\$ 220,395
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 217,136	\$ 217,136
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (1,838,576)	\$ (1,838,576)
Bond issuance costs	-	-	(8,635)	(8,635)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (1,847,211)	\$ (1,847,211)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,630,075)	\$ (1,630,075)
Fund Balance - January 1	1,623,854	1,623,854	1,623,854	-
Fund Balance - December 31	\$ 1,623,854	\$ 1,623,854	\$ (6,221)	\$ (1,630,075)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

AGENCY FUNDS

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

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

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,705	\$ 143,741	\$ 144,496	\$ 2,950
<u>Liabilities</u>				
Due to other governments	\$ 3,705	\$ 143,741	\$ 144,496	\$ 2,950
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,416	\$ 1,914,747	\$ 1,907,705	\$ 48,458
<u>Liabilities</u>				
Due to other governments	\$ 41,416	\$ 1,914,747	\$ 1,907,705	\$ 48,458
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 143,265	\$ 13,847,318	\$ 13,819,176	\$ 171,407
<u>Liabilities</u>				
Due to other governments	\$ 143,265	\$ 24,326,591	\$ 24,298,449	\$ 171,407

**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, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 188,386</u>	<u>\$ 15,905,806</u>	<u>\$ 15,871,377</u>	<u>\$ 222,815</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 188,386</u>	<u>\$ 26,385,079</u>	<u>\$ 26,350,650</u>	<u>\$ 222,815</u>

OTHER SCHEDULES

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Governmental Funds
Appropriations and Shared Revenue	
State	
Highway users tax	\$ 2,997,502
Market value credit	111,749
PERA rate reimbursement	14,804
Disparity reduction aid	65,058
Police aid	85,045
County program aid	471,158
Enhanced 911	80,681
Select Committee on Recycling and the Environment (SCORE)	63,803
Total appropriations and shared revenue	\$ 3,889,800
Reimbursement for Services	
State	
Minnesota Department of Corrections	\$ 24,378
Payments	
Local	
Payments in lieu of taxes	\$ 70,380
Grants	
State	
Minnesota Department/Board/Office of Corrections	\$ 10,927
Natural Resources	32,285
Public Safety	72,211
Revenue	3,529
Transportation	2,006,166
Veterans Affairs	7,500
Water and Soil Resources	136,540
Total state	\$ 2,269,158
Federal	
Department of Agriculture	\$ 12,867
Health and Human Services	33,361
Homeland Security	158,174
Transportation	566,129
Total federal	\$ 770,531
Total state and federal grants	\$ 3,039,689
Total Intergovernmental Revenue	\$ 7,024,247

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Southwest Health and Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ <u>12,867</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 396,670
Formula Grants for Rural Areas	20.509	<u>169,459</u>
Total U.S. Department of Transportation		\$ <u>566,129</u>
U.S. Department of Health and Human Services		
Passed Through Southwest Health and Human Services Temporary Assistance for Needy Families	93.558	\$ 2,851
Child Support Enforcement	93.563	14,829
Refugee and Entrant Assistance - State-Administered Programs	93.566	35
Foster Care - Title IV-E	93.658	4,370
Children's Health Insurance Program	93.767	6
Medical Assistance Program	93.778	<u>11,270</u>
Total U.S. Department of Health and Human Services		\$ <u>33,361</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 138,585
Emergency Management Performance Grants	97.042	<u>19,589</u>
Total U.S. Department of Homeland Security		\$ <u>158,174</u>
Total Federal Awards		\$ <u><u>770,531</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 basic 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, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Pipestone County, it is not intended to and does not present the financial position or changes in net position of 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. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1999-003

Segregation of Duties

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

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

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

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

Cause: The County informed us that, due to the available resources, it would not be able to hire additional qualified accounting staff to segregate duties in every department.

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

Client's Response:

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

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

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

Condition: During our audit, we proposed audit adjustments that resulted in significant changes to the County's financial statements. The adjustments were reviewed and approved by the appropriate County staff and are reflected in the financial statements.

Context: The inability to make all necessary accrual adjustments or to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however independent external auditors cannot be considered part of the County's internal control.

Effect: The following adjustments were necessary to be recorded for December 31, 2014:

General Fund

- Increased accounts payable by \$70,000 as a second reversal was done for an amount already reversed from contracts payable and general government expenditures.

Road and Bridge Special Revenue Fund

- Reduced due to other governments by \$75,137 as shared revenues for highway allotment maintenance funding are applied to future project costs and not paid back to the state.

Ditch Special Revenue Fund

- Increased special assessments receivable--delinquent and related unavailable revenues by \$1,195 for ditch assessments unpaid at year-end.

Cause: Procedures are not in place to consider the full extent of all entries needed for financial reporting.

Recommendation: We recommend County staff review the financial statements' closing procedures, and the trial balances and journal entries in detail to ensure that all significant adjustments have been made that are considered necessary to fairly state the County's financial statements in accordance with generally accepted accounting principles.

Client's Response:

Pipestone County will review the financial statements' closing procedures closely, and any required changes will be implemented to ensure compliance with generally accepted accounting principles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding 2014-002

Publishing Claims Paid

Criteria: Minnesota Statutes § 375.12 requires that County Board minutes be published within 30 days of the meeting and include an individualized, itemized list of County Board-approved payments over \$2,000. For claims \$2,000 or less, the total number of claims and total amount shall be stated. The County can publish summaries of the minutes, meeting the requirement of Minn. Stat. § 331A.01. However, the County must still publish claims as required by Minn. Stat. § 375.12.

Condition: Pipestone County does not publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000 as provided by Minn. Stat. § 375.12.

Context: The publication of County Board minutes provides only the total bills paid by the County Board-approved payments made during the respective meeting. The County publishes a disbursement list over \$2,000 with the annual financial statements instead of publishing the itemized list of disbursements with the respective publication of County Board minutes.

Effect: Noncompliance with Minn. Stat. § 375.12.

Cause: The County believes that publishing the itemized list of disbursements for total payments over \$2,000 by vendor with the financial statements instead of the \$5,000 required by statutes is sufficient to comply with this statute.

Recommendation: We recommend the County comply with the above-noted statute and publish an itemized list of County Board-approved payments over \$2,000 with the total number of claims and total amount for payments under \$2,000.

Client's Response:

Pipestone County will review our Board-approved warrant publication procedures. Any changes the County feels are necessary, in order to comply with Minn. Stat § 375.12, will be made.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2007-007

Disaster Recovery Plan

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

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established; this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

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

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

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

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Pipestone County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Pipestone County
Pipestone, Minnesota

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, 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, 2014, which include the Medical Center as of and for the year ended June 30, 2014, 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 27, 2015. Our report includes a reference to other auditors who audited the financial statements of the Pipestone County Medical Center, as described in our report on Pipestone County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 1999-003 and 2014-001, 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 in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Pipestone County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Pipestone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2014-002. 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 and an other item for consideration. We believe the recommendation and information to be of benefit to the County, and they are reported for that purpose.

Pipestone County's Response to Findings

Pipestone County's responses to the internal control, legal compliance, 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 subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 27, 2015

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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
Pipestone, Minnesota

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 the County's major federal program for the year ended December 31, 2014. Pipestone County's major federal program is 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 requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

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

Opinion on the 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 its major federal program for the year ended December 31, 2014.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 27, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR