

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR THE YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**For the Year Ended December 31, 2004**



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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2004

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Jamie Dubbelde	January 2005
2nd District	Larry Carstensen <sup>2</sup>	January 2007
3rd District	Marvin Tinklenberg <sup>1</sup>	January 2004
4th District	John "Jack" Keers	January 2007
5th District	Ervin Pribyl	January 2004
<b>Officers</b>		
<b>Elected</b>		
Attorney	James O'Neill	January 2007
Auditor	Joyce Steinhoff	January 2007
Coroner	Dr. Larry Christensen	January 2007
County Recorder	Mary Ann DeGroot	January 2007
Sheriff	Dan Delaney	January 2007
Treasurer	Steve Weets	January 2007
<b>Appointed</b>		
Assessor	Farley Grunig	Temporary
Court Administrator	Steven Schulze	Indefinite
Highway Engineer	David Halbersma	Indefinite
Probation Officer	Charles Ness	Indefinite
Juvenile Probation Officer	Jeff Arendt	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Welfare Director	Brian Buhmann	Indefinite

<sup>1</sup>Chair 2004

<sup>2</sup>Chair 2005

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# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center Enterprise Fund, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us; and our opinion expressed here, insofar as it relates to amounts included for the Medical Center Enterprise Fund, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Pipestone County. The statements and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Pipestone County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2005, 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* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 25, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2004  
(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, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's basic financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

Governmental activities' total net assets are \$41,164,716, of which \$29,757,742 is invested in capital assets and \$1,684,911 is restricted for specific purposes. The unrestricted net assets of \$9,722,063 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$3,499,777 for the year ended December 31, 2004. A large part of that increase is attributable to capital grants for highways and streets.

The net cost of governmental activities for the current fiscal year was \$3,103,540. The net cost was funded by general revenues totaling \$4,775,900.

Fund balances of the governmental funds decreased by \$820,904. Most of the decrease was due to decreases in departmental fees, increases in expenditures, and a reduction in highway allotments and undesignated fund balance.

For the year ended December 31, 2004, the unreserved fund balance of the General Fund was \$5,665,683, or 124 percent of the total General Fund expenditures for the year.

The Pipestone County Medical Center's assets exceeded its liabilities by \$13,102,450 at December 31, 2004. The Medical Center recorded revenues and gains in excess of expenses and losses of \$1,827,417 for the fiscal year ending December 31, 2004.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **Government-Wide Financial Statements**

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

The statement of net assets presents information on all assets and liabilities of the County using the accrual basis of accounting, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

The government-wide statements can be found on Exhibits 1 and 2 of this report.

## **Fund Level Financial Statements**

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

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

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

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

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

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

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

### Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$41,164,716 at the close of 2004. The largest portion of the net assets (72.29 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data for 2003 is presented.

#### Pipestone County Net Assets Governmental Activities

	2004	2003
Assets		
Current and other assets	\$ 12,448,602	\$ 11,981,611
Capital assets	29,912,587	28,429,367
Total Assets	\$ 42,361,189	\$ 40,410,978
Liabilities		
Long-term liabilities	\$ 328,300	\$ 422,210
Other liabilities	868,173	496,412
Total Liabilities	\$ 1,196,473	\$ 918,622

	<u>2004</u>	<u>2003</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 29,757,742	\$ 28,185,999
Restricted	1,684,911	992,422
Unrestricted	<u>9,722,063</u>	<u>10,313,935</u>
 Total Net Assets	 <u>\$ 41,164,716</u>	 <u>\$ 39,492,356</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 23.62 percent of the net assets.

The County's government activities increased net assets by four percent (\$41,164,716 for 2004 compared to \$39,492,356 for 2003). Key elements in this increase in net assets are as follows with comparative amounts from 2003.

**Pipestone County  
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues				
Program revenues				
Charges for services	\$ 1,440,859	\$ 1,110,554	\$ 14,795,429	\$ 12,429,151
Operating grants and contributions	2,717,801	3,883,043	-	-
Capital grants and contributions	2,373,845	691,894	-	-
General revenues				
Property taxes	3,706,498	3,519,670	-	-
Other	<u>1,309,993</u>	<u>1,453,167</u>	<u>114,022</u>	<u>120,906</u>
 Total Revenues	 <u>\$ 11,548,996</u>	 <u>\$ 10,658,328</u>	 <u>\$ 14,909,451</u>	 <u>\$ 12,550,057</u>
Expenses				
General government	\$ 2,259,912	\$ 1,874,135	\$ -	\$ -
Public safety	1,638,941	1,564,463	-	-
Highways and streets	2,502,213	1,548,253	-	-
Sanitation	122,508	142,784	-	-
Human services	2,530,553	2,171,940	-	-
Health	55,833	15,287	-	-
Culture and recreation	129,618	125,668	-	-
Conservation of natural resources	325,827	252,926	-	-
Economic development	59,614	50,000	-	-
Interest	11,026	15,326	-	-
Medical Center	<u>-</u>	<u>-</u>	<u>13,322,625</u>	<u>11,558,657</u>
 Total Expenses	 <u>\$ 9,636,045</u>	 <u>\$ 7,760,782</u>	 <u>\$ 13,322,625</u>	 <u>\$ 11,558,657</u>

	Governmental Activities		Business-Type Activities	
	2004	2003	2004	2003
Excess (Deficiency) Before Transfers	\$ 1,912,951	\$ 2,897,546	\$ 1,586,826	\$ 991,400
Transfers	(240,591)	(192,724)	240,591	192,724
Increase in Net Assets	\$ 1,672,360	\$ 2,704,822	\$ 1,827,417	\$ 1,184,124
Net Assets - January 1	39,492,356	36,787,534	11,275,033	10,090,909
Net Assets - December 31	\$ 41,164,716	\$ 39,492,356	\$ 13,102,450	\$ 11,275,033

Total governmental revenues for the County were \$11,548,996, total expenses were \$9,636,045, and total transfers out were \$240,591. This reflects a \$1,672,360 increase in net assets for the year ended December 31, 2004.

The cost of all governmental activities for the year was \$9,636,045. However, as shown on the statement of activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,706,498 because some of the cost was paid by those who directly benefited from the programs, \$1,440,859, or by other governments and organizations that subsidized certain programs with grants and contributions, \$5,091,646. The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

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

**Pipestone County  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Human services	\$ 2,530,553	\$ 2,171,940	\$ 1,471,881	\$ 819,407
Highways and streets	2,502,213	1,548,253	(1,118,969)	(1,185,707)
General government	2,259,912	1,874,135	1,684,791	1,420,140
Public safety	1,638,941	1,564,463	641,752	678,419
All others	704,426	601,991	424,085	343,032
Totals	\$ 9,636,045	\$ 7,760,782	\$ 3,103,540	\$ 2,075,291

## **FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

### **Governmental Funds**

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$10,022,522, a decrease of \$820,904 in comparison with the prior year. Of the combined ending fund balances, \$9,407,747 represents unreserved fund balance available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$5,665,683. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 124 percent of total General Fund expenditures. During 2004, the ending fund balance decreased by \$34,053. The County received \$20,360 less in revenue than expected and overspent its budget by \$21,633.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,886,713 at fiscal year-end, representing 46 percent of its annual expenditures. The ending fund balance decreased \$507,944 during 2004.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,404,223 at fiscal year-end, representing 54 percent of its annual expenditures. The ending fund balance decreased \$289,034 during 2004.

