# STATE OF MINNESOTA

## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

YEAR ENDED DECEMBER 31, 2015

# 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 150 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 700 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, 2015

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

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

TABLE OF CONTENTS

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

TABLE OF CONTENTS

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

TABLE OF CONTENTS

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# Introductory Section

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2015

| Office | Name | Term Expires |
|---|---|---|
| Commissioners | | |
| 1st District | Luke Johnson[2] | January 2017 |
| 2nd District | Les Nath | January 2019 |
| 3rd District | Bruce Kooiman[1] | January 2017 |
| 4th District | Dan Wildermuth | January 2019 |
| 5th District | Jerry Remund | January 2017 |
| | | |
| Officers | | |
| Elected | | |
| Attorney | Damain Sandy | January 2019 |
| Auditor | Tyler Reisch | January 2019 |
| Coroner | Dr. Larry Christensen | January 2019 |
| County Recorder | Mary Ann DeGroot | January 2019 |
| Sheriff | Keith Vreeman | January 2019 |
| Treasurer | Steve Weets | January 2019 |
| Appointed | | |
| Assessor | Joyce Schmidt | Indefinite |
| County Administrator | Sharon Hanson | Indefinite |
| Highway Engineer | David Halbersma | Indefinite |
| Veterans Service Officer | Brian Douty | Indefinite |

[1]Chair 2015
[2]Chair 2016

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# Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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SAINT PAUL, MN 55103-2139

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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, 2015, including the Medical Center as of and for the year ended June 30, 2015, 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 represents 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 from material misstatement.

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

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

***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2015, including the Medical Center as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1.E. to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

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

*Supplementary Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2016, 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 the Uniform Guidance**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pipestone County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 1, 2016

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. 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 $59,852,003, of which $51,512,038 is the County's net investment in capital assets and $2,384,893 is restricted for specific purposes. The unrestricted net position of $5,955,072 may be used to meet the County's ongoing obligations to citizens and creditors.

- Governmental activities' net position increased by $1,681,249 for the year ended December 31, 2015, after the restatement for Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. Additional information about the restatement can be found in Note 1.E. A large part of the increase is attributable to the County's net investment in capital assets.

- The net cost of governmental activities for the current fiscal year was $4,486,333. The net cost was funded by general revenues totaling $6,167,582.

- Fund balances of the governmental funds decreased by $61,372. Most of the decrease can be attributed to transfers to the Medical Center Enterprise Fund to be used for the bonded debt payments.

- For the year ended December 31, 2015, the assigned and unassigned balance of the General Fund was $5,030,503, or 71.4 percent of the total General Fund expenditures for that year. This represents a decrease from 2014, which had 74.8 percent of the total General Fund expenditures.

- The Pipestone County Medical Center's total net position is $26,235,328 at June 30, 2015. The Medical Center recorded an increase in net position of $338,068 for the year ended June 30, 2015.

## 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 30 through 90 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 activities net position was $59,852,003 at the close of 2015. The largest portion of Pipestone County's governmental activities net position (86.1 percent) reflects the County's net investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data with 2014 is presented.

**Net Position**

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Assets | | | | |
| Current and other assets | $ 12,630,249 | $ 13,020,164 | $ 45,577,394 | $ 25,480,011 |
| Capital assets | 51,512,038 | 48,955,932 | 20,263,448 | 13,374,666 |
| Total Assets | $ 64,142,287 | $ 61,976,096 | $ 65,840,842 | $ 38,854,677 |
| Deferred Outflows of Resources | | | | |
| Deferred pension outflows | $ 585,539 | $ - | $ 1,458,767 | $ - |
| Liabilities | | | | |
| Long-term liabilities | $ 3,533,934 | $ 445,393 | $ 34,634,989 | $ 2,687,035 |
| Other liabilities | 1,012,124 | 862,351 | 4,458,131 | 2,406,877 |
| Total Liabilities | $ 4,546,058 | $ 1,307,744 | $ 39,093,120 | $ 5,093,912 |
| Deferred Inflows of Resources | | | | |
| Deferred pension inflows | $ 329,765 | $ - | $ 1,971,161 | $ - |
| Net Position | | | | |
| Net investment in capital assets | $ 51,512,038 | $ 48,955,932 | $ 15,369,290 | $ 10,687,632 |
| Restricted | 2,384,893 | 2,903,130 | - | - |
| Unrestricted | 5,955,072 | 8,809,290 | 10,866,038 | 23,073,133 |
| Total Net Position, as reported | $ 59,852,003 | $ 60,668,352 | $ 26,235,328 | $ 33,760,765 |
| Change in accounting principle* | | (2,719,920) | | (7,863,505) |
| Prior period adjustment** | | 222,322 | | - |
| Total Net Position, as restated | | $ 58,170,754 | | $ 25,897,260 |

*This is the first year the County implemented the new pension accounting and financial reporting standards, GASB Statements 68, 71, and 82. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

**The January 1, 2015, Medical Facility Bonds Debt Service Fund's fund balance and governmental activities net position were increased by $222,322 to correct a prior year overstatement of "due to proprietary fund."

Unrestricted net position (in the amount of $5,955,072)--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 9.9 percent of net position.

The County’s governmental activities net position increased by 2.9 percent ($59,852,003 for 2015 compared to $58,170,754 for 2014). Key elements in this increase in net position are as follows for 2015, with comparative data for 2014.

**Changes in Net Position**

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues | | | | |
| Program revenues | | | | |
| Fees, charges, fines, and other | $ 2,337,142 | $ 2,560,762 | $ 26,122,713 | $ 25,301,369 |
| Operating grants and contributions | 4,520,795 | 4,529,409 | - | - |
| Capital grants and contributions | 1,121,233 | 2,015,763 | - | - |
| General revenues | | | | |
| Property taxes | 5,110,167 | 4,779,429 | - | - |
| Other | 1,258,011 | 1,394,390 | 1,035,032 | 1,237,381 |
| Total Revenues | $ 14,347,348 | $ 15,279,753 | $ 27,157,745 | $ 26,538,750 |
| Expenses | | | | |
| General government | $ 3,369,231 | $ 3,190,964 | $ - | $ - |
| Public safety | 2,887,185 | 2,879,916 | - | - |
| Highways and streets | 4,140,330 | 4,796,603 | - | - |
| Sanitation | 225,530 | 225,968 | - | - |
| Human services | 1,169,876 | 1,054,742 | - | - |
| Health | 69,571 | 57,576 | - | - |
| Culture and recreation | 129,805 | 130,296 | - | - |
| Conservation of natural resources | 466,821 | 470,317 | - | - |
| Economic development | 6,775 | 6,775 | - | - |
| Interest | 379 | 491 | - | - |
| Medical Center | - | - | 27,051,254 | 23,583,641 |
| Total Expenses | $ 12,465,503 | $ 12,813,648 | $ 27,051,254 | $ 23,583,641 |
| Change in Net Position before Transfers | $ 1,881,845 | $ 2,466,105 | $ 106,491 | $ 2,955,109 |
| Transfers | (200,596) | (297,263) | 231,577 | 246,506 |
| Change in Net Position | $ 1,681,249 | $ 2,168,842 | $ 338,068 | $ 3,201,615 |
| Net Position - January 1, as restated | 58,170,754* | 58,499,510 | 25,897,260** | 30,559,150 |
| Net Position - December 31, as reported | $ 59,852,003 | $ 60,668,352 | $ 26,235,328 | $ 33,760,765 |

*Amount includes a change in accounting principle and prior period adjustment.
**Amount includes a change in accounting principle.

Total governmental activities revenues for the County were $14,347,348, total expenses were $12,465,503, and total transfers out were $200,596. This reflects a $1,681,249 increase in net position for the year ended December 31, 2015.

The cost of all governmental activities for the year was $12,465,503. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities was only $4,486,333 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--$2,337,142; or by other governments and organizations that subsidized certain programs with grants and contributions--$5,642,028. The County paid for the remaining "public benefit" portion of governmental activities with general revenues, primarily taxes--$5,110,167 (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 | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Highways and streets | $ 4,140,330 | $ 4,796,603 | $ (864,361) | $ (1,039,668) |
| General government | 3,369,231 | 3,190,964 | 2,667,536 | 2,184,074 |
| Public safety | 2,887,185 | 2,879,916 | 1,113,270 | 1,243,555 |
| Human services | 1,169,876 | 1,054,742 | 1,169,876 | 1,054,742 |
| All others | 898,881 | 891,423 | 400,012 | 265,011 |
| Totals | $ 12,465,503 | $ 12,813,648 | $ 4,486,333 | $ 3,707,714 |

## 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 $9,234,553, a decrease of $61,372 in comparison with the prior year. Of the combined ending fund balances, $8,001,748 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 $5,030,503. 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 71.4 percent of total General Fund expenditures of $7,043,816. During 2015, the ending fund balance decreased by $90,370.

The Road and Bridge Special Revenue Fund had an assigned fund balance of $2,229,126 at fiscal year-end, representing 32.5 percent of its 2015 expenditures. The ending fund balance increased $539 during 2015.

The Family Services Special Revenue Fund had an assigned fund balance of $742,119 at fiscal year-end, representing 63.4 percent of its 2015 expenditures. The ending fund balance increased $5,605 during 2015.

The Ditch Special Revenue Fund has a restricted fund balance of $16,189. The ending fund balance decreased $2,070 during 2015.

The Medical Facility Bonds Debt Service Fund had a restricted fund balance of $241,025. The ending fund balance increased $24,924 during 2015.

**Proprietary Fund**

The Statement of Net Position at June 30, 2015, for the Pipestone County Medical Center indicates total assets and deferred outflows of resources of $67,322,403, total liabilities and deferred inflows of resources of $41,087,075, and net position of $26,235,328. Total current assets were $11,841,901, and total current liabilities were $4,902,709, for a current ratio of 2.42, down from 4.47 at June 30, 2014. The Statement of Revenues, Expenses, and Changes in Net Position indicates total operating revenues of $26,122,713 and total operating expenses of $26,253,282, for an operating loss of $130,569, nonoperating revenues of $953,937, nonoperating expenses of $797,972, grants and contributions for capital assets of $81,095, and transfers in of $231,577, which contributed to the increase in net position from $25,897,260 to $26,235,328.

**General Fund Budgetary Highlights**

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

The actual charges to appropriations (expenditures) were $16 over budgeted amounts.

Resources available for appropriation were $301,650 over the budgeted amount. Intergovernmental revenue 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, 2015, totaled $51,512,038 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $2,556,106, or 5.2 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)**

| | 2015 | 2014 |
|---|---|---|
| Land and other nondepreciated assets | $ 2,332,028 | $ 2,330,530 |
| Land improvements | 159,202 | 169,248 |
| Infrastructure | 41,977,251 | 39,451,988 |
| Buildings | 4,662,682 | 4,687,271 |
| Machinery and equipment | 2,380,875 | 2,316,895 |
| Total | $ 51,512,038 | $ 48,955,932 |

Additional information about the County's capital assets can be found in Note 2.A.3. to the financial statements.

The Pipestone County Medical Center's capital assets at June 30, 2015, amounted to $20,263,448 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

### Long-Term Debt

<u>Governmental Activities</u>

At December 31, 2015, the County had no outstanding bonded debt.

<u>Business-Type Activities</u>

At June 30, 2015, the Pipestone County Medical Center had total long-term debt outstanding of $27,300,360, which is for a portion of the hospital expansion and remodeling project. The project is projected to be completed in 2017 and will allow 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 2016 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2015 was 3.5 percent. This compares favorably with the average annual state unemployment rate of 4.0 percent at the end of 2015. The 2015 estimated County population is 9,281, a decrease of 315, or 3.3 percent, from the 2010 census of 9,596.

- Among Pipestone County residents, the overall poverty rate was estimated to be 10.9 percent in 2015, 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

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

***EXHIBIT 1***

## STATEMENT OF NET POSITION
## DECEMBER 31, 2015

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and pooled investments | $ 8,325,690 | $ 3,772,079 | $ 12,097,769 |
| Investments | 1,219,000 | - | 1,219,000 |
| Investments restricted under indenture agreement | - | 1,737,924 | 1,737,924 |
| Receivables - net | 2,566,996 | 5,108,267 | 7,675,263 |
| Loans receivable | 184,216 | - | 184,216 |
| Inventories | 280,903 | 780,105 | 1,061,008 |
| Prepaid items | 53,444 | 420,732 | 474,176 |
| Assets restricted as to use for | | | |
| Capital acquisition and debt redemption | - | 10,422,129 | 10,422,129 |
| Insurance | - | 500,000 | 500,000 |
| Restricted by indenture agreements | - | 22,369,885 | 22,369,885 |
| Investment in joint venture | - | 316,481 | 316,481 |
| Capital assets | | | |
| Nondepreciable capital assets | 2,332,028 | 10,431,551 | 12,763,579 |
| Depreciable capital assets - net of accumulated depreciation | 49,180,010 | 9,831,897 | 59,011,907 |
| Other assets | - | 149,792 | 149,792 |
| **Total Assets** | **$ 64,142,287** | **$ 65,840,842** | **$ 129,983,129** |
| **Deferred Outflows of Resources** | | | |
| Deferred pension outflows | **$ 585,539** | **$ 1,458,767** | **$ 2,044,306** |
| **Liabilities** | | | |
| Accounts payable and other current liabilities | $ 989,332 | $ 4,351,315 | $ 5,340,647 |
| Accrued interest payable | - | 91,880 | 91,880 |
| Unearned revenue | - | 37,730 | 37,730 |
| Internal balances | 22,792 | (22,794) | (2) |
| Long-term liabilities | | | |
| Due within one year | 52,394 | 421,784 | 474,178 |
| Due in more than one year | 382,513 | 26,921,214 | 27,303,727 |
| Net pension liability | 3,099,027 | 7,291,991 | 10,391,018 |
| **Total Liabilities** | **$ 4,546,058** | **$ 39,093,120** | **$ 43,639,178** |
| **Deferred Inflows of Resources** | | | |
| Deferred pension inflows | **$ 329,765** | **$ 1,971,161** | **$ 2,300,926** |

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT 1*
*(Continued)*

**STATEMENT OF NET POSITION**
**DECEMBER 31, 2015**

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Net Position** | | | |
| Net investment in capital assets | $ 51,512,038 | $ 15,369,290 | $ 66,881,328 |
| Restricted for | | | |
| General government | 150,779 | - | 150,779 |
| Public safety | 91,325 | - | 91,325 |
| Highways and streets | 1,845,681 | - | 1,845,681 |
| Debt service | 236,309 | - | 236,309 |
| Conservation of natural resources | 60,799 | - | 60,799 |
| Unrestricted | 5,955,072 | 10,866,038 | 16,821,110 |
| **Total Net Position** | **$ 59,852,003** | **$ 26,235,328** | **$ 86,087,331** |

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Expenses | Fees, Charges, Fines, and Other |
|---|---|---|
| **Functions/Programs** | | |
| **Governmental activities** | | |
| General government | $ 3,369,231 | $ 336,996 |
| Public safety | 2,887,185 | 1,443,667 |
| Highways and streets | 4,140,330 | 294,484 |
| Sanitation | 225,530 | 202,263 |
| Human services | 1,169,876 | - |
| Health | 69,571 | - |
| Culture and recreation | 129,805 | - |
| Conservation of natural resources | 466,821 | 59,732 |
| Economic development | 6,775 | - |
| Interest | 379 | - |
| **Total governmental activities** | **$ 12,465,503** | **$ 2,337,142** |
| **Business-type activities** | | |
| Medical Center | 27,051,254 | 26,122,713 |
| **Total** | **$ 39,516,757** | **$ 28,459,855** |

**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, as restated (Note 1.E.)**

**Net Position - Ending**

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

| Program Revenues | | | | |
|---|---|---|---|---|
| | | Net (Expense) Revenue and Changes in Net Position | | |
| **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-Type Activities** | **Total** |
| $ 364,151 | $ 548 | $ (2,667,536) | $ - | $ (2,667,536) |
| 330,248 | - | (1,113,270) | - | (1,113,270) |
| 3,589,522 | 1,120,685 | 864,361 | - | 864,361 |
| 114,291 | - | 91,024 | - | 91,024 |
| - | - | (1,169,876) | - | (1,169,876) |
| - | - | (69,571) | - | (69,571) |
| 32,550 | - | (97,255) | - | (97,255) |
| 90,033 | - | (317,056) | - | (317,056) |
| - | - | (6,775) | - | (6,775) |
| - | - | (379) | - | (379) |
| **$ 4,520,795** | **$ 1,121,233** | **$ (4,486,333)** | **$ -** | **$ (4,486,333)** |
| - | - | - | (928,541) | (928,541) |
| **$ 4,520,795** | **$ 1,121,233** | **$ (4,486,333)** | **$ (928,541)** | **$ (5,414,874)** |
| | | $ 5,110,167 | $ - | $ 5,110,167 |
| | | 5,220 | - | 5,220 |
| | | 456,025 | - | 456,025 |
| | | 70,875 | - | 70,875 |
| | | 473,921 | 81,095 | 555,016 |
| | | 120,963 | 78,669 | 199,632 |
| | | 131,007 | - | 131,007 |
| | | - | 875,268 | 875,268 |
| | | (200,596) | 231,577 | 30,981 |
| | | **$ 6,167,582** | **$ 1,266,609** | **$ 7,434,191** |
| | | **$ 1,681,249** | **$ 338,068** | **$ 2,019,317** |
| | | **58,170,754** | **25,897,260** | **84,068,014** |
| | | **$ 59,852,003** | **$ 26,235,328** | **$ 86,087,331** |

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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, 2015

| | General | Road and Bridge | Family Services | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and pooled investments | $ 5,546,907 | $ 1,657,248 | $ 718,939 | $ 276,007 | $ 8,199,101 |
| Undistributed cash in agency funds | 76,621 | 19,584 | 23,180 | 4,079 | 123,464 |
| Petty cash and change funds | 3,025 | 100 | - | - | 3,125 |
| Investments | 44,000 | 1,175,000 | - | - | 1,219,000 |
| Taxes receivable | | | | | |
| Delinquent | 20,570 | 6,805 | 8,426 | 5,289 | 41,090 |
| Special assessments receivable | | | | | |
| Delinquent | 14,481 | - | - | - | 14,481 |
| Noncurrent | 282,312 | - | - | - | 282,312 |
| Accounts receivable | 61,069 | 8,985 | - | - | 70,054 |
| Loans receivable | - | - | 184,216 | - | 184,216 |
| Accrued interest receivable | 36,200 | 2,441 | - | - | 38,641 |
| Due from other funds | 158 | 16,297 | - | - | 16,455 |
| Due from other governments | 41,687 | 2,078,731 | - | - | 2,120,418 |
| Inventories | - | 280,903 | - | - | 280,903 |
| Prepaid items | 53,444 | - | - | - | 53,444 |
| **Total Assets** | **$ 6,180,474** | **$ 5,246,094** | **$ 934,761** | **$ 285,375** | **$ 12,646,704** |
| **Liabilities, Deferred Inflows of Resources, and Fund Balances** | | | | | |
| **Liabilities** | | | | | |
| Accounts payable | $ 277,623 | $ 156,798 | $ - | $ - | $ 434,421 |
| Salaries payable | 177,328 | 58,472 | - | - | 235,800 |
| Contracts payable | - | 316,025 | - | - | 316,025 |
| Due to proprietary fund | - | - | - | 22,792 | 22,792 |
| Due to other funds | 16,217 | 158 | - | 80 | 16,455 |
| Due to other governments | 2,307 | 779 | - | - | 3,086 |
| **Total Liabilities** | **$ 473,475** | **$ 532,232** | **$ -** | **$ 22,872** | **$ 1,028,579** |
| **Deferred Inflows of Resources** | | | | | |
| Unavailable revenue | **$ 329,815** | **$ 2,040,042** | **$ 8,426** | **$ 5,289** | **$ 2,383,572** |

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT 3*
*(Continued)*

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**DECEMBER 31, 2015**

| | General | Road and Bridge | Family Services | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)** | | | | | |
| **Fund Balances** | | | | | |
| Nonspendable | | | | | |
| Inventories | $ - | $ 280,903 | $ - | $ - | $ 280,903 |
| Missing heirs | 6,523 | - | - | - | 6,523 |
| Prepaid items | 53,444 | - | - | - | 53,444 |
| Noncurrent loans receivable | - | - | 184,216 | - | 184,216 |
| Restricted for | | | | | |
| Law library | 20,269 | - | - | - | 20,269 |
| Recorder's technology fund | 43,636 | - | - | - | 43,636 |
| Recorder's compliance fund | 83,774 | - | - | - | 83,774 |
| Enhanced 911 | 40,074 | - | - | - | 40,074 |
| Sheriff's contingency | 4,688 | - | - | - | 4,688 |
| Transit | 3,100 | - | - | - | 3,100 |
| Probation supervision | 11,458 | - | - | - | 11,458 |
| DUI fees | 6,438 | - | - | - | 6,438 |
| Motor vehicle forfeitures | 3,900 | - | - | - | 3,900 |
| Drug forfeitures | 4,718 | - | - | - | 4,718 |
| Jail canteen fund | 2,536 | - | - | - | 2,536 |
| Permit to carry | 17,513 | - | - | - | 17,513 |
| Highway allotments | - | 163,791 | - | - | 163,791 |
| Septic/sewer loans | 44,610 | - | - | - | 44,610 |
| Debt service | - | - | - | 241,025 | 241,025 |
| Ditches | - | - | - | 16,189 | 16,189 |
| Assigned for | | | | | |
| Elections | 103,324 | - | - | - | 103,324 |
| Buildings | 107,657 | - | - | - | 107,657 |
| Capital improvements | 212,886 | - | - | - | 212,886 |
| Capital equipment | - | 443,500 | - | - | 443,500 |
| Ambulance | 120,000 | - | - | - | 120,000 |
| Solid waste/recycling | 618,068 | - | - | - | 618,068 |
| County septic loan program | 106,587 | - | - | - | 106,587 |
| Radio communications system | 45,000 | - | - | - | 45,000 |
| Computer software | 200,212 | - | - | - | 200,212 |
| Rock River 1 septic loans | 16,480 | - | - | - | 16,480 |
| Prepaid court expense | 2,176 | - | - | - | 2,176 |
| AgBMP septic loan | 16,468 | - | - | - | 16,468 |
| Rock River 2 septic loans | 6,360 | - | - | - | 6,360 |
| Road and bridge | - | 1,785,626 | - | - | 1,785,626 |
| Family services | - | - | 742,119 | - | 742,119 |
| Unassigned | 3,475,285 | - | - | - | 3,475,285 |
| **Total Fund Balances** | **$ 5,377,184** | **$ 2,673,820** | **$ 926,335** | **$ 257,214** | **$ 9,234,553** |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | **$ 6,180,474** | **$ 5,246,094** | **$ 934,761** | **$ 285,375** | **$ 12,646,704** |