### **Proprietary Fund**

The statement of net assets at December 31, 2004, for the Pipestone County Medical Center indicates total assets of \$20,460,364, total liabilities of \$7,357,914, and net assets of \$13,102,450. Total current assets were \$7,122,241, and total current liabilities were \$1,935,381, for a current ratio of 3.68--up from 3.08 at December 31, 2003. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of \$14,795,429 and total operating expenses of \$13,258,764 for an operating income of \$1,536,665.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the County Board did not revise the General Fund budget. No budget amendments were made.

The actual charges to appropriations (expenditures) were \$21,633 over the final budget amounts. The most significant variance occurred in the construction expenditure for a courthouse back-up generator in the amount of \$258,254.

On the other hand, resources available for appropriation were also \$20,360 under the final budgeted amount. Greater than expected collections for certain fees, an insurance dividend, and miscellaneous items offset reductions in anticipated investment earnings.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2004, totaled \$29,912,587 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,483,220, or five percent, over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure.

	<b>Capital Assets at Year-End (Net of Depreciation)</b>	
	<u>2004</u>	<u>2003</u>
Land and other nondepreciated assets	\$ 1,212,267	\$ 1,171,911
Land improvements	287,632	298,463
Infrastructure	24,697,599	23,275,066
Buildings	2,324,371	2,378,737
Machinery and equipment	<u>1,390,718</u>	<u>1,305,190</u>
Total	<u>\$ 29,912,587</u>	<u>\$ 28,429,367</u>

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

Pipestone County Medical Center's capital assets at December 31, 2004, amounted to \$9,853,611 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

## Long-Term Debt

At December 31, 2004, the County had the following outstanding debt:

### Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds 1995 G. O. Courthouse Bonds	2005	\$50,000 to \$70,000	4.60 to 5.00	<u>\$ 605,000</u>	<u>\$ 70,000</u>

### Business-Type Activities

At year-end, Pipestone County Medical Center had total long-term debt outstanding of \$5,671,879, which is for a portion of the hospital expansion and remodeling project. The project was principally completed in May 2003 and is allowing for better care to patients, improved physical conditions, and enhanced equipment. The new rehabilitation and surgery areas are vastly expanded from the previous layout and are benefiting us 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 2005 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Pipestone County at the end of 2004 was 3.8 percent. This compares favorably with the state unemployment rate of 4.3 percent and shows a 0.1 percent decrease from the County's rate of one year ago. The 2004 County population is estimated at 9,589, a decrease of 306 from the 2000 census of 9,895.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The property tax levy for the County decreased 3.9 percent (\$154,441) from 2004.

## 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 Joyce Steinhoff, County Auditor, Pipestone County Courthouse, 416 Hiawatha Avenue South, Pipestone, Minnesota 56164.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2004**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 8,672,748	\$ 4,574,578	\$ 13,247,326
Investments	1,716,631	-	1,716,631
Receivables - net	1,934,509	1,937,786	3,872,295
Internal balances	(71,998)	71,998	-
Inventories	196,712	350,036	546,748
Prepaid items	-	187,843	187,843
Assets restricted as to use for			
Capital acquisition and debt redemption	-	2,536,427	2,536,427
Insurance	-	786,000	786,000
Capital assets			
Non-depreciable capital assets	1,212,267	227,692	1,439,959
Depreciable capital assets - net of accumulated depreciation	28,700,320	9,625,919	38,326,239
Other assets			
Investment in Pipestone Medical Center	-	51,266	51,266
Deferred financing costs - net of accumulated amortization	-	110,819	110,819
	<b>\$ 42,361,189</b>	<b>\$ 20,460,364</b>	<b>\$ 62,821,553</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 777,991	\$ 1,628,953	\$ 2,406,944
Accrued interest payable	-	57,320	57,320
Unearned revenue	90,182	-	90,182
Long-term liabilities			
Due within one year	102,306	249,108	351,414
Due in more than one year	225,994	5,422,533	5,648,527
	<b>\$ 1,196,473</b>	<b>\$ 7,357,914</b>	<b>\$ 8,554,387</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 29,757,742	\$ 4,181,970	\$ 33,939,712
Restricted for			
Public safety	4,975	-	4,975
Highways and streets	1,574,241	-	1,574,241
Debt service	94,409	-	94,409
Other purposes	11,286	-	11,286
Unrestricted	9,722,063	8,920,480	18,642,543
	<b>\$ 41,164,716</b>	<b>\$ 13,102,450</b>	<b>\$ 54,267,166</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Governmental activities</b>		
General government	\$ 2,259,912	\$ 302,671
Public safety	1,638,941	866,389
Highways and streets	2,502,213	163,428
Sanitation	122,508	-
Human services	2,530,553	91,277
Health	55,833	-
Culture and recreation	129,618	-
Conservation of natural resources	325,827	17,094
Economic development	59,614	-
Interest	11,026	-
	<b>\$ 9,636,045</b>	<b>\$ 1,440,859</b>
<b>Business-type activities</b>		
Medical Center	13,322,625	14,795,429
	<b>\$ 22,958,670</b>	<b>\$ 16,236,288</b>

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Payments in lieu of tax  
Grants and contributions not restricted  
to specific programs  
Investment income  
Miscellaneous  
Gain on sale of assets

**Transfers**

**Total general revenues and transfers**

**Change in Net Assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 272,450	\$ -	\$ (1,684,791)	\$ -	\$ (1,684,791)
114,696	16,104	(641,752)	-	(641,752)
1,100,013	2,357,741	1,118,969	-	1,118,969
125,889	-	3,381	-	3,381
967,395	-	(1,471,881)	-	(1,471,881)
-	-	(55,833)	-	(55,833)
-	-	(129,618)	-	(129,618)
137,358	-	(171,375)	-	(171,375)
-	-	(59,614)	-	(59,614)
-	-	(11,026)	-	(11,026)
<b>\$ 2,717,801</b>	<b>\$ 2,373,845</b>	<b>\$ (3,103,540)</b>	<b>\$ -</b>	<b>\$ (3,103,540)</b>
-	-	-	1,472,804	1,472,804
<b>\$ 2,717,801</b>	<b>\$ 2,373,845</b>	<b>\$ (3,103,540)</b>	<b>\$ 1,472,804</b>	<b>\$ (1,630,736)</b>
		\$ 3,706,498	\$ -	\$ 3,706,498
		10,859	-	10,859
		22,096	-	22,096
		990,879	-	990,879
		277,317	114,022	391,339
		4,902	-	4,902
		3,940	-	3,940
		(240,591)	240,591	-
		<b>\$ 4,775,900</b>	<b>\$ 354,613</b>	<b>\$ 5,130,513</b>
		<b>\$ 1,672,360</b>	<b>\$ 1,827,417</b>	<b>\$ 3,499,777</b>
		<b>39,492,356</b>	<b>11,275,033</b>	<b>50,767,389</b>
		<b>\$ 41,164,716</b>	<b>\$ 13,102,450</b>	<b>\$ 54,267,166</b>

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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, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 5,787,488	\$ 795,941	\$ 1,470,876	\$ 411,236	\$ 8,465,541
Undistributed cash in agency funds	63,303	18,270	26,489	4,558	112,620
Petty cash and change funds	3,025	100	-	-	3,125
Departmental cash	91,462	-	-	-	91,462
Investments	49,632	1,469,115	-	197,884	1,716,631
Taxes receivable					
Prior	29,433	10,095	13,931	6,526	59,985
Special assessments receivable					
Prior	8,090	-	-	-	8,090
Accounts receivable	19,235	3,644	5,097	-	27,976
Accrued interest receivable	48,422	8,394	-	3,857	60,673
Loans receivable	-	-	40,000	-	40,000
Due from other funds	980	4,842	-	-	5,822
Due from other governments	145,257	1,487,707	104,821	-	1,737,785
Inventories	-	196,712	-	-	196,712
<b>Total Assets</b>	<b><u>\$ 6,246,327</u></b>	<b><u>\$ 3,994,820</u></b>	<b><u>\$ 1,661,214</u></b>	<b><u>\$ 624,061</u></b>	<b><u>\$ 12,526,422</u></b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 110,565	\$ 44,278	\$ 100,816	\$ -	\$ 255,659
Salaries payable	211,605	68,928	78,466	-	358,999
Contracts payable	18,716	118,814	-	-	137,530
Due to other funds	4,842	-	980	71,998	77,820
Due to other governments	-	3,005	22,798	-	25,803
Deferred revenue - unavailable	37,523	1,499,927	13,931	6,526	1,557,907
Deferred revenue - unearned	90,182	-	-	-	90,182
<b>Total Liabilities</b>	<b>\$ 473,433</b>	<b>\$ 1,734,952</b>	<b>\$ 216,991</b>	<b>\$ 78,524</b>	<b>\$ 2,503,900</b>
<b>Fund Balances</b>					
Reserved for					
Debt service	\$ -	\$ -	\$ -	\$ 94,409	\$ 94,409
Encumbrances	-	68,577	-	-	68,577
Inventories	-	196,712	-	-	196,712
Loans receivable	-	-	40,000	-	40,000
Missing heirs	3,971	-	-	-	3,971
Law library	50,077	-	-	-	50,077
Recorder's equipment purchases	7,315	-	-	-	7,315
Sheriff's contingency	4,975	-	-	-	4,975
Transportation	40,873	-	-	-	40,873
Highway allotments	-	107,866	-	-	107,866
Unreserved					
Designated for debt service	85,846	-	-	-	85,846
Designated for workers' compensation	10,000	-	-	-	10,000
Designated for parks	20,000	-	-	-	20,000
Undesignated	5,549,837	1,886,713	1,404,223	-	8,840,773
Nonmajor special revenue funds	-	-	-	451,128	451,128
<b>Total Fund Balances</b>	<b>\$ 5,772,894</b>	<b>\$ 2,259,868</b>	<b>\$ 1,444,223</b>	<b>\$ 545,537</b>	<b>\$ 10,022,522</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,246,327</b>	<b>\$ 3,994,820</b>	<b>\$ 1,661,214</b>	<b>\$ 624,061</b>	<b>\$ 12,526,422</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2004**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>10,022,522</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		29,912,587
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,557,907
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (70,000)	
Capital leases	(84,845)	
Compensated absences	(173,455)	
		(328,300)
<b>Net assets of governmental activities (Exhibit 1)</b>		<b>\$ 41,164,716</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 1,887,230	\$ 648,236	\$ 939,414	\$ 241,337	\$ 3,716,217
Special assessments	124,581	-	-	-	124,581
Licenses and permits	8,871	-	-	-	8,871
Intergovernmental	1,092,111	2,710,007	1,260,771	-	5,062,889
Charges for services	881,940	68,475	10,740	-	961,155
Fines and forfeits	21,886	-	-	-	21,886
Investment earnings	237,620	28,492	-	11,205	277,317
Miscellaneous	273,457	95,866	85,439	-	454,762
<b>Total Revenues</b>	<b>\$ 4,527,696</b>	<b>\$ 3,551,076</b>	<b>\$ 2,296,364</b>	<b>\$ 252,542</b>	<b>\$ 10,627,678</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,226,747	\$ -	\$ -	\$ -	\$ 2,226,747
Public safety	1,603,235	-	-	-	1,603,235
Highways and streets	-	3,848,909	-	-	3,848,909
Sanitation	122,565	-	-	-	122,565
Human services	-	-	2,529,565	-	2,529,565
Culture and recreation	93,331	-	-	-	93,331
Conservation of natural resources	324,211	-	-	1,824	326,035
Economic development	59,614	-	-	-	59,614
<b>Intergovernmental</b>	36,437	221,134	55,833	-	313,404
<b>Debt service</b>					
Principal retirement	88,523	-	-	-	88,523
Interest	10,605	-	-	-	10,605
Administrative (fiscal) fees	421	-	-	-	421
<b>Total Expenditures</b>	<b>\$ 4,565,689</b>	<b>\$ 4,070,043</b>	<b>\$ 2,585,398</b>	<b>\$ 1,824</b>	<b>\$ 11,222,954</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (37,993)</b>	<b>\$ (518,967)</b>	<b>\$ (289,034)</b>	<b>\$ 250,718</b>	<b>\$ (595,276)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers out	\$ -	\$ -	\$ -	\$ (240,591)	\$ (240,591)
Proceeds from sale of assets	3,940	-	-	-	3,940
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 3,940</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (240,591)</b>	<b>\$ (236,651)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (34,053)</b>	<b>\$ (518,967)</b>	<b>\$ (289,034)</b>	<b>\$ 10,127</b>	<b>\$ (831,927)</b>
<b>Fund Balance - January 1</b>	<b>5,806,947</b>	<b>2,767,812</b>	<b>1,733,257</b>	<b>535,410</b>	<b>10,843,426</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>11,023</b>	<b>-</b>	<b>-</b>	<b>11,023</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,772,894</b>	<b>\$ 2,259,868</b>	<b>\$ 1,444,223</b>	<b>\$ 545,537</b>	<b>\$ 10,022,522</b>

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (831,927)**

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,557,907	
Deferred revenue - January 1	<u>(641,773)</u>	916,134

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

Expenditures for general capital assets and infrastructure	\$ 2,478,790	
Current year depreciation	<u>(995,570)</u>	1,483,220

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 70,000	
Capital leases	<u>18,523</u>	88,523

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

Change in compensated absences	\$ 5,387	
Change in inventories	<u>11,023</u>	<u>16,410</u>

**Change in net assets of governmental activities (Exhibit 2)** **\$ 1,672,360**

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**PROPRIETARY FUND**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
DECEMBER 31, 2004**