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

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT 4*

### RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
### DECEMBER 31, 2015

| | | |
|---|---|---|
| **Fund balance - total governmental funds (Exhibit 3)** | | **$ 9,234,553** |
| 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. | | 51,512,038 |
| Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds. | | 585,539 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds. | | 2,383,572 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Compensated absences | $ (239,828) | |
| Loans payable | (195,079) | |
| Net pension liability | (3,099,027) | (3,533,934) |
| Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | (329,765) |
| **Net Position of Governmental Activities (Exhibit 1)** | | **$ 59,852,003** |

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

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | General | Road and Bridge | Family Services | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Taxes | $ 3,347,834 | $ 924,741 | $ 1,095,995 | $ 225,520 | $ 5,594,090 |
| Special assessments | 273,299 | - | - | 1,408 | 274,707 |
| Licenses and permits | 15,180 | - | - | - | 15,180 |
| Intergovernmental | 1,297,391 | 5,429,670 | 74,881 | - | 6,801,942 |
| Charges for services | 1,474,250 | 115,130 | - | - | 1,589,380 |
| Fines and forfeits | 6,801 | - | - | - | 6,801 |
| Gifts and contributions | 33,033 | - | - | - | 33,033 |
| Investment earnings | 100,275 | 10,239 | 4,605 | - | 115,119 |
| Miscellaneous | 402,283 | 208,520 | - | - | 610,803 |
| **Total Revenues** | **$ 6,950,346** | **$ 6,688,300** | **$ 1,175,481** | **$ 226,928** | **$ 15,041,055** |
| **Expenditures** | | | | | |
| **Current** | | | | | |
| General government | $ 3,387,422 | $ - | $ - | $ - | $ 3,387,422 |
| Public safety | 2,743,810 | - | - | - | 2,743,810 |
| Highways and streets | - | 6,544,111 | - | - | 6,544,111 |
| Sanitation | 218,210 | - | - | - | 218,210 |
| Culture and recreation | 78,154 | - | - | - | 78,154 |
| Conservation of natural resources | 459,358 | - | - | 3,478 | 462,836 |
| Economic development | 6,775 | - | - | - | 6,775 |
| **Intergovernmental** | 121,222 | 316,731 | 1,169,876 | - | 1,607,829 |
| **Debt service** | | | | | |
| Principal | 26,675 | - | - | - | 26,675 |
| Interest | 2,190 | - | - | - | 2,190 |
| **Total Expenditures** | **$ 7,043,816** | **$ 6,860,842** | **$ 1,169,876** | **$ 3,478** | **$ 15,078,012** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (93,470)** | **$ (172,542)** | **$ 5,605** | **$ 223,450** | **$ (36,957)** |

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

*EXHIBIT 5*
*(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | General | Road and Bridge | Family Services | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Other Financing Sources (Uses)** | | | | | |
| Transfers out | $ - | $ - | $ - | $ (200,596) | $ (200,596) |
| Proceeds from sale of capital assets | 3,100 | - | - | - | 3,100 |
| **Total Other Financing Sources (Uses)** | **$ 3,100** | **$ -** | **$ -** | **$ (200,596)** | **$ (197,496)** |
| **Net Change in Fund Balance** | **$ (90,370)** | **$ (172,542)** | **$ 5,605** | **$ 22,854** | **$ (234,453)** |
| **Fund Balance - January 1, as restated (Note 1.E.)** | **5,467,554** | **2,673,281** | **920,730** | **234,360** | **9,295,925** |
| **Increase (decrease) in inventories** | **-** | **173,081** | **-** | **-** | **173,081** |
| **Fund Balance - December 31** | **$ 5,377,184** | **$ 2,673,820** | **$ 926,335** | **$ 257,214** | **$ 9,234,553** |

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, 2015**

| | | |
|---|---|---|
| **Net change in fund balance - total governmental funds (Exhibit 5)** | | **$ (234,453)** |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable. | | |
| Deferred inflows of resources - December 31 | $ 2,383,572 | |
| Deferred inflows of resources - January 1 | (3,084,210) | (700,638) |
| 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 | $ 4,306,669 | |
| Current year depreciation | (1,750,563) | 2,556,106 |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| Principal repayments | | |
| Loans payable | | 26,675 |
| 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 inventories | $ 173,081 | |
| Change in compensated absences | (16,189) | |
| Change in net pension liability, as restated | (214,791) | |
| Change in deferred outflows of resources, as restated | 421,223 | |
| Change in deferred inflows of resources | (329,765) | 33,559 |
| **Change in Net Position of Governmental Activities (Exhibit 2)** | | **$ 1,681,249** |

**PROPRIETARY FUND**

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

***EXHIBIT 7***

**STATEMENT OF NET POSITION**
**PROPRIETARY FUND**
**MEDICAL CENTER ENTERPRISE FUND**
**JUNE 30, 2015**

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and pooled investments | $ | 3,772,079 |
| Investments restricted under indenture agreement | | 1,737,924 |
| Accounts receivable - net | | 197,760 |
| Patient and resident receivables - net | | 3,525,925 |
| Due from minority interest partner | | 1,384,582 |
| Due from other funds | | 22,794 |
| Inventories | | 780,105 |
| Prepaid items | | 420,732 |
| **Total current assets** | **$** | **11,841,901** |
| Noncurrent assets | | |
| Assets internally designated for | | |
| Capital acquisition and debt redemption | $ | 10,422,129 |
| Insurance | | 500,000 |
| Restricted by indenture agreements | | 22,369,885 |
| Investment in joint venture | | 316,481 |
| **Total noncurrent assets** | **$** | **33,608,495** |
| Capital assets - net | $ | 20,263,448 |
| Other assets | | 149,792 |
| **Total Assets** | **$** | **65,863,636** |
| **Deferred Outflows of Resources** | | |
| Deferred pension outflows | **$** | **1,458,767** |

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT 7*
*(Continued)*

**STATEMENT OF NET POSITION**
**PROPRIETARY FUND**
**MEDICAL CENTER ENTERPRISE FUND**
**JUNE 30, 2015**

| | | |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ | 3,489,701 |
| Salaries payable | | 244,452 |
| Paid time off | | 557,273 |
| Payroll taxes and other | | 59,889 |
| Interest | | 91,880 |
| Unearned revenues - current portion | | 37,730 |
| Current maturities of long-term debt | | 421,784 |
| **Total current liabilities** | **$** | **4,902,709** |
| Noncurrent liabilities | | |
| Net pension liability | $ | 7,291,991 |
| Long-term debt, less current maturities | | 26,921,214 |
| **Total noncurrent liabilities** | **$** | **34,213,205** |
| **Total Liabilities** | **$** | **39,115,914** |
| **Deferred Inflows of Resources** | | |
| Deferred pension inflows | **$** | **1,971,161** |
| **Net Position** | | |
| Net investment in capital assets | $ | 15,369,290 |
| Unrestricted | | 10,866,038 |
| **Total Net Position** | **$** | **26,235,328** |

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

## 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, 2015

| | | |
|---|---|---|
| **Operating Revenues** | | |
| Net patient and resident service revenue - net of provisions for bad debts | $ | 25,028,090 |
| Miscellaneous | | 1,094,623 |
| **Total Operating Revenues** | **$** | **26,122,713** |
| **Operating Expenses** | | |
| Salaries and wages | $ | 8,801,417 |
| Employee benefits | | 2,802,854 |
| Purchased services | | 6,559,090 |
| Supplies and other expenses | | 6,882,360 |
| Depreciation and amortization | | 1,207,561 |
| **Total Operating Expenses** | **$** | **26,253,282** |
| **Operating Income (Loss)** | **$** | **(130,569)** |
| **Nonoperating Revenues (Expenses)** | | |
| Investment income | $ | 78,669 |
| Minority interest in joint ventures | | 875,268 |
| Interest expense | | (795,617) |
| Other expense | | (2,355) |
| **Total Nonoperating Revenues (Expenses)** | **$** | **155,965** |
| **Income (Loss) Before Capital Contributions and Transfers** | **$** | **25,396** |
| Grants and contributions for capital assets | | 81,095 |
| Transfers in | | 231,577 |
| **Change in net position** | **$** | **338,068** |
| **Net Position - July 1, as restated (Note 1.E.)** | | **25,897,260** |
| **Net Position - June 30** | **$** | **26,235,328** |

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

# PIPESTONE COUNTY
# PIPESTONE, MINNESOTA

*EXHIBIT 9*

## STATEMENT OF CASH FLOWS
## PROPRIETARY FUND
## MEDICAL CENTER ENTERPRISE FUND
## FOR THE YEAR ENDED JUNE 30, 2015
## Increase (Decrease) in Cash and Cash Equivalents

| | | |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from patient and resident services | $ | 24,598,427 |
| Other receipts | | 839,183 |
| Cash payments to employees for services | | (11,644,283) |
| Cash payments to suppliers for goods and services | | (13,350,799) |
| **Net cash provided by (used in) operating activities** | **$** | **442,528** |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Purchase of capital assets | $ | (6,446,107) |
| Principal paid on long-term debt | | (409,036) |
| Transfer from County | | 231,577 |
| Proceeds from sale of capital assets | | 6,377 |
| Proceeds from long-term debt | | 25,065,000 |
| Grants and contributions for capital assets | | 81,095 |
| Interest paid on long-term debt | | (729,150) |
| **Net cash provided by (used in) capital and related financing activities** | **$** | **17,799,756** |
| **Cash Flows from Investing Activities** | | |
| Sales and maturities of investments | $ | 5,888,000 |
| Purchases of investments | | (21,924,386) |
| Interest income and other nonoperating cash flows | | 76,314 |
| Capital contributed by joint venture partner | | 1,677 |
| Distribution from joint venture | | 128,190 |
| **Net cash provided by (used in) investing activities** | **$** | **(15,830,205)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **$** | **2,412,079** |
| **Cash and Cash Equivalents - July 1** | | **8,010,198** |
| **Cash and Cash Equivalents - June 30** | **$** | **10,422,277** |
| **Reconciliation of Cash and Cash Equivalents to the Statement of Net Position** | | |
| Cash and cash equivalents in current assets | $ | 3,772,079 |
| Noncurrent cash | | 6,650,198 |
| **Cash and Cash Equivalents - June 30** | **$** | **10,422,277** |

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT 9*
*(Continued)*

**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUND**
**MEDICAL CENTER ENTERPRISE FUND**
**FOR THE YEAR ENDED JUNE 30, 2015**
**Increase (Decrease) in Cash and Cash Equivalents**

| | | |
|---|---|---|
| **Reconciliation of operating income (loss) to net cash provided by (used in) operating activities** | | |
| **Operating income (loss)** | **$** | **(130,569)** |
| **Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities** | | |
| Depreciation and amortization | $ | 1,207,561 |
| Provision for bad debts | | 351,905 |
| Non-cash patronage allocation | | (102,376) |
| Loss on sale of assets | | 2,355 |
| (Increase) decrease in receivables | | (1,096,172) |
| (Increase) decrease in inventories | | (118,528) |
| Increase (decrease) in prepaid items | | 64,273 |
| Increase (decrease) in accounts payable | | 417,282 |
| Increase (decrease) in accrued expenses | | 19,108 |
| Increase (decrease) in unearned revenue | | (113,191) |
| Increase (decrease) in net pension liability | | (571,514) |
| (Increase) decrease in deferred outflows of resources | | (1,458,767) |
| Increase (decrease) in deferred inflows of resources | | 1,971,161 |
| **Total adjustments** | **$** | **573,097** |
| **Net Cash Provided by (Used in) Operating Activities** | **$** | **442,528** |
| **Supplemental Disclosure of Noncash Investing and Financing Activities** | | |
| Accounts payable - construction in progress | **$** | **1,658,969** |

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# FIDUCIARY FUNDS

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

***EXHIBIT 10***

**STATEMENT OF FIDUCIARY NET POSITION**
**AGENCY FUNDS**
**DECEMBER 31, 2015**

| | |
|---|---|
| **Assets** | |
| Cash and pooled investments | **$ 215,945** |
| **Liabilities** | |
| Due to other governments | **$ 215,945** |

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. 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.

| Component Unit | Component Unit Included in Reporting Entity Because | Separate Financial Statements |
|---|---|---|
| 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:<br>916 Fourth Avenue S.W.<br>P. O. Box 370<br>Pipestone, Minnesota 56164 |

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, 2014, to June 30, 2015, is presented in these financial statements.

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 5.B. The County also participates in jointly-governed organizations described in Note 5.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.

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.

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 Pipestone County Medical Center operates a 25-bed acute care hospital located in Pipestone, Minnesota, and medical clinics located in Pipestone, Minnesota, and other area communities.

Additionally, the County reports the following fund types:

- 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.

- 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.

- 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

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.

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, 2015, 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 2015 were $100,486.

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 investment in the pool is measured at the net asset value per share provided by the pool.

The Medical Center Enterprise Fund’s investment income for the year ended June 30, 2015, was $78,669 and is included in nonoperating revenues (expenses).

3. Receivables and Payables

Activity 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.”

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.

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables (Continued)

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2015 and deferred special assessments payable in 2016 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 patient 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.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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.

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, 2015, the Medical Center had capitalized interest of $436,317.

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 |

All capital assets other than land and construction in progress of business-type activities are depreciated or amortized (in the case of capital leases) using the straight-line of 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

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 straight-line 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. Pension Plan

For the County's governmental activities, for purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. The Medical Center has the same June 30 fiscal year-end as PERA. For both the governmental activities and the business-type activities, for this purpose, plan contributions are recognized as of employer payroll paid dates and

1. Summary of Significant Accounting Policies

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

9. Pension Plan (Continued)

benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. For the governmental activities, the pension liability is liquidated through the General Fund and other governmental funds that have personal services. For the business-type activities, the pension liability is liquidated by the Medical Center Enterprise Fund.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, pension plan changes in actuarial assumptions, pension plan changes in proportionate share, and also the difference between projected and actual earnings on plan investments and, accordingly, are reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports 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 two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and deferred special assessments receivable, interest receivable, and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual

1. Summary of Significant Accounting Policies

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

10. Deferred Outflows/Inflows of Resources (Continued)

basis of accounting and consist of differences between expected and actual pension plan economic experience, pension plan changes in proportionate share, and also the difference between projected and actual earnings on plan investments and, accordingly, are reported only in the statement of net position.

11. 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.

12. 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.

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances

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

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

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

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

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

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

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

1. Summary of Significant Accounting Policies

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

14. 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, 2015, unassigned fund balance for the General Fund was at or above the minimum fund balance level.

15. 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. Restatement of Fund Balance and Net Position

1. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

1. Summary of Significant Accounting Policies

   E. Restatement of Fund Balance and Net Position

      1. Change in Accounting Principles (Continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources, as described in Note 1.E.3.

      2. Prior Period Adjustment

Restatement of Due to Proprietary Fund, Fund Balance, and Net Position

The January 1, 2015, fund balance of the Medical Facility Bonds Debt Service Fund and the government-wide governmental activities net position were increased by $222,322 to correct a prior year overstatement of the amount "due to the proprietary fund." The effect of the restatement on net position is disclosed in Note 1.E.3. The effect on fund balance is as follows:

| | Balance at January 1, 2015, as Previously Reported | Prior Period Adjustment | Balance at January 1, 2015, as Restated |
|---|---|---|---|
| Medical Facility Bonds Debt Service Fund fund balance | $ (6,221) | $ 222,322 | $ 216,101 |

1. Summary of Significant Accounting Policies

E. Restatement of Fund Balance and Net Position (Continued)

3. Restatement of Net Position

Restatements of net position for the governmental activities and business-type activities are as follows:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Net Position, January 1, 2015, as previously reported | $ 60,668,352 | $ 33,760,765 |
| Change in accounting principles | (2,719,920) | (7,863,505) |
| Restatement of net position<br>Adjustment for due to proprietary fund | 222,322 | - |
| Net Position, January 1, 2015, as restated | $ 58,170,754 | $ 25,897,260 |

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

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Medical Center’s uninsured, self-pay patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured, self-pay patients in the period the services are provided.

1. Summary of Significant Accounting Policies

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

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

Medicare - The Medical Center is licensed as a Critical Access Hospital (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 June 30, 2013. Clinical services are paid on a cost basis or a fixed fee schedule.

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

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

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

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 | $ | 8,325,690 |
| Investments | | 1,219,000 |
| Business-type activities | | |
| Cash and pooled investments | | 3,772,079 |
| Investments restricted under indenture agreement | | 1,737,924 |
| Restricted assets | | |
| Indenture agreements | | 22,369,885 |
| Capital acquisition and debt redemption | | 10,422,129 |
| Insurance | | 500,000 |
| Statement of fiduciary net position | | |
| Cash and pooled investments | | 215,945 |
| Total Cash and Investments | $ | 48,562,652 |

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.

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

2. Detailed Notes on All Funds

   A. Assets and Deferred Outflows of Resources

      1. Deposits and Investments

         b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. 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.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

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, 2015, 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. The County's policy is to diversify their investment portfolio so that the impact of potential losses from any one type of security or issuer is minimized.

The following table presents the County's cash and investment balances at December 31, 2015, and information relating to potential investment risks:

| | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying |
|---|---|---|---|---|---|
| Investment Type | Credit Rating | Rating Agency | Over 5% of Portfolio | Maturity Date | (Fair) Value |
| U.S. government agency securities | | | | | |
| Federal Home Loan Mortgage bond | AA+ | S&P | 10.1% | 04/29/2021 | $ 590,000 |
| Negotiable certificates of deposit with brokers | | | | | |
| Barclays Bank Delaware | N/A | N/A | N/A | 03/16/2016 | $ 245,000 |
| First Niagra Bank | N/A | N/A | N/A | 04/15/2016 | 50,000 |
| Santander Bank | N/A | N/A | N/A | Various | 160,000 |
| Discover Bank | N/A | N/A | N/A | 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 | N/A | 07/06/2018 | 245,000 |
| BMW BK North America Salt Lake | N/A | N/A | N/A | 10/01/2018 | 180,000 |
| Goldman Sachs | N/A | N/A | N/A | 12/31/2018 | 245,000 |

## 2. Detailed Notes on All Funds

### A. Assets and Deferred Outflows of Resources

#### 1. Deposits and Investments (Continued)

| Investment Type | Credit Risk: Credit Rating | Credit Risk: Rating Agency | Concentration Risk: Over 5% of Portfolio | Interest Rate Risk: Maturity Date | Carrying (Fair) Value |
|---|---|---|---|---|---|
| Negotiable certificates of deposit with brokers (Continued) | | | | | |
| GE Capital | N/A | N/A | N/A | 12/31/2018 | 110,000 |
| CIT Bank | N/A | N/A | N/A | 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 | N/A | 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 | N/A | 10/02/2019 | 245,000 |
| Washington Tr. Co. | N/A | N/A | N/A | 10/08/2019 | 210,000 |
| Worlds Foremost Bank | N/A | N/A | N/A | 04/15/2020 | 200,000 |
| American Express Centurion Bank | N/A | N/A | N/A | 05/28/2020 | 245,000 |
| Webster Five Cents Savings Bank | N/A | N/A | N/A | 06/16/2020 | 180,000 |
| Capital One National Assn | N/A | N/A | N/A | 07/29/2020 | 245,000 |
| Everbank, Jacksonville FL | N/A | N/A | N/A | 08/14/2020 | 200,000 |
| Crescom | N/A | N/A | N/A | 10/14/2020 | 100,000 |
| Bangor Savings Bank | N/A | N/A | N/A | 12/14/2020 | 90,000 |
| BMO - Harris Bank | N/A | N/A | N/A | 12/17/2020 | 199,875 |
| First Merchants Bank | N/A | N/A | N/A | 11/01/2021 | 245,000 |
| First American Bank | N/A | N/A | N/A | 08/22/2022 | 245,000 |
| Total negotiable certificates of deposit with brokers | | | | | $ 5,219,875 |
| Investment pools/mutual funds | | | | | |
| Raymond James Inc., Money Market Account | N/R | N/A | N/A | N/A | $ 2,500 |
| MAGIC Fund | N/R | N/A | N/A | N/A | 39,000 |
| Total investment pools/mutual funds | | | | | $ 41,500 |
| Total investments | | | | | $ 5,851,375 |
| Checking | | | | | 1,208,653 |
| Savings | | | | | 1,442,482 |
| Petty cash and change funds | | | | | 3,125 |
| Certificates of deposit | | | | | 1,255,000 |
| Medical Center cash and investments with County | | | | | 38,802,017 |
| Total Cash and Investments | | | | | $ 48,562,652 |

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2015, 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 | $ 41,090 | $ - |
| Special assessments | 296,793 | 222,897 |
| Due from other governments | 2,120,418 | - |
| Accounts | 70,054 | - |
| Loans | 184,216 | 179,332 |
| Accrued interest | 38,641 | - |
| Total Governmental Activities | $ 2,751,212 | $ 402,229 |

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, 2015, under these promissory notes total $184,216.

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Business-Type Activities | | |
| Accounts - net | $ 197,760 | $ - |
| Due from minority interest partner | 1,384,582 | - |
| Patient and resident service revenue - net | 3,525,925 | - |
| Total Business-Type Activities | $ 5,108,267 | $ - |

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables (Continued)

A summary of patient service receivables and the provision for bad debts for the year ended June 30, 2015, is as follows:

| | | |
|---|---|---|
| Business-Type Activities | | |
| Patient and resident service revenue | $ | 6,235,925 |
| Less: provision for bad debts | | (2,710,000) |
| Net Patient and Resident Service Revenue | $ | 3,525,925 |

3. Capital Assets

Governmental Activities

Capital asset activity for the year ended December 31, 2015, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 1,138,971 | $ - | $ - | $ 1,138,971 |
| Right-of-way | 1,155,635 | 1,498 | - | 1,157,133 |
| Historical treasures | 35,924 | - | - | 35,924 |
| Total capital assets not depreciated | $ 2,330,530 | $ 1,498 | $ - | $ 2,332,028 |
| Capital assets depreciated | | | | |
| Buildings | $ 7,791,336 | $ 147,957 | $ 50,119 | $ 7,889,174 |
| Land improvements | 296,319 | - | - | 296,319 |
| Machinery and equipment | 5,797,659 | 464,998 | 208,645 | 6,054,012 |
| Infrastructure | 54,713,956 | 3,692,216 | - | 58,406,172 |
| Total capital assets depreciated | $ 68,599,270 | $ 4,305,171 | $ 258,764 | $ 72,645,677 |
| Less: accumulated depreciation for | | | | |
| Buildings | $ 3,104,066 | $ 172,545 | $ 50,119 | $ 3,226,492 |
| Land improvements | 127,071 | 10,046 | - | 137,117 |
| Machinery and equipment | 3,480,763 | 401,019 | 208,645 | 3,673,137 |
| Infrastructure | 15,261,968 | 1,166,953 | - | 16,428,921 |
| Total accumulated depreciation | $ 21,973,868 | $ 1,750,563 | $ 258,764 | $ 23,465,667 |
| Total capital assets depreciated, net | $ 46,625,402 | $ 2,554,608 | $ - | $ 49,180,010 |
| Governmental Activities Capital Assets, Net | $ 48,955,932 | $ 2,556,106 | $ - | $ 51,512,038 |