	<u>Medical Center Enterprise Fund</u>
<b><u>Assets</u></b>	
Current assets	
Cash and cash equivalents	\$ 4,574,578
Accounts receivable - net	101,750
Patient and resident receivables - net	1,836,036
Due from other funds	71,998
Inventories	350,036
Prepaid items	187,843
	\$ 7,122,241
<b>Total current assets</b>	<b>\$ 7,122,241</b>
Noncurrent assets	
Assets restricted as to use for	
Capital acquisition and debt redemption	\$ 2,536,427
Insurance	786,000
	\$ 3,322,427
<b>Total restricted assets</b>	<b>\$ 3,322,427</b>
Capital assets - net	<b>\$ 9,853,611</b>
Other assets	
Investment in Pipestone Medical Clinic	\$ 51,266
Deferred financing costs - net of accumulated amortization of \$32,733	110,819
	\$ 162,085
<b>Total other assets</b>	<b>\$ 162,085</b>
<b>Total Assets</b>	<b>\$ 20,460,364</b>
<b><u>Liabilities</u></b>	
Current liabilities	
Accounts payable	\$ 1,103,691
Salaries payable	186,147
Payroll taxes and other	49,935
Paid time off	289,180
Interest	57,320
Current maturities of long-term debt	249,108
	\$ 1,935,381
<b>Total current liabilities</b>	<b>\$ 1,935,381</b>
Noncurrent liabilities	
Long-term debt, less current maturities	\$ 5,422,533
	\$ 7,357,914
<b>Total Liabilities</b>	<b>\$ 7,357,914</b>
<b><u>Net Assets</u></b>	
Invested in capital assets - net of related debt	\$ 4,181,970
Unrestricted	8,920,480
	\$ 13,102,450
<b>Total Net Assets</b>	<b>\$ 13,102,450</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Medical Center Enterprise Fund</b>
<b>Operating Revenues</b>	
Net patient and resident service revenue	\$ 14,356,901
Miscellaneous	438,528
	<b>\$ 14,795,429</b>
<b>Operating Expenses</b>	
Professional care of patients and residents	\$ 8,713,808
General and administrative	1,808,670
Property and household	934,538
Depreciation and amortization	821,488
Dietary	539,220
Interest	288,979
Provision for bad debts	152,061
	<b>\$ 13,258,764</b>
<b>Operating Income (Loss)</b>	<b>\$ 1,536,665</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 114,022
Gain (loss) on disposal of equipment	(4,153)
Loss on investment in Pipestone Medical Clinic	(59,708)
	<b>\$ 50,161</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>\$ 1,586,826</b>
Transfers in	240,591
	<b>\$ 1,827,417</b>
<b>Change in Net Assets</b>	<b>\$ 1,827,417</b>
<b>Net Assets - January 1</b>	<b>11,275,033</b>
<b>Net Assets - December 31</b>	<b>\$ 13,102,450</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Medical Center Enterprise Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from patient and resident services	\$ 14,413,360
Other revenue	412,113
Cash payments to employees for services	(6,547,598)
Cash payments to suppliers for goods and services	(5,606,456)
<b>Net cash provided by (used for) operating activities</b>	<b>\$ 2,671,419</b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchase of property and equipment	\$ (474,632)
Repayment of long-term debt	(237,245)
Transfer from County	240,591
Interest paid on long-term debt	(290,364)
<b>Net cash provided by (used for) capital and related financing activities</b>	<b>\$ (761,650)</b>
<b>Cash Flows From Investing Activities</b>	
(Increase) decrease in assets limited as to use	\$ (828,386)
Investment in Pipestone Medical Clinic	(29,632)
Interest income and other	114,019
<b>Net cash provided by (used for) investing activities</b>	<b>\$ (743,999)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 1,165,770</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>3,408,808</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 4,574,578</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>	
Operating income (loss)	<b>\$ 1,536,665</b>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities	
Interest expense considered capital financing activity	\$ 288,979
Depreciation and amortization	821,488
(Increase) decrease in receivables	(57,896)
(Increase) decrease in supplies	(18,828)
Increase (decrease) in prepaid expenses	(41,653)
Increase (decrease) in accounts payable	164,990
Increase (decrease) in accrued expenses	(22,326)
<b>Total adjustments</b>	<b>\$ 1,134,754</b>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ 2,671,419</b>

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

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**FIDUCIARY FUNDS**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2004**

**Assets**

Cash and pooled investments	<u>\$ 155,755</u>
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**Liabilities**

Due to other governments	<u>\$ 155,755</u>
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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Pipestone County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Pipestone County and its blended component unit. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

<u>Component Unit</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Pipestone County Medical Center provides acute in-patient and out-patient care to the County area.	County Commissioners are the members of the Pipestone County Medical Center Board.	Separate financial statements can be obtained at 911 Fifth Avenue S.W., P. O. Box 370, Pipestone, Minnesota 56164.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures which are described in Note 6.C. The County also participates in jointly-governed organizations which are described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activities are offset by program revenues. Direct expenses are those that are 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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. The County presents only one enterprise fund.

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.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Pipestone County considers all revenues to be *available* if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general 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.

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, 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 2004 were \$228,671.

The Medical Center's investment income for the year ended December 31, 2004, was \$114,022 and is included in nonoperating revenues (expenses).

Pipestone Medical Clinic (Clinic) is a wholly-owned subsidiary of the Medical Center. The Medical Center's investment in the Clinic is reported on the equity method of accounting. The Clinic's major asset is a 50 percent ownership interest in the Pipestone Medical Group (Group). The Group operates a clinic in Pipestone, Minnesota. The Group rents its building from the Medical Center for an annual rent of \$76,000. At December 31, 2004, the Group owed the Medical Center \$16,143, and at December 31, 2003, the Medical Center owed the Group \$8,539.

The loss on the investment, totaling \$59,708 for the year ended December 31, 2004, is included in nonoperating revenues and expenses. During 2004, the Medical Center invested additional funds of \$29,632 in the Clinic.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

3. Receivables and Payables

Activity between funds that is 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).

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Net patient and resident service revenue for the Medical Center are determined based on agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2002. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center.

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 reimbursed on a fee-screen basis.

Routine services rendered to nursing home residents, who are beneficiaries of the Medicaid program or who pay from private resources, are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category and are adjusted on July 1 each year by an inflation index. Additional services may be paid on a fee-for-service basis. The Medical Center also participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate that varies based on a case-mix resident classification system.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

The Medical Center Enterprise Fund accounts for unrestricted donations received by the Medical Center as nonoperating gains in the period received. Donations restricted by donors or grantors for specific operating purposes are reported in other revenue to the extent used within the period.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

5. Restricted Assets and Limited as to Use

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

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

government-wide financial statements. Capital assets are defined by the government 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 \$1,000 for the 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 market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

Property, plant, and equipment of the County, as well as the blended component unit, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 35
Buildings	5 - 40
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 20

7. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Compensated Absences (Continued)

termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Revenue

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

9. Long-Term Obligations

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

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

The General Fund had expenditures in excess of budget for the year ended December 31, 2004, of \$21,633. Total budgeted expenditures were \$4,544,056, and the General Fund expended \$4,565,689.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Pipestone County	
Cash and pooled investments	\$ 13,247,326
Investments	1,716,631
Restricted assets - Medical Center Enterprise Fund	
Funds designated by the Board for capital acquisition and debt redemption	2,536,427
Funds designated by the Board for insurance	786,000
Fiduciary funds	
Agency funds	<u>155,755</u>
Total Cash and Investments	<u>\$ 18,442,139</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$11,679,189. The bank balance deposit amount was \$11,930,608. Pipestone County statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 3,344,819
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>8,585,789</u>
Total covered deposits	\$ 11,930,608
Uncollateralized	<u>-</u>
Total	<u>\$ 11,930,608</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
Negotiable certificates of deposit with brokers	\$ 195,084	\$ -	\$ 1,121,983	\$ 1,317,067
Federal National Mortgage Association notes	36,823	-	212,162	248,985
Federal Home Loan Mortgage Corporation notes	279,487	-	1,610,289	1,889,776
Federal Home Loan Bank bonds	488,606	-	2,799,691	3,288,297
Total Investments	\$ 1,000,000	\$ -	\$ 5,744,125	\$ 6,744,125
Add				
Change funds and petty cash				16,325
Cash in bank				2,982,007
Money market savings				2,423,750
Certificates of deposit				6,273,432
Edward Jones mutual funds				2,500
Total Cash and Investments				\$ 18,442,139

2. Receivables

Receivables as of December 31, 2004, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 59,985	\$ -
Special assessments	8,090	-
Due from other governments	1,737,785	-
Accounts	27,976	-
Loans receivable	40,000	40,000
Interest	60,673	-
	<u>\$ 1,934,509</u>	<u>\$ 40,000</u>
Business-Type Activities		
Accounts	\$ 101,750	\$ -
Patient and resident service revenue	1,836,036	-
	<u>\$ 1,937,786</u>	<u>\$ -</u>