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Business-Type Activities

Capital asset activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 1,106,456 | $ 84,960 | $ - | $ 1,191,416 |
| Construction in progress | 2,381,598 | 8,135,818 | 1,277,281 | 9,240,135 |
| Total capital assets not depreciated | $ 3,488,054 | $ 8,220,778 | $ 1,277,281 | $ 10,431,551 |
| Capital assets depreciated | | | | |
| Buildings | $ 13,462,816 | $ 9,440 | $ - | $ 13,472,256 |
| Land improvements | 695,424 | - | - | 695,424 |
| Fixed equipment | 3,925,917 | - | - | 3,925,917 |
| Major movable equipment | 7,548,072 | 1,146,761 | 139,700 | 8,555,133 |
| Total capital assets depreciated | $ 25,632,229 | $ 1,156,201 | $ 139,700 | $ 26,648,730 |
| Less: accumulated depreciation for | | | | |
| Buildings | $ 6,436,505 | $ 404,939 | $ - | $ 6,841,444 |
| Land improvements | 434,966 | 29,371 | - | 464,337 |
| Fixed equipment | 2,560,650 | 156,637 | - | 2,717,287 |
| Major movable equipment | 6,313,496 | 616,617 | 136,348 | 6,793,765 |
| Total accumulated depreciation | $ 15,745,617 | $ 1,207,564 | $ 136,348 | $ 16,816,833 |
| Total capital assets depreciated, net | $ 9,886,612 | $ (51,363) | $ 3,352 | $ 9,831,897 |
| Business-Type Activities Capital Assets, Net | $ 13,374,666 | $ 8,169,415 | $ 1,280,633 | $ 20,263,448 |

Construction in progress at June 30, 2015, consists of expenditures for a clinic and hospice building project and various other remodeling and equipment projects.

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

| | | |
|---|---|---|
| Governmental Activities | | |
| General government | $ | 224,539 |
| Public safety | | 180,280 |
| Highways and streets, including depreciation of infrastructure assets | | 1,339,189 |
| Sanitation | | 6,555 |
| Total Depreciation Expense - Governmental Activities | $ | 1,750,563 |
| Business-Type Activities | | |
| Medical Center | $ | 1,207,564 |

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

1. Due To/From Other Funds

| | | Interfund Receivable | | Interfund Payable |
|---|---|---|---|---|
| General Fund | $ | 158 | $ | 16,217 |
| Road and Bridge Special Revenue Fund | | 16,297 | | 158 |
| Ditch Special Revenue Fund | | - | | 80 |
| Medical Facility Bonds Debt Service Fund | | - | | 22,792 |
| Total governmental funds | $ | 16,455 | $ | 39,247 |
| Medical Center Enterprise Fund | | 22,794 | | - |
| Total | $ | 39,249 | $ | 39,247 |
| Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2015 | | (2) | | - |
| Total | $ | 39,247 | $ | 39,247 |

2. 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 | $ - | $ 200,596 |
| Medical Center Enterprise Fund | 231,577 | - |
| Total | $ 231,577 | $ 200,596 |
| Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2015 | (30,981) | - |
| Total | $ 200,596 | $ 200,596 |

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

2. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2015, were as follows:

| | Governmental Activities | Business-Type Activities |
|---|---|---|
| Accounts payable | $ 434,421 | $ 3,489,701 |
| Salaries payable | 235,800 | 244,452 |
| Payroll taxes and other | - | 59,889 |
| Contracts payable | 316,025 | - |
| Due to other governments | 3,086 | - |
| Compensated absences | - | 557,273 |
| Total Payables | $ 989,332 | $ 4,351,315 |

2. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources in the governmental funds 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, 2015, are summarized below by fund:

| | Special Assessments | Taxes | Grants | Interest | Total |
|---|---|---|---|---|---|
| Governmental funds | | | | | |
| General Fund | $ 296,793 | $ 20,570 | $ - | $ 12,452 | $ 329,815 |
| Special Revenue Funds | | | | | |
| Road and Bridge | - | 6,805 | 2,030,978 | 2,259 | 2,040,042 |
| Family Services | - | 8,426 | - | - | 8,426 |
| Medical Facility Bonds Debt Service Fund | - | 5,289 | - | - | 5,289 |
| Total | $ 296,793 | $ 41,090 | $ 2,030,978 | $ 14,711 | $ 2,383,572 |
| Deferred inflows of resources Unavailable revenue | $ 296,793 | $ 41,090 | $ 2,030,978 | $ 14,711 | $ 2,383,572 |

2. 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 $37,730 of current 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 | $ 22,792 | $ (22,794) |

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, 2015, and business-type activities, reported as of June 30, 2015.

4. Construction Commitments

The County has active construction projects as of December 31, 2015. The projects include the following:

| | Spent-to-Date | Remaining Commitment |
|---|---|---|
| Business-Type Activities | | |
| Medical Center Enterprise Fund | | |
| Remodeling and equipment projects | $ 9,240,135 | $ 19,250,000 |

2. 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, 2015, for all operating leases was $339,125. Minimum future lease payments for the operating leases are as follows:

| Year Ending June 30 | Principal |
|---|---|
| 2016 | $ 94,521 |
| 2017 | 7,345 |
| Total | $ 101,866 |

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.

## 2. 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, 2015 |
|---|---|---|---|---|---|
| 2005 Redwood River CWP Project | 2017 | $2,668 | 2.00 | $ 48,149 | $ 10,411 |
| 2009 Redwood River CWP Project | 2021 | $376 | 2.00 | 6,783 | 4,231 |
| 2011 Rock River Septic Loan Program | 2022 | $5,980 | 2.00 | 105,501 | 82,915 |
| 2011 Pipestone County Ag Best Management Loan Program | 2020 | $1,324 - $9,491 | N/A | 80,683 | 60,216 |
| 2013 Rock River Septic Loan Program | 2026 | $5,763 | 2.00 | 37,306 | 37,306 |
| Total Loans Payable | | | | $ 278,422 | $ 195,079 |

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, 2015 |
|---|---|---|---|---|---|
| Medical Center Revenue Bond Anticipation Notes, Series 2014 | 2017 | $18,065,000 | 0.85 | $ 18,065,000 | $ 18,065,000 |
| Medical Center Revenue Bonds, Series 2014A | 2043 | Variable | 4.70 | 6,300,000 | 6,300,000 |
| Medical Center Revenue Bonds, Series 2014B | 2043 | Variable | 3.44 | 700,000 | 700,000 |
| G.O. Hospital Refunding Bonds, Series 2013A | 2022 | $170,000 - $205,000 | 2.25 | 1,562,639 | 1,350,000 |
| Health Facilities Revenue Note, Series 2001 | 2018 | $240,000 - $290,000 | Variable | 3,075,000 | 885,360 |
| Plus: unamortized premium | | | | | 42,638 |
| Total G.O. Bonds and Revenue Notes | | | | | $ 27,342,998 |

2. 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, 2015, were as follows:

| Year Ending December 31 | Principal | Interest |
|---|---|---|
| 2016 | $ 27,318 | $ 1,871 |
| 2017 | 27,975 | 1,545 |
| 2018 | 23,290 | 1,240 |
| 2019 | 23,883 | 1,010 |
| 2020 | 21,162 | 775 |
| 2021 - 2022 | 34,145 | 888 |
| Totals | $ 157,773 | $ 7,329 |

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, 2015, were as follows:

| Year Ending December 31 | Principal | Interest |
|---|---|---|
| 2016 | $ 427,917 | $ 540,953 |
| 2017 | 18,507,067 | 502,159 |
| 2018 | 690,376 | 356,382 |
| 2019 | 320,000 | 337,331 |
| 2020 | 325,000 | 326,912 |
| 2021 - 2025 | 1,170,000 | 1,478,245 |
| 2026 - 2030 | 990,000 | 1,257,015 |
| 2031 - 2035 | 1,255,000 | 992,327 |
| 2036 - 2040 | 1,580,000 | 658,078 |
| 2041 - 2043 | 2,035,000 | 212,832 |
| Totals | $ 27,300,360 | $ 6,662,234 |

2. 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, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Loans payable | $ 221,754 | $ - | $ 26,675 | $ 195,079 | $ 27,318 |
| Compensated absences | 223,639 | 196,233 | 180,044 | 239,828 | 25,076 |
| Governmental Activities Long-Term Liabilities | $ 445,393 | $ 196,233 | $ 206,719 | $ 434,907 | $ 52,394 |

For the governmental activities, compensated absences are liquidated by the General Fund and the Road and Bridge Special Revenue Fund.

Business-Type Activities

Activity for the year ended June 30, 2015, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | | | | | |
| Medical Center Revenue Bonds | $ - | $ 25,065,000 | $ - | $ 25,065,000 | $ - |
| G.O. Refunding Bonds, Series 2013A | 1,520,000 | - | 170,000 | 1,350,000 | 180,000 |
| Plus: unamortized premium | 42,638 | - | - | 42,638 | - |
| Total bonds payable | $ 1,562,638 | $ 25,065,000 | $ 170,000 | $ 26,457,638 | $ 180,000 |
| Health Facilities Revenue Note, Series 2001 | 1,124,396 | - | 239,036 | 885,360 | 241,784 |
| Business-Type Activities Long-Term Liabilities | $ 2,687,034 | $ 25,065,000 | $ 409,036 | $ 27,342,998 | $ 421,784 |

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

8. Changes in Long-Term Liabilities

Business-Type Activities (Continued)

Pipestone County issued the Series 2014 and 2013A General Obligation Bonds for the purpose of providing funds for the Medical Center. The debt has been reflected in the Medical Center's financial statements in order to properly reflect the financial position of the Medical Center, although the County is responsible for all principal and interest payments.

Under the terms of the general obligation indenture, certain limitations have been placed on the Medical Center related to the incurrence of additional borrowings. In addition, the bond indenture requires the Medical Center to satisfy certain measures as long as the bonds are outstanding.

The 2014 bonds are made up of three different series as indicated below:

| | |
|---|---|
| Series 2014 | $ 18,065,000 |
| Series 2014A | 6,300,000 |
| Series 2014B | 700,000 |
| Total | $ 25,065,000 |

The bonds were issued to provide funding for the Medical Center's current construction project. The Series 2014 bonds, in the amount of $18,065,000, mature on May 1, 2017. The Medical Center has obtained a loan commitment from the U.S. Department of Agriculture (USDA) for purposes of refinancing the Series 2014 bonds. The USDA loan will have an interest rate of 4.125 percent and will be repaid over 40 years.

2. Detailed Notes on All Funds (Continued)

D. Net Position

Business-Type Activities

Of the $10,866,038 of unrestricted net position in the Medical Center Enterprise Fund reported as of June 30, 2015, $10,857,332 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.

3. Pension Plan

A. Defined Benefit Pension Plans

1. Plan Description

All full-time and certain part-time employees of Pipestone County and the Medical Center 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which 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. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

3. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent

3. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

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

For General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

| | |
|---|---|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.50 |
| Public Employees Police and Fire Fund | 16.20 |
| Public Employees Correctional Fund | 8.75 |

3. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

The County's contributions for the year ended December 31, 2015, and the Medical Center's contributions for the year ended June 30, 2015, to the pension plans were:

| | | |
|---|---|---|
| General Employees Retirement Fund | $ | 784,385 |
| Public Employees Police and Fire Fund | | 108,158 |
| Public Employees Correctional Fund | | 37,338 |

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of $2,187,023 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0422 percent. It was 0.0440 percent measured as of June 30, 2014. The County recognized pension expense of $269,873 for its proportionate share of the General Employees Retirement Fund's pension expense.

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

At June 30, 2015, the Medical Center reported a liability of $7,291,991 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the net pension liability was based on the Medical Center's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the Medical Center's proportion was 0.1553 percent.

For the year ended June 30, 2015, the Medical Center recognized pension expense of $539,070 for its proportionate share of General Employees Retirement Fund's pension expense.

The County and the Medical Center reported their proportionate shares of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 111,959 | $ 110,263 |
| Changes in actuarial assumptions | 751,845 | - |
| Difference between projected and actual investment earnings | 207,035 | - |
| Changes in proportion | - | 2,034,577 |
| Contributions paid to PERA subsequent to the measurement date | 690,171 | - |
| Total | $ 1,761,010 | $ 2,144,840 |

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

Of the $690,171 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, $594,963 will be recognized by the Medical Center as a reduction of the net pension liability in the year ended June 30, 2016, and $95,208 will be recognized by the County as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended June 30 and December 31 | Pension Expense Amount |
|---|---|
| 2016 | $ (210,990) |
| 2017 | (210,990) |
| 2018 | (210,990) |
| 2019 | (441,031) |

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of $874,900 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.077 percent. It was 0.074 percent measured as of June 30, 2014. The County recognized pension expense of $155,671 for its proportionate share of the Public Employees Police and Fire Fund's pension expense.

3. Pension Plans

   A. Defined Benefit Pension Plans

      4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The County also recognized $6,930 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Fund. Legislation requires the State of Minnesota to contribute $9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ - | $ 141,880 |
| Difference between projected and actual investment earnings | 152,437 | - |
| Changes in proportion | 27,001 | - |
| Contributions paid to PERA subsequent to the measurement date | 54,742 | - |
| Total | $ 234,180 | $ 141,880 |

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The $54,742 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---|---|
| 2016 | $ 15,133 |
| 2017 | 15,133 |
| 2018 | 15,133 |
| 2019 | 15,133 |
| 2020 | (22,974) |

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of $37,104 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.24 percent. It was 0.24 percent measured as of June 30, 2014. The County recognized pension expense of $39,636 for its proportionate share of the Public Employees Correctional Fund's pension expense.

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The County reported its proportionate share of the Public Employees Correctional Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ - | $ 14,206 |
| Difference between projected and actual investment earnings | 30,929 | - |
| Contributions paid to PERA subsequent to the measurement date | 18,187 | - |
| Total | $ 49,116 | $ 14,206 |

The $18,187 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | Pension Expense Amount |
|---|---|
| 2016 | $ 2,997 |
| 2017 | 2,997 |
| 2018 | 2,997 |
| 2019 | 7,732 |

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was $465,180.

5. Actuarial Assumptions

The total pension liabilities in the June 30, 2014 and the June 30, 2015, actuarial valuations were determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

| | |
|---|---|
| Inflation | 2.75 percent per year |
| Active member payroll growth | 3.50 percent per year |
| Investment rate of return | 7.90 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2014, and the June 30, 2015, valuations were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

3. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions in the General Employees Retirement Fund occurred in 2014:

- As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2016. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2031.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic stocks | 45% | 5.50% |
| International stocks | 15 | 6.00 |
| Bonds | 18 | 1.45 |
| Alternative assets | 20 | 6.40 |
| Cash | 2 | 0.50 |

3. Pension Plans

   A. Defined Benefit Pension Plans (Continued)

      6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

      7. Pension Liability Sensitivity

The following presents the County's and the Medical Center's proportionate shares of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's and the Medical Center's proportionate shares of the net pension liability would be if they were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate (6.9%) | Discount Rate (7.9%) | 1% Increase in Discount Rate (8.9%) |
|---|---|---|---|
| Proportionate share of the | | | |
| General Employees Retirement Fund net pension liability | $ 15,198,961 | $ 9,479,014 | $ 4,774,865 |
| Public Employees Police and Fire Fund net pension liability | 1,705,190 | 874,900 | 188,936 |
| Public Employees Correctional Fund net pension liability (asset) | 258,398 | 37,104 | (140,021) |

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

B. Defined Contribution Plan

Two Commissioners and the Sheriff 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. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

| | Employee | Employer |
|---|---|---|
| Contribution amount | $ 6,046 | $ 6,046 |
| Percentage of covered payroll | 5% | 5% |

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and 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 $490,000 per claim in 2015 and $500,000 in 2016. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The 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.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2015, the Lincoln-Pipestone Rural Water System had $32,402,123 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 (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted Board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties be required to 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 participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

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

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.

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 and Redwood Counties petitioned to join SWHHS. Redwood County's health and human services functions and Pipestone County's human service function joined SWHHS as of January 1, 2013.

SWHHS is governed by the:

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

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

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

Financing is provided by state and federal grants and appropriations from member counties. Pipestone County's contribution in 2015 for the human services function was $1,169,876, and its contribution to the health services function was $69,571.

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

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 Des Moines Valley Health and Human Services (DVHHS) acts as fiscal agent.

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.

5. Summary of Significant Contingencies and Other Items

   B. Joint Ventures (Continued)

      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.

      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, 2015, were $32,402,123.

      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.

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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 in 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.

PrimeWest Rural Minnesota Health Care Access Initiative

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, 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 Rural Minnesota Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership 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 Rural Minnesota Health Care Access Initiative 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.

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

PrimeWest Rural Minnesota Health Care Access Initiative (Continued)

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 Rural Minnesota Health Care Access Initiative 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 Rural Minnesota Health Care Access Initiative, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

Supporting Hands Nurse Family Partnership Board

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 2015, Pipestone County did not make a contribution to the Board, as a contribution was made by Southwest Health and Human Services.

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

McLeod County acts as fiscal agent for the Supporting Hands Nurse Family Partnership Board. A complete financial report of the Supporting Hands Nurse Family Partnership Board can be obtained from McLeod County at Supporting Hands Nurse Family Partnership Board, 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 based on the allocations it receives.

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 $278,016 in the year ended June 30, 2015, for the use of the equipment. The Medical Center also received distributions of $128,190 from CMDI for the year ended June 30, 2015. At June 30, 2015, the Medical Center owned 1.0 percent of CMDI.

Southwestern Mental Health Center, Inc.

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

In 2015, Pipestone County paid $700 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.

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

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 make any payments to this organization in 2015.

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

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

Financing is provided by the appropriations from member parties and by state and federal grants. During 2015, Pipestone County did not contribute to the Joint Powers Board.

Buffalo Ridge Regional Transit

Buffalo Ridge Regional Transit System (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 transportation departments.

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Buffalo Ridge Regional Transit (Continued)

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 2015. This funding cap is set for each year not later than September 1 of the preceding calendar year.

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 2015, Pipestone County paid $1,000 to the Board.

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

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

Intelligent Transit System 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 Brown, Martin, Meeker, Pipestone, Sherburne, and Wright. 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 2015, 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 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 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 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 paid $59,776 to the MCCC.

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Criminal Justice Data Communications Network

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

Southwest Minnesota Public Safety Board

The Southwest Minnesota Public Safety Board was established June 29, 2012, by a joint powers agreement between Lyon, Murray, Nobles, Pipestone, Redwood, and Yellow Medicine Counties, and the 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 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. During the year, Pipestone County made payments of $4,000 to the Southwest Minnesota Public Safety Board.

D. Agricultural Best Management Loan Program

Pipestone 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.

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

E. Subsequent Event

On February 2, 2016, the Board of Commissioners authorized the issuance of bonds to refund the General Obligation Water Revenue Refunding Bonds, Series 2010A, on behalf of Lincoln-Pipestone Rural Water System. On March 15, 2016, the Board finalized the sale of General Obligation Water Revenue Refunding Bonds, Series 2016A, for a total principal amount for $1,080,000. The term of the bonds is 12 years with principal payments starting on January 1, 2019. The refunding of the 2010 bonds will be conducted by means of a crossover refunding mechanism. Lincoln-Pipestone Rural Water System will continue to make payments on the refunded bonds through the call date of January 1, 2018.

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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, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 3,472,550 | $ 3,472,550 | $ 3,347,834 | $ (124,716) |
| Special assessments | 244,000 | 244,000 | 273,299 | 29,299 |
| Licenses and permits | 12,875 | 12,875 | 15,180 | 2,305 |
| Intergovernmental | 977,071 | 977,071 | 1,297,391 | 320,320 |
| Charges for services | 1,481,424 | 1,481,424 | 1,474,250 | (7,174) |
| Fines and forfeits | 7,000 | 7,000 | 6,801 | (199) |
| Gifts and contributions | 3,000 | 3,000 | 33,033 | 30,033 |
| Investment earnings | 90,000 | 90,000 | 100,275 | 10,275 |
| Miscellaneous | 360,776 | 360,776 | 402,283 | 41,507 |
| **Total Revenues** | **$ 6,648,696** | **$ 6,648,696** | **$ 6,950,346** | **$ 301,650** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **General government** | | | | |
| Commissioners | $ 185,610 | $ 185,610 | $ 176,131 | $ 9,479 |
| Travel management | 8,000 | 8,000 | 1,988 | 6,012 |
| Court administration | 47,000 | 47,000 | 63,580 | (16,580) |
| Law library | 12,000 | 12,000 | 8,096 | 3,904 |
| County administrator | 126,697 | 126,697 | 125,758 | 939 |
| Auditor | 231,350 | 231,350 | 233,009 | (1,659) |
| Treasurer | 196,536 | 196,536 | 192,466 | 4,070 |
| Independent audit | 50,000 | 50,000 | 48,088 | 1,912 |
| Human resources | 74,361 | 74,361 | 80,876 | (6,515) |
| Data processing | 123,270 | 123,270 | 102,920 | 20,350 |
| Elections | 5,050 | 5,050 | 8,222 | (3,172) |
| Information technology | 380,037 | 380,037 | 317,976 | 62,061 |
| Attorney | 216,973 | 216,973 | 212,111 | 4,862 |
| Recorder | 135,399 | 135,399 | 127,123 | 8,276 |
| Assessor | 263,162 | 263,162 | 260,042 | 3,120 |
| Planning and zoning | 43,773 | 43,773 | 39,710 | 4,063 |
| Geographic information system | 5,100 | 5,100 | 2,610 | 2,490 |
| County recorder | 42,350 | 42,350 | 85,587 | (43,237) |
| Building and plant | 285,959 | 285,959 | 268,384 | 17,575 |
| Fairgrounds | 67,850 | 67,850 | 216,282 | (148,432) |
| Public service building | 19,300 | 19,300 | 89,858 | (70,558) |
| Veterans service | 60,538 | 60,538 | 62,629 | (2,091) |
| County-wide transportation | 445,218 | 445,218 | 442,066 | 3,152 |
| Other general government | 261,400 | 261,400 | 221,910 | 39,490 |
| **Total general government** | **$ 3,286,933** | **$ 3,286,933** | **$ 3,387,422** | **$ (100,489)** |