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

Total patient and resident service revenue	\$ 23,367,399
Contractual adjustments	
Medicare	\$ (7,119,647)
Medicaid	(973,214)
Other	(917,637)
	<u>\$ (9,010,498)</u>
Total contractual adjustments	<u>\$ (9,010,498)</u>
Net Patient and Resident Service Revenue	<u>\$ 14,356,901</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 322,489	\$ 45,001	\$ -	\$ 367,490
Right-of-way	736,617	72,236	-	808,853
Historical treasures	35,924	-	-	35,924
Construction in progress	76,881	-	76,881	-
<b>Total capital assets not depreciated</b>	<b>\$ 1,171,911</b>	<b>\$ 117,237</b>	<b>\$ 76,881</b>	<b>\$ 1,212,267</b>
Capital assets depreciated				
Land improvements	\$ 325,095	\$ -	\$ -	\$ 325,095
Buildings	4,341,481	-	-	4,341,481
Infrastructure	29,054,494	2,047,921	-	31,102,415
Machinery and equipment	2,829,239	390,513	256,529	2,963,223
<b>Total capital assets depreciated</b>	<b>\$ 36,550,309</b>	<b>\$ 2,438,434</b>	<b>\$ 256,529</b>	<b>\$ 38,732,214</b>
Less: accumulated depreciation for				
Land improvements	\$ 26,632	\$ 10,831	\$ -	\$ 37,463
Buildings	1,962,744	54,366	-	2,017,110
Infrastructure	5,779,428	625,388	-	6,404,816
Machinery and equipment	1,524,049	304,985	256,529	1,572,505
<b>Total accumulated depreciation</b>	<b>\$ 9,292,853</b>	<b>\$ 995,570</b>	<b>\$ 256,529</b>	<b>\$ 10,031,894</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 27,257,456</b>	<b>\$ 1,442,864</b>	<b>\$ -</b>	<b>\$ 28,700,320</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 28,429,367</b>	<b>\$ 1,560,101</b>	<b>\$ 76,881</b>	<b>\$ 29,912,587</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 227,692	\$ -	\$ -	\$ 227,692
Capital assets depreciated				
Land improvements	\$ 375,737	\$ -	\$ -	\$ 375,737
Buildings	10,406,346	11,688	2,352	10,415,682
Fixed equipment	2,064,234	106,240	56,269	2,114,205
Major movable equipment	4,030,709	245,720	336,802	3,939,627
 Total capital assets depreciated	 \$ 16,877,026	 \$ 363,648	 \$ 395,423	 \$ 16,845,251
Less: accumulated depreciation for				
Land improvements	\$ 227,981	\$ 12,883	\$ -	\$ 240,864
Buildings	2,623,608	335,363	2,352	2,956,619
Fixed equipment	1,549,653	73,270	56,269	1,566,654
Major movable equipment	2,397,176	390,585	332,566	2,455,195
 Total accumulated depreciation	 \$ 6,798,418	 \$ 812,101	 \$ 391,187	 \$ 7,219,332
 Total capital assets depreciated, net	 \$ 10,078,608	 \$ (448,453)	 \$ 4,236	 \$ 9,625,919
 Business-Type Activities Capital Assets, Net	 \$ 10,306,300	 \$ (448,453)	 \$ 4,236	 \$ 9,853,611

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

Governmental Activities	
General government	\$ 101,819
Public safety	72,722
Highways and streets, including depreciation of infrastructure assets	819,849
Family services	1,180
	995,570
Total Depreciation Expense - Governmental Activities	\$ 995,570

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Family Services	\$ 980
Road and Bridge	General	4,842
Medical Center	Nonmajor Debt Service	71,998
		<u>77,820</u>
Total Due To/From Other Funds		<u>\$ 77,820</u>

2. Interfund Transfers

The interfund transfer for the year ended December 31, 2004, was a \$240,591 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, to provide funds for debt service.

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 255,659	\$ 1,103,691
Salaries	358,999	186,147
Payroll taxes and other	-	49,935
Contracts	137,530	-
Due to other governments	25,803	-
Paid time off	-	289,180
Interest payable	-	57,320
	<u>777,991</u>	<u>1,686,273</u>
Total Payables	<u>\$ 777,991</u>	<u>\$ 1,686,273</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Operating Leases

Total equipment rental expense for the Medical Center for the year ended December 31, 2004, was \$95,536.

Capital Leases

Governmental Activities

On September 11, 1998, the County agreed to participate in a governmental lease purchase with Johnson Controls, Inc., financed by Norwest Investment Services, Inc., to retrofit the courthouse heating and cooling system. Norwest Investment Services, Inc., loaned the County \$182,484 at an interest rate of 5.42 percent. The County is to make semi-annual payments of \$11,939 through 2008.

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
1998 retrofit heating and cooling system	2008	Semi-annual	\$ 11,939	<u>\$ 182,484</u>	<u>\$ 84,845</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 23,878
2006	23,879
2007	23,878
2008	<u>23,879</u>
Total minimum lease payments	\$ 95,514
Less: amount representing interest	<u>(10,669)</u>
Present Value of Minimum Lease Payments	<u>\$ 84,845</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Leases

Capital Leases (Continued)

Business-Type Activities

The Medical Center leases certain equipment under non-cancelable long-term lease agreements. The capitalized leased assets consist of:

Major movable equipment	\$ 286,923
Less: accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(286,923)</u>
Net	<u><u>\$ -</u></u>

Minimum future lease payments for the capital lease are \$0.

3. Long-Term Debt

Governmental Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds 1995 G.O. Courthouse Bonds	2005	\$50,000 - \$70,000	4.60 - 5.00	<u>\$ 605,000</u>	<u>\$ 70,000</u>

Business-Type Activities

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
G.O. Hospital Bonds of 2000	2022	\$ 90,000 - \$225,000	4.75 - 5.30	\$ 2,935,000	\$ 2,750,000
Health Facilities Revenue Note, Series 2002	2018	\$ 70,000 - \$ 80,000	5.00	3,075,000	2,921,641
Less: unamortized discount				<u>-</u>	<u>-</u>
Total G.O. Bonds and Revenue Notes, Net				<u><u>\$ 6,010,000</u></u>	<u><u>\$ 5,671,641</u></u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 70,000	\$ 1,750

Business-Type Activities

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 249,108	\$ 277,865
2006	261,740	265,313
2007	274,762	252,131
2008	287,850	238,643
2009	302,041	223,812
2010 - 2014	1,744,595	875,860
2015 - 2019	1,911,545	389,935
2020 - 2022	640,000	51,944
Total	<u>\$ 5,671,641</u>	<u>\$ 2,575,503</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 140,000	\$ -	\$ 70,000	\$ 70,000	\$ 70,000
Capital leases	103,368	-	18,523	84,845	19,541
Compensated absences	178,842	-	5,387	173,455	12,765
Governmental Activity Long-Term Liabilities	<u>\$ 422,210</u>	<u>\$ -</u>	<u>\$ 93,910</u>	<u>\$ 328,300</u>	<u>\$ 102,306</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 2,845,000	\$ -	\$ 95,000	\$ 2,750,000	\$ 100,000
Capital leases	571	-	571	-	-
Health Facilities Revenue Note, Series 2001	3,063,315	-	141,674	2,921,641	149,108
Business-Type Activity Long-Term Liabilities	<u>\$ 5,908,886</u>	<u>\$ -</u>	<u>\$ 237,245</u>	<u>\$ 5,671,641</u>	<u>\$ 249,108</u>

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. Each government makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 378,878	\$ 39,881	\$ 21,542
2003	392,332	39,563	23,861
2002	361,162	35,797	24,546