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures** | | | | |
| **Current (Continued)** | | | | |
| **Public safety** | | | | |
| Sheriff | $ 1,314,635 | $ 1,314,635 | $ 1,304,121 | $ 10,514 |
| Dispatch | 307,000 | 307,000 | 290,542 | 16,458 |
| Coroner | 3,000 | 3,000 | 5,080 | (2,080) |
| County jail | 454,500 | 454,500 | 401,372 | 53,128 |
| Probation | 92,764 | 92,764 | 74,338 | 18,426 |
| Emergency management | 114,407 | 114,407 | 108,419 | 5,988 |
| E-911 system | 114,000 | 114,000 | 135,349 | (21,349) |
| County ambulance | 439,232 | 439,232 | 424,589 | 14,643 |
| **Total public safety** | **$ 2,839,538** | **$ 2,839,538** | **$ 2,743,810** | **$ 95,728** |
| **Sanitation** | | | | |
| SCORE/recycling/solid waste | **$ 243,350** | **$ 243,350** | **$ 218,210** | **$ 25,140** |
| **Culture and recreation** | | | | |
| Senior citizen service | $ 3,000 | $ 3,000 | $ 3,000 | $ - |
| Hiawatha trails | 30,000 | 30,000 | 32,550 | (2,550) |
| Parks | 3,700 | 3,700 | 4,355 | (655) |
| Other | 38,710 | 38,710 | 38,249 | 461 |
| **Total culture and recreation** | **$ 75,410** | **$ 75,410** | **$ 78,154** | **$ (2,744)** |
| **Conservation of natural resources** | | | | |
| Agricultural inspection | $ 29,940 | $ 29,940 | $ 29,487 | $ 453 |
| County extension | 189,585 | 189,585 | 182,335 | 7,250 |
| Other | 231,447 | 231,447 | 247,536 | (16,089) |
| **Total conservation of natural resources** | **$ 450,972** | **$ 450,972** | **$ 459,358** | **$ (8,386)** |
| **Economic development** | | | | |
| Economic development | **$ 6,775** | **$ 6,775** | **$ 6,775** | **$ -** |
| **Intergovernmental** | | | | |
| Health | $ 69,571 | $ 69,571 | $ 69,571 | $ - |
| Culture and recreation | 51,651 | 51,651 | 51,651 | - |
| **Total intergovernmental** | **$ 121,222** | **$ 121,222** | **$ 121,222** | **$ -** |

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

*EXHIBIT A-1*
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Expenditures (Continued)** | | | | |
| **Debt service** | | | | |
| Principal | $ 18,000 | $ 18,000 | $ 26,675 | $ (8,675) |
| Interest | 1,600 | 1,600 | 2,190 | (590) |
| **Total debt service** | **$ 19,600** | **$ 19,600** | **$ 28,865** | **$ (9,265)** |
| **Total Expenditures** | **$ 7,043,800** | **$ 7,043,800** | **$ 7,043,816** | **$ (16)** |
| **Excess of Revenues Over (Under) Expenditures** | **$ (395,104)** | **$ (395,104)** | **$ (93,470)** | **$ 301,634** |
| **Other Financing Sources (Uses)** | | | | |
| Loans issued | $ 30,000 | $ 30,000 | $ - | $ (30,000) |
| Proceeds from sale of capital assets | - | - | 3,100 | 3,100 |
| **Total Other Financing Sources (Uses)** | **$ 30,000** | **$ 30,000** | **$ 3,100** | **$ (26,900)** |
| **Net Change in Fund Balance** | **$ (365,104)** | **$ (365,104)** | **$ (90,370)** | **$ 274,734** |
| **Fund Balance - January 1** | **5,467,554** | **5,467,554** | **5,467,554** | **-** |
| **Fund Balance - December 31** | **$ 5,102,450** | **$ 5,102,450** | **$ 5,377,184** | **$ 274,734** |

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

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

***EXHIBIT A-2***

**BUDGETARY COMPARISON SCHEDULE**
**ROAD AND BRIDGE SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Taxes | $ 967,823 | $ 967,823 | $ 924,741 | $ (43,082) |
| Intergovernmental | 5,316,673 | 5,316,673 | 5,429,670 | 112,997 |
| Charges for services | 315,000 | 315,000 | 115,130 | (199,870) |
| Investment earnings | 10,000 | 10,000 | 10,239 | 239 |
| Miscellaneous | 171,650 | 171,650 | 208,520 | 36,870 |
| **Total Revenues** | **$ 6,781,146** | **$ 6,781,146** | **$ 6,688,300** | **$ (92,846)** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Highways and streets** | | | | |
| Administration | $ 298,773 | $ 298,773 | $ 256,850 | $ 41,923 |
| Maintenance | 1,371,213 | 1,371,213 | 1,408,262 | (37,049) |
| Construction | 4,220,579 | 4,220,579 | 4,526,192 | (305,613) |
| Equipment maintenance and shops | 590,756 | 590,756 | 352,807 | 237,949 |
| **Total highways and streets** | **$ 6,481,321** | **$ 6,481,321** | **$ 6,544,111** | **$ (62,790)** |
| **Intergovernmental** | | | | |
| Highways and streets | 299,825 | 299,825 | 316,731 | (16,906) |
| **Total Expenditures** | **$ 6,781,146** | **$ 6,781,146** | **$ 6,860,842** | **$ (79,696)** |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ (172,542)** | **$ (172,542)** |
| **Fund Balance - January 1** | **2,673,281** | **2,673,281** | **2,673,281** | **-** |
| **Increase (decrease) in inventories** | **-** | **-** | **173,081** | **173,081** |
| **Fund Balance - December 31** | **$ 2,673,281** | **$ 2,673,281** | **$ 2,673,820** | **$ 539** |

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE**
**FAMILY SERVICES SPECIAL REVENUE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | $ 1,144,792 | $ 1,144,792 | $ 1,095,995 | $ (48,797) |
| Intergovernmental | - | - | 74,881 | 74,881 |
| Investment earnings | - | - | 4,605 | 4,605 |
| **Total Revenues** | **$ 1,144,792** | **$ 1,144,792** | **$ 1,175,481** | **$ 30,689** |
| **Expenditures** | | | | |
| **Intergovernmental** | | | | |
| Social services | 1,144,792 | 1,144,792 | 1,169,876 | (25,084) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 5,605** | **$ 5,605** |
| **Fund Balance - January 1** | **920,730** | **920,730** | **920,730** | **-** |
| **Fund Balance - December 31** | **$ 920,730** | **$ 920,730** | **$ 926,335** | **$ 5,605** |

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

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

*EXHIBIT A-4*

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**
**PERA GENERAL EMPLOYEES RETIREMENT FUND - PIPESTONE COUNTY**
**DECEMBER 31, 2015**

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2015 | 0.0422% | $ 2,187,023 | $ 2,482,283 | 88.11% | 78.19% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

*EXHIBIT A-5*

**SCHEDULE OF CONTRIBUTIONS**
**PERA GENERAL EMPLOYEES RETIREMENT FUND - PIPESTONE COUNTY**
**DECEMBER 31, 2015**

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2015 | $ 189,422 | $ 189,422 | $ - | $ 2,525,631 | 7.50% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-6*

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA GENERAL EMPLOYEES RETIREMENT FUND - MEDICAL CENTER
### DECEMBER 31, 2015

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2014 | 0.1553% | $ 7,291,991 | $ 8,153,703 | 89.43% | 78.75% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-7*

### SCHEDULE OF CONTRIBUTIONS
### PERA GENERAL EMPLOYEES RETIREMENT FUND - MEDICAL CENTER
### DECEMBER 31, 2015

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2015 | $ 594,963 | $ 594,963 | $ - | $ 8,714,344 | 6.83% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The Medical Center's year-end is June 30.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-8*

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
### DECEMBER 31, 2015

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2015 | 0.077% | $ 874,900 | $ 704,233 | 124.23% | 86.61% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-9*

### SCHEDULE OF CONTRIBUTIONS
### PERA PUBLIC EMPLOYEES POLICE AND FIRE FUND
### DECEMBER 31, 2015

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2015 | $ 108,158 | $ 108,158 | $ - | $ 667,643 | 16.20% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-10*

### SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
### PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
### DECEMBER 31, 2015

| Measurement Date | Employer's Proportion of the Net Pension Liability (Asset) | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | Covered Payroll (b) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| 2015 | 0.24% | $ 37,104 | $ 426,512 | 8.70% | 96.95% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT A-11*

### SCHEDULE OF CONTRIBUTIONS
### PERA PUBLIC EMPLOYEES CORRECTIONAL FUND
### DECEMBER 31, 2015

| Year Ending | Statutorily Required Contributions (a) | Actual Contributions in Relation to Statutorily Required Contributions (b) | Contribution (Deficiency) Excess (b-a) | Covered Payroll (c) | Actual Contributions as a Percentage of Covered Payroll (b/c) |
|---|---|---|---|---|---|
| 2015 | $ 37,338 | $ 37,338 | $ - | $ 426,714 | 8.75% |

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

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 amendments to the budget in the current year.

4. Excess of Expenditures Over Appropriations

| | Expenditures | Appropriation | Excess |
|---|---|---|---|
| General Fund | $ 7,043,816 | $ 7,043,800 | $ 16 |
| Road and Bridge Special Revenue Fund | 6,860,842 | 6,781,146 | 79,696 |
| Family Services Special Revenue Fund | 1,169,876 | 1,144,792 | 25,084 |

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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, 2015**

| | Special Revenue Ditch | Debt Service Medical Facility Bonds | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash and pooled investments | $ 16,269 | $ 259,738 | $ 276,007 |
| Undistributed cash in agency funds | - | 4,079 | 4,079 |
| Taxes receivable | | | |
| Delinquent | - | 5,289 | 5,289 |
| **Total Assets** | **$ 16,269** | **$ 269,106** | **$ 285,375** |
| **Liabilities, Deferred Inflows of Resources, and Fund Balances** | | | |
| **Liabilities** | | | |
| Due to proprietary fund | $ - | $ 22,792 | $ 22,792 |
| Due to other funds | 80 | - | 80 |
| **Total Liabilities** | **$ 80** | **$ 22,792** | **$ 22,872** |
| **Deferred Inflows of Resources** | | | |
| Unavailable revenue | **$ -** | **$ 5,289** | **$ 5,289** |
| **Fund Balances** | | | |
| Restricted for | | | |
| Debt service | $ - | $ 241,025 | $ 241,025 |
| Ditches | 16,189 | - | 16,189 |
| **Total Fund Balances** | **$ 16,189** | **$ 241,025** | **$ 257,214** |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | **$ 16,269** | **$ 269,106** | **$ 285,375** |

**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, 2015**

| | Special Revenue | Debt Service | |
|---|---|---|---|
| | Ditch | Medical Facility Bonds | Total |
| **Revenues** | | | |
| Taxes | $ - | $ 225,520 | $ 225,520 |
| Special assessments | 1,408 | - | 1,408 |
| **Total Revenues** | **$ 1,408** | **$ 225,520** | **$ 226,928** |
| **Expenditures** | | | |
| **Current** | | | |
| Conservation of natural resources | 3,478 | - | 3,478 |
| **Excess of Revenues Over (Under) Expenditures** | **$ (2,070)** | **$ 225,520** | **$ 223,450** |
| **Other Financing Sources (Uses)** | | | |
| Transfers out | - | (200,596) | (200,596) |
| **Net Change in Fund Balance** | **$ (2,070)** | **$ 24,924** | **$ 22,854** |
| **Fund Balance - January 1, as restated (Note 1.E.)** | **18,259** | **216,101** | **234,360** |
| **Fund Balance - December 31** | **$ 16,189** | **$ 241,025** | **$ 257,214** |

## PIPESTONE COUNTY
## PIPESTONE, MINNESOTA

*EXHIBIT B-3*

### BUDGETARY COMPARISON SCHEDULE
### DITCH SPECIAL REVENUE FUND
### FOR THE YEAR ENDED DECEMBER 31, 2015

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Special assessments | $ - | $ - | $ 1,408 | $ 1,408 |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Conservation of natural resources** | | | | |
| Ditch maintenance | 10,400 | 10,400 | 3,478 | 6,922 |
| **Net Change in Fund Balance** | **$ (10,400)** | **$ (10,400)** | **$ (2,070)** | **$ 8,330** |
| **Fund Balance - January 1** | **18,259** | **18,259** | **18,259** | **-** |
| **Fund Balance - December 31** | **$ 7,859** | **$ 7,859** | **$ 16,189** | **$ 8,330** |