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

5. Risk Management

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

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and at \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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5. Risk Management (Continued)

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or be replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

6. Summary of Significant Contingencies and Other Items

A. Subsequent Event - Advance Crossover Refunding of Debt

On June 6, 2005, Pipestone County issued General Obligation Hospital Refunding Bonds of 2005 in the amount of \$2,140,000 with interest rates of 3.25 percent to 4.15 percent to advance crossover refund the General Obligation Hospital Bonds of 2000, dated December 15, 2000, maturing after February 1, 2010. The balance of the outstanding maturities to be refunded is \$2,075,000, and interest rates are 4.80 percent to 5.30 percent.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial. The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Joint Ventures

Lincoln, Lyon, Murray and Pipestone Public Health Service

Pipestone County participates with other surrounding counties to provide health service to its citizens through a joint venture as authorized by Minn. Stat. § 471.59. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution in 2003 (the latest information available) was \$15,287.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Lincoln, Lyon, Murray and Pipestone Public Health Service (Continued)

The Lincoln, Lyon, Murray and Pipestone Public Health Service's 2003 financial report shows total retained earnings of \$718,969 and a decrease in retained earnings of \$33,620.

Complete financial statements of the Lincoln, Lyon, Murray and Pipestone Public Health Service can be obtained at 607 West Main Street, Marshall, Minnesota 56258.

Southwestern Minnesota Adult Mental Health Consortium Board

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

The Board shall take actions and enter into such agreements as may be necessary to plan and develop within the Southwestern Minnesota Adult Mental Health Consortium Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties.

Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Southwestern Minnesota Adult Mental Health Consortium Board's annual financial report for the year ended December 31, 2003 (the latest information available):

Total assets	\$	220,978
Total liabilities		5,230
Total equity		215,748
Total revenues		889,414
Total expenditures		856,904
Net increase to fund balance		32,510

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Southwestern Minnesota Adult Mental Health Consortium Board reported no long-term obligations at December 31, 2003.

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

Lincoln-Pipestone Rural Water System

Pursuant to Minn. Stat. ch. 116A, Pipestone County entered into a joint powers agreement with Lincoln, Lyon, Murray, Nobles, Rock, and Yellow Medicine Counties to establish the Lincoln-Pipestone Rural Water System. The Water System is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it services. The cost of providing these services is recovered through user charges.

Bonds were issued by Lincoln County to finance the construction of the 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, 2004, are \$20,374,465.

The Water System's 2004 financial report shows total net assets of \$37,728,801, including unrestricted of \$1,239,240. The increase in net assets for the year ended December 31, 2004, is \$2,037,687. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

The County has entered into a joint powers agreement with a number of other counties to create and operate the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

County's authority and obligation pursuant to Minn. Stat. chs. 400 and 115A; to provide for the management of solid waste in the respective counties; and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of methods to deal with solid waste in southwest Minnesota.

The governing board is composed of one board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$400.

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

Prime West Central County-Based Purchasing Initiative

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

Control of the Prime West Central County-Based Purchasing Initiative is vested in a joint powers board comprising one commissioner from each member county. Each member of the board is appointed by the county commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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

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

D. 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 programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$2,447 of the County levy to the Project.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. During the year, the County did not contribute to the Board.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid nothing of the County levy to the RCRCA.

Pipestone County Economic Development Authority

The Pipestone County Economic Development Authority promotes economic development activities in Pipestone County. The County, along with nine cities within the County, make up the Authority. During the year, the County paid \$50,000 of the County levy to the Authority.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and two local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate 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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 2,533,076	\$ 2,533,076	\$ 1,887,230	\$ (645,846)
Special assessments	156,000	156,000	124,581	(31,419)
Licenses and permits	16,155	16,155	8,871	(7,284)
Intergovernmental	463,985	463,985	1,092,111	628,126
Charges for services	774,678	774,678	881,940	107,262
Fines and forfeits	21,500	21,500	21,886	386
Investment earnings	300,000	300,000	237,620	(62,380)
Miscellaneous	282,662	282,662	273,457	(9,205)
<b>Total Revenues</b>	<b>\$ 4,548,056</b>	<b>\$ 4,548,056</b>	<b>\$ 4,527,696</b>	<b>\$ (20,360)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 147,747	\$ 147,747	\$ 149,722	\$ (1,975)
Courts	29,600	29,600	23,719	5,881
Law library	18,000	18,000	16,227	1,773
Coordinator	78,000	78,000	-	78,000
Auditor	172,159	172,159	167,718	4,441
Treasurer	152,631	152,631	145,438	7,193
Assessor	127,097	127,097	136,094	(8,997)
Elections	65,300	65,300	36,896	28,404
Accounting and auditing	30,000	30,000	34,518	(4,518)
Data processing	69,295	69,295	74,789	(5,494)
Personnel	52,487	52,487	45,862	6,625
Attorney	150,132	150,132	147,443	2,689
Recorder	100,976	100,976	103,944	(2,968)
Planning and zoning	24,911	24,911	26,924	(2,013)
Buildings and plant	292,343	292,343	550,397	(258,054)
Veterans service officer	41,776	41,776	39,987	1,789
County-wide transportation	308,600	308,600	335,892	(27,292)
Fairgrounds	36,750	36,750	19,570	17,180
Other general government	228,304	228,304	171,607	56,697
<b>Total general government</b>	<b>\$ 2,126,108</b>	<b>\$ 2,126,108</b>	<b>\$ 2,226,747</b>	<b>\$ (100,639)</b>
<b>Public safety</b>				
Sheriff	\$ 781,986	\$ 781,986	\$ 799,046	\$ (17,060)
Dispatch	201,808	201,808	149,889	51,919
Ambulance	187,558	187,558	166,353	21,205
Coroner	5,000	5,000	5,712	(712)
E-911 system	81,160	81,160	38,633	42,527
County jail	303,397	303,397	303,821	(424)
Probation and parole	72,770	72,770	33,139	39,631
Civil defense	86,517	86,517	106,642	(20,125)
<b>Total public safety</b>	<b>\$ 1,720,196</b>	<b>\$ 1,720,196</b>	<b>\$ 1,603,235</b>	<b>\$ 116,961</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**Schedule 1**  
**(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Recycling	\$ 170,941	\$ 170,941	\$ 122,565	\$ 48,376
<b>Culture and recreation</b>				
Historical society	\$ 35,500	\$ 35,500	\$ 35,500	\$ -
Parks	2,500	2,500	7,397	(4,897)
Senior citizens	46,324	46,324	44,827	1,497
Other	6,150	6,150	5,607	543
<b>Total culture and recreation</b>	<b>\$ 90,474</b>	<b>\$ 90,474</b>	<b>\$ 93,331</b>	<b>\$ (2,857)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 123,896	\$ 123,896	\$ 117,120	\$ 6,776
Soil and water conservation	124,513	124,513	126,131	(1,618)
Agricultural inspection	20,871	20,871	19,142	1,729
Agricultural society	-	-	9,000	(9,000)
Soil survey	-	-	46,610	(46,610)
River basin	-	-	2,447	(2,447)
Flood control	-	-	702	(702)
Water planning	-	-	2,552	(2,552)
Other	-	-	507	(507)
<b>Total conservation of natural resources</b>	<b>\$ 269,280</b>	<b>\$ 269,280</b>	<b>\$ 324,211</b>	<b>\$ (54,931)</b>
<b>Economic development</b>				
Community development	\$ 53,620	\$ 53,620	\$ 59,614	\$ (5,994)
<b>Intergovernmental</b>				
Library	\$ 36,437	\$ 36,437	\$ 36,437	\$ -
<b>Debt service</b>				
Principal retirement	\$ 70,000	\$ 70,000	\$ 88,523	\$ (18,523)
Interest	\$ 7,000	\$ 7,000	\$ 10,605	\$ (3,605)
Administrative (fiscal) fees	\$ -	\$ -	\$ 421	\$ (421)
<b>Total Expenditures</b>	<b>\$ 4,544,056</b>	<b>\$ 4,544,056</b>	<b>\$ 4,565,689</b>	<b>\$ (21,633)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ 4,000	\$ 4,000	\$ (37,993)	\$ (41,993)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of assets	-	-	3,940	3,940
<b>Net Change in Fund Balance</b>	\$ 4,000	\$ 4,000	\$ (34,053)	\$ (38,053)
<b>Fund Balance - January 1</b>	<u>5,806,947</u>	<u>5,806,947</u>	<u>5,806,947</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 5,810,947</u>	<u>\$ 5,810,947</u>	<u>\$ 5,772,894</u>	<u>\$ (38,053)</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 777,000	\$ 777,000	\$ 648,236	\$ (128,764)
Intergovernmental	3,571,000	3,571,000	2,710,007	(860,993)
Charges for services	-	-	68,475	68,475
Investment earnings	20,000	20,000	28,492	8,492
Miscellaneous	32,838	32,838	95,866	63,028
<b>Total Revenues</b>	<b>\$ 4,400,838</b>	<b>\$ 4,400,838</b>	<b>\$ 3,551,076</b>	<b>\$ (849,762)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 259,451	\$ 259,451	\$ 209,270	\$ 50,181
Maintenance	936,365	936,365	891,664	44,701
Construction	3,037,064	3,037,064	2,465,083	571,981
Equipment and maintenance shops	242,957	242,957	282,892	(39,935)
<b>Total highways and streets</b>	<b>\$ 4,475,837</b>	<b>\$ 4,475,837</b>	<b>\$ 3,848,909</b>	<b>\$ 626,928</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	221,134	(221,134)
<b>Total Expenditures</b>	<b>\$ 4,475,837</b>	<b>\$ 4,475,837</b>	<b>\$ 4,070,043</b>	<b>\$ 405,794</b>
<b>Net Change in Fund Balance</b>	<b>\$ (74,999)</b>	<b>\$ (74,999)</b>	<b>\$ (518,967)</b>	<b>\$ (443,968)</b>
<b>Fund Balance - January 1</b>	<b>2,767,812</b>	<b>2,767,812</b>	<b>2,767,812</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>11,023</b>	<b>11,023</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,692,813</b>	<b>\$ 2,692,813</b>	<b>\$ 2,259,868</b>	<b>\$ (432,945)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,127,603	\$ 1,127,603	\$ 939,414	\$ (188,189)
Intergovernmental	977,645	977,645	1,260,771	283,126
Charges for services	5,600	5,600	10,740	5,140
Miscellaneous	47,200	47,200	85,439	38,239
<b>Total Revenues</b>	<b>\$ 2,158,048</b>	<b>\$ 2,158,048</b>	<b>\$ 2,296,364</b>	<b>\$ 138,316</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 736,036	\$ 736,036	\$ 722,344	\$ 13,692
Social services	1,859,095	1,859,095	1,807,221	51,874
<b>Total human services</b>	<b>\$ 2,595,131</b>	<b>\$ 2,595,131</b>	<b>\$ 2,529,565</b>	<b>\$ 65,566</b>
<b>Intergovernmental</b>				
Health	-	-	55,833	(55,833)
<b>Total Expenditures</b>	<b>\$ 2,595,131</b>	<b>\$ 2,595,131</b>	<b>\$ 2,585,398</b>	<b>\$ 9,733</b>
<b>Net Change in Fund Balance</b>	<b>\$ (437,083)</b>	<b>\$ (437,083)</b>	<b>\$ (289,034)</b>	<b>\$ 148,049</b>
<b>Fund Balance - January 1</b>	<b>1,733,257</b>	<b>1,733,257</b>	<b>1,733,257</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,296,174</b>	<b>\$ 1,296,174</b>	<b>\$ 1,444,223</b>	<b>\$ 148,049</b>

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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Budgetary Data

General Budget Policies

The Pipestone County Board adopts estimated revenue and expenditure budgets for the General Fund and certain special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. In 2004, the County Board did not amend its budgets.

Budget Basis of Accounting

Budgets for the General Fund and the special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

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**SUPPLEMENTARY INFORMATION**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Capital Improvements - to account for funds set aside for building improvements in the County.

DEBT SERVICE FUND

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total</u>
	<u>Ditch</u>	<u>Capital Improvements</u>	<u>Medical Facility Bonds</u>	
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 33,612	\$ 217,176	\$ 160,448	\$ 411,236
Undistributed cash in agency funds	-	-	4,558	4,558
Investments	-	196,484	1,400	197,884
Taxes receivable				
Prior	-	-	6,526	6,526
Accrued interest receivable	-	3,856	1	3,857
<b>Total Assets</b>	<b>\$ 33,612</b>	<b>\$ 417,516</b>	<b>\$ 172,933</b>	<b>\$ 624,061</b>
<b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ -	\$ 71,998	\$ 71,998
Deferred revenue - unavailable	-	-	6,526	6,526
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 78,524</b>	<b>\$ 78,524</b>
<b>Fund Balances</b>				
Reserved for debt service	\$ -	\$ -	\$ 94,409	\$ 94,409
Unreserved				
Undesignated	33,612	417,516	-	451,128
<b>Total Fund Balances</b>	<b>\$ 33,612</b>	<b>\$ 417,516</b>	<b>\$ 94,409</b>	<b>\$ 545,537</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 33,612</b>	<b>\$ 417,516</b>	<b>\$ 172,933</b>	<b>\$ 624,061</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Special Revenue		Debt Service	Total
	Ditch	Capital Improvements	Medical Facility Bonds	
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 241,337	\$ 241,337
Investment earnings	-	11,193	12	11,205
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ 11,193</b>	<b>\$ 241,349</b>	<b>\$ 252,542</b>
<b>Expenditures</b>				
<b>Current</b>				
Conservation of natural resources	1,824	-	-	1,824
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (1,824)</b>	<b>\$ 11,193</b>	<b>\$ 241,349</b>	<b>\$ 250,718</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	-	(240,591)	(240,591)
<b>Net Change in Fund Balance</b>	<b>\$ (1,824)</b>	<b>\$ 11,193</b>	<b>\$ 758</b>	<b>\$ 10,127</b>
<b>Fund Balance - January 1</b>	<b>35,436</b>	<b>406,323</b>	<b>93,651</b>	<b>535,410</b>
<b>Fund Balance - December 31</b>	<b>\$ 33,612</b>	<b>\$ 417,516</b>	<b>\$ 94,409</b>	<b>\$ 545,537</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**AGENCY FUNDS**

Hiawatha Trails - to account for the collection and disbursement of a state grant for the Hiawatha Trails development.