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE**
**MEDICAL FACILITY BONDS DEBT SERVICE FUND**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Taxes | **$ 220,894** | **$ 220,894** | **$ 225,520** | **$ 4,626** |
| **Expenditures** | | | | |
| **Debt service** | | | | |
| Principal | $ 189,000 | $ 189,000 | $ - | $ 189,000 |
| Interest | 31,894 | 31,894 | - | 31,894 |
| **Total Expenditures** | **$ 220,894** | **$ 220,894** | **$ -** | **$ 220,894** |
| **Excess of Revenues Over (Under) Expenditures** | **$ -** | **$ -** | **$ 225,520** | **$ 225,520** |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | - | - | (200,596) | (200,596) |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 24,924** | **$ 24,924** |
| **Fund Balance - January 1, as restated (Note 1.E.)** | **216,101** | **216,101** | **216,101** | **-** |
| **Fund Balance - December 31** | **$ 216,101** | **$ 216,101** | **$ 241,025** | **$ 24,924** |

## 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, 2015**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **LINCOLN-PIPESTONE RURAL WATER SYSTEM** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 2,950 | $ 141,847 | $ 139,416 | $ 5,381 |
| **Liabilities** | | | | |
| Due to other governments | $ 2,950 | $ 141,847 | $ 139,416 | $ 5,381 |
| **STATE** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 48,458 | $ 2,012,230 | $ 2,019,067 | $ 41,621 |
| **Liabilities** | | | | |
| Due to other governments | $ 48,458 | $ 2,012,230 | $ 2,019,067 | $ 41,621 |
| **TAXES AND PENALTIES** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 171,407 | $ 14,637,624 | $ 14,640,088 | $ 168,943 |
| **Liabilities** | | | | |
| Due to other governments | $ 171,407 | $ 25,185,909 | $ 25,188,373 | $ 168,943 |

**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, 2015**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|---|---|---|---|---|
| **TOTAL ALL AGENCY FUNDS** | | | | |
| **Assets** | | | | |
| Cash and pooled investments | $ 222,815 | $ 16,791,701 | $ 16,798,571 | $ 215,945 |
| **Liabilities** | | | | |
| Due to other governments | $ 222,815 | $ 27,339,986 | $ 27,346,856 | $ 215,945 |

# OTHER SCHEDULES

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# PIPESTONE COUNTY
# PIPESTONE, MINNESOTA

*EXHIBIT D-1*

## SCHEDULE OF INTERGOVERNMENTAL REVENUE
## FOR THE YEAR ENDED DECEMBER 31, 2015

| | | Governmental Funds |
|---|---|---|
| **Appropriations and Shared Revenue** | | |
| **State** | | |
| Highway users tax | $ | 4,211,517 |
| Market value credit | | 214,755 |
| PERA rate reimbursement | | 14,804 |
| Disparity reduction aid | | 63,201 |
| Police aid | | 86,402 |
| County program aid | | 174,231 |
| Enhanced 911 | | 80,681 |
| Select Committee on Recycling and the Environment (SCORE) | | 69,692 |
| **Total appropriations and shared revenue** | **$** | **4,915,283** |
| **Reimbursement for Services** | | |
| **State** | | |
| Minnesota Department of | | |
| Corrections | $ | 24,910 |
| Public Safety | | 10,883 |
| **Total reimbursement for services** | **$** | **35,793** |
| **Payments** | | |
| **Local** | | |
| Payments in lieu of taxes | **$** | **70,875** |
| **Grants** | | |
| **State** | | |
| Minnesota Department of | | |
| Corrections | $ | 11,705 |
| Natural Resources | | 37,095 |
| Public Safety | | 97,238 |
| Transportation | | 718,715 |
| Veterans Affairs | | 7,500 |
| Board of Water and Soil Resources | | 87,550 |
| Pollution Control Agency | | 44,599 |
| **Total state** | **$** | **1,004,402** |
| **Federal** | | |
| Department of | | |
| Agriculture | $ | 3,038 |
| Health and Human Services | | 7,611 |
| Homeland Security | | 51,413 |
| Transportation | | 713,527 |
| **Total federal** | **$** | **775,589** |
| **Total state and federal grants** | **$** | **1,779,991** |
| **Total Intergovernmental Revenue** | **$** | **6,801,942** |

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

*EXHIBIT D-2*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED DECEMBER 31, 2015**

| Federal Grantor<br>Pass-Through Agency<br>Program or Cluster Title | Federal CFDA Number | Pass-Through Grant Numbers | Expenditures | Passed Through to Subrecipients |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Passed Through Southwest Health and Human Services | | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 15152MN10152514 | **$ 3,038** | **$ -** |
| **U.S. Department of Transportation** | | | | |
| Passed Through Minnesota Department of Transportation | | | | |
| Highway Planning and Construction | 20.205 | 03969 | $ 7,984 | $ 7,984 |
| Highway Planning and Construction | 20.205 | 05769 | 33,331 | 27,466 |
| Highway Planning and Construction | 20.205 | 00059 | 534,160 | - |
| (Total Highway Planning and Construction CFDA 20.205 $575,475) | | | | |
| Formula Grants for Rural Areas | 20.509 | MN18X08101 | 138,052 | - |
| **Total U.S. Department of Transportation** | | | **$ 713,527** | **$ 35,450** |
| **U.S. Department of Health and Human Services** | | | | |
| Passed Through Southwest Health and Human Services | | | | |
| Temporary Assistance for Needy Families | 93.558 | 1502MNTANF | $ 694 | $ - |
| Child Support Enforcement | 93.563 | 1504MN4005 | 2,708 | - |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 1501MNRCMA | 32 | - |
| Foster Care - Title IV-E | 93.658 | 1501MNFOST | 328 | - |
| Children's Health Insurance Program | 93.767 | 15152MN10152514 | 3 | - |
| Medical Assistance Program | 93.778 | 1505MN5ADM | 3,846 | - |
| **Total U.S. Department of  Health and Human Services** | | | **$ 7,611** | **$ -** |
| **U.S. Department of Homeland Security** | | | | |
| Passed Through Minnesota Department of Public Safety | | | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 4182DRMNP0000001 | $ 16 | $ - |
| Emergency Management Performance Grants | 97.042 | F-EMPG-2014-PIPESTCO-0768 | 20,213 | - |
| Emergency Management Performance Grants | 97.042 | F-EMPG-2015-PIPESTCO-1087 | 31,184 | - |
| (Total Emergency Management Performance Grants CFDA 97.042 $51,397) | | | | |
| **Total U.S. Department of Homeland Security** | | | **$ 51,413** | **$ -** |
| **Total Federal Awards** | | | **$ 775,589** | **$ 35,450** |

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

**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Pipestone County, it is not intended to and does not present the financial position, changes in net position, or cash flows 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, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pipestone County has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**Management and Compliance Section**

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**PIPESTONE COUNTY**
**PIPESTONE, MINNESOTA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

## I. SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

### Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

The major program is:

Highway Planning and Construction CFDA No. 20.205

The threshold for distinguishing between Types A and B programs was $750,000.

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 ITEMS 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.*

Finding 2014-001

Audit Adjustment

**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. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, an adjustment was proposed and recorded to the government-wide governmental activities in the amount of $3,094,210 that resulted in a reduction of revenue. This adjustment was individually material to this opinion unit and was necessary to fairly present deferred inflows of resources - unavailable revenue and related revenues in Pipestone County's 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. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

**Effect:** The following audit adjustment was reviewed and approved by County staff and is reflected in the financial statements: decreased government-wide governmental activities revenue (primarily for property taxes, special assessments, investment earnings, and intergovernmental state grants) by $3,084,210 for revenues that were deferred inflows of resources - unavailable revenue as of December 31, 2014, on the modified accrual fund level statements but earned in the prior year on the full accrual basis.

**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 statement 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 present 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.*

ITEM ARISING THIS YEAR

Finding 2015-001

Prior Period Adjustment

**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. Auditing standards identify one indication of a material weakness in internal control is the restatement of previously issued financial statements to reflect the correction of a material misstatement due to error.

**Condition:** During our audit, we identified a prior period adjustment that resulted in significant changes to the County's financial statements. The December 31, 2014, interfund payable in the Medical Facility Bonds Debt Service Fund was overstated as a result of including incorrect transactions in the amount "due to proprietary fund." The prior period adjustment to restate the County's financial statements was reviewed and approved by the appropriate County staff and is reflected in the financial statements.

**Context:** The need for prior period adjustments can raise doubts as to the reliability of the County's financial information being presented.

**Effect:** The January 1, 2015, government-wide governmental activities net position and fund balance of the Medical Facility Bonds Debt Service Fund was restated (increased) by $222,322.

**Cause:** The balance used to previously record "due to proprietary fund" included unrelated transactions.

**Recommendation:** We recommend County staff review their financial statement closing procedures to ensure they have accurate and complete information necessary to fairly present 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

ITEM ARISING THIS YEAR

Finding 2015-002

Subrecipient Monitoring

**Program:** U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award #03969 (2013), and #05769 (2014)

**Pass-Through Agency:** Minnesota Department of Transportation

**Criteria:** Title 2 U.S. *Code of Federal Regulations* § 200.303 states that the auditee must establish and maintain effective internal control over the federal award that provides reasonable assurance that the auditee is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. In addition, Pipestone County was required to comply with the provisions for Subrecipient Monitoring in Part 3 of the 2015 OMB *Compliance Supplement*, including monitoring the activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements.

**Condition:** The County did not perform monitoring procedures over the subrecipient.

**Questioned Costs:** None.

**Context:** The County passed $35,450 of federal awards to the City of Pipestone during 2015. The federal award date on the project was April 28, 2014.

**Effect:** The County is not meeting federal requirements pertaining to subrecipient monitoring. Also, without performing monitoring procedures, the County cannot be assured that its subrecipient is in compliance with federal regulations over federal awards.

**Cause:** The County had not considered the need for policies and procedures related to subrecipient monitoring and was unaware of subrecipient compliance requirements.

**Recommendation:** We recommend the County implement policies and procedures for monitoring subrecipients, including an assessment of risk, in accordance with OMB Circular A-133 and Title 2 U.S. *Code of Federal Regulations* § 200.331 of the Uniform Guidance, as applicable.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Tyler Reisch, County Auditor*

Corrective Action Planned:

*Implement a set of policies and procedures to ensure the proper monitoring of subrecipients in accordance with Title 2 U.S. Code of Federal Regulations subsection 200.331 of the Uniform Guidance.*

Anticipated Completion Date:

*December 31, 2017*

## IV. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

**Publishing Claims Paid (2014-002)**

During the prior audit, we noted the County was not publishing 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.

**Resolution**

Pipestone County began publishing claims in an itemized list for payments exceeding $2,000 and a total number of claims and a total for payments under $2,000 to comply with statutory requirements.

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.

<u>Client's Response</u>:

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

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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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, 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, 2015, which include the Medical Center as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 1, 2016. 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 auditors' 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.

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2015-001 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 1999-003 to be a significant deficiency.

**Compliance and Other Matters**

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

**Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Counties*, 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 Counties*. 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**

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

**Pipestone County's Response to Findings**

Pipestone County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and 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 Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 1, 2016

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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 the 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) *Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2015. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2015.

***Other Matters***
The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002. Our opinion on the major federal program is not modified with respect to this matter.

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

**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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002, that we consider to be a significant deficiency.

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

**Purpose of This Report**

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

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|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

September 1, 2016