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

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

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

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
 <b><u>HIAWATHA TRAILS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 16,252	\$ 16,252	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 16,252	\$ 16,252	\$ -
 <b><u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 239,189	\$ 237,937	\$ 1,252
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 239,189	\$ 237,937	\$ 1,252
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 26	\$ 695,212	\$ 695,238	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 26	\$ 695,212	\$ 695,238	\$ -
 <b><u>FORFEITED TAX SALE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 20,451	\$ 862	\$ 2,346	\$ 18,967
<b><u>Liabilities</u></b>				
Due to other governments	\$ 20,451	\$ 862	\$ 2,346	\$ 18,967

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 3*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 79,674	\$ 8,744,659	\$ 8,688,797	\$ 135,536
<b><u>Liabilities</u></b>				
Due to other governments	\$ 79,674	\$ 8,744,659	\$ 8,688,797	\$ 135,536
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 100,151	\$ 9,696,174	\$ 9,640,570	\$ 155,755
<b><u>Liabilities</u></b>				
Due to other governments	\$ 100,151	\$ 9,696,174	\$ 9,640,570	\$ 155,755

**OTHER SCHEDULE**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 4*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Shared Revenue**

**State**

Highway users tax	\$	1,805,266
County program aid		531,570
PERA rate reimbursement		14,804
Disparity reduction aid		80,146
Police aid		10,210
Enhanced 911		40,035
Market value credit		364,359
		364,359

**Total Shared Revenue** **\$ 2,846,390**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	499,167
		499,167

**Payments**

**Local**

Payments in lieu of taxes	\$	22,096
		22,096

**Grants**

**State**

Minnesota Department/Board of		
Corrections	\$	11,699
Examining Boards		3,939
Human Services		340,324
Natural Resources		3,000
Public Safety		11,229
Transportation		165,315
Water and Soil Resources		75,963
Office of Environmental Assistance		49,099
		49,099

**Total State** **\$ 660,568**

**Federal**

Department of		
Agriculture	\$	3,647
Justice		18,022
Transportation		788,743
Energy		19,024
Health and Human Services		165,627
Homeland Security		39,605
		39,605

**Total Federal** **\$ 1,034,668**

**Total State and Federal Grants** **\$ 1,695,236**

**Total Intergovernmental Revenue** **\$ 5,062,889**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 5*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the basic financial statements of Pipestone County.
- B. Reportable conditions in internal control over financial reporting are disclosed by the audit of financial statements of Pipestone County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." They are not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Pipestone County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program of Pipestone County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
  - Highway Planning and Construction
  - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pipestone County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-3 Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

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

ITEM ARISING THIS YEAR

04-1 County Sheriff's Checking Account Balance

At December 31, 2004, the Sheriff's noninterest-bearing trust account had a balance of \$94,460. In January 2005, \$83,039 was remitted to the County Treasurer. The remaining \$11,421 is not identified on the reconciliation statement.

To strengthen internal controls, we recommend that the Sheriff's Department identify all amounts remaining in the checking account.

Client's Response:

*The County Sheriff and County Treasurer are currently identifying all amounts remaining in the Sheriff's trust-bearing account, including the remaining \$11,421 not identified on the reconciliation statement on December 31, 2004.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

04-2 County Sheriff's Collection of Law Enforcement Contracts

The County Board contracts with cities within the County to provide law enforcement service. In prior years, payments on these contracts were collected and receipted by the County Treasurer. During 2004, the system changed. The Sheriff receipts all funds for policing contracts and deposits them into his bank account and remits the funds to the County Treasurer once a month. At December 31, 2004, the bank balance of the Sheriff's noninterest-bearing checking account was \$94,460. We are not aware of any County Board resolution giving the County Sheriff the authority to collect on these contracts.

Minn. Stat. § 375.18, subd. 2, places all County property under the care of the County Board and pursuant to Minn. Stat. §§ 385.04 - .07, all amounts owed and paid to the County under the terms of a contract, or otherwise, must be turned over to the County Treasurer for deposit in the County depository. If the Sheriff receipts these contract payments, he should deliver them to the County Treasurer at once, rather than placing them into another checking account and remitting them later.

We recommend that the County Board review the collection procedures of the County Sheriff to ensure compliance with Minn. Stat. § 375.18, subd. 2, and Minn. Stat. §§ 385.04 - .07. Additionally, maintaining large balances in departmental noninterest-bearing accounts is undesirable from an accounting perspective as the County forgoes interest income on these funds.

Client's Response:

*The Pipestone County Board took the following action at the August 2, 2005, Road and Bridge Commissioners Meeting: "Motion by Johnson, seconded by Remund to keep open Sheriff's trust account for daily activity items and direct the County Sheriff to receipt city contract funds directly into Treasurer's office, deposit other funds weekly into Treasurer's office as per board directive, identify \$11,421.36 currently not identified on the reconciliation statement and direct the County Sheriff to provide the County Board a monthly report on the Sheriff's trust account. Motion carried unanimously."*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Prompt Payment Language in Contracts (01-3)**

During our contract compliance testing, we noted that the contract for the new generator at the courthouse did not "... require the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the municipality for undisputed services provided by the subcontractor," as required by Minn. Stat. § 471.425, subd. 4a.

**Resolution**

The County complied with Minn. Stat. § 471.425, subd. 4a, by including statutory language in contracts to ensure compliance.

**Forfeited Tax Property Settlement (03-1)**

The County Auditor did not make a settlement of the net revenue in the County's forfeited tax sale fund. As of December 31, 2003, \$20,451 in this account had not been settled.

**Resolution**

The County made a settlement of the forfeited tax properties in the proportions given in Minn. Stat. § 282.09.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-3 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form. In addition, the summary budget on file did not agree with the revenue and expenditure guidelines on the accounting system. The County Board did not adopt an expenditure budget for the Ditch and the Capital Improvements Special Revenue Funds.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget to be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board approved and documented in the Board minutes.

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. We also recommend that any changes to the original budget be approved by formal Board resolution and so documented.

Client's Response:

*The County Board will adopt an expenditure budget for the Ditch and the Capital Improvements Special Revenue Funds for future budget cycles. In addition, any amendments to the budget will be Board approved and documented in the Board minutes.*

## **OTHER REQUIRED REPORTS**

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# STATE OF MINNESOTA

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of County Commissioners  
Pipestone County

We have audited the financial statements of Pipestone County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 25, 2005. We did not audit the financial statements of the Medical Center Enterprise Fund, a component unit of Pipestone County, which was audited by 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.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pipestone County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-3 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Pipestone County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-2.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 25, 2005



**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

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PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Pipestone County

Compliance

We have audited the compliance of Pipestone County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to a major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Pipestone County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

### Internal Control Over Compliance

The management of Pipestone County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of Pipestone County as of and for the year ended December 31, 2004, and have issued our report thereon dated July 25, 2005. Our audit did not include the audit of the Medical Center Enterprise Fund, which was audited by other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: July 25, 2005

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

Schedule 6

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	<u>\$ 3,647</u>
<b>U.S. Department of Justice</b>		
Direct Public Safety Partnership and Community Policing ("COPS") Grant	16.710	<u>\$ 18,022</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 709,036
Public Transportation for Non-Urbanized Areas	20.509	<u>79,707</u>
<b>Total U.S. Department of Transportation</b>		<u>\$ 788,743</u>
<b>U.S. Department of Energy</b>		
Passed Through Minnesota Pollution Control Agency Regional Biomass Energy Programs	81.079	<u>\$ 19,024</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 11,616
Temporary Assistance for Needy Families (TANF)	93.558	51,027
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,736
Foster Care Title IV-E	93.658	4,587
Social Services Block Grant Title XX	93.667	87,694
Chafee Foster Care Independent Living	93.674	5,101
Community Mental Health Block Grant	93.958	<u>2,866</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>\$ 165,627</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

***Schedule 6  
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 16,104
Emergency Management Performance Grants	97.042	11,789
State and Local All Hazards Emergency Operations Planning	97.051	11,712
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 39,605</b>
<b>Total Federal Awards</b>		<b>\$ 1,034,668</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Pipestone County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.