

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2006**

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

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

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

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

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

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

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

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

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

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**Year Ended December 31, 2006**



**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, 2006

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Luke Johnson <sup>2</sup>	January 2009
2nd District	Harold "Butch" Miller	January 2007
3rd District	Marvin Tinklenberg	January 2008
4th District	John "Jack" Keers	January 2007
5th District	Jerry Remund <sup>1</sup>	January 2008
<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
County Coordinator	Sharon Hanson	Indefinite
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 2006 and 2007

<sup>2</sup>Chair 2008

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### 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, 2006, 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. 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, 2006, 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 March 7, 2008, 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

March 7, 2008

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(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, 2006. 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 \$49,273,320, of which \$36,736,730 is invested in capital assets, and \$3,192,338 is restricted for specific purposes. The unrestricted net assets of \$9,344,252 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$1,492,167 for the year ended December 31, 2006. A large part of that increase is attributable to an increase in the County investing in capital assets without increasing long-term debt, net of a decrease to restricted net assets for highways and streets.

The net cost of governmental activities for the current fiscal year was \$3,812,388. The net cost was funded by general revenues totaling \$5,304,555.

Fund balances of the governmental funds decreased by \$1,281,805. Most of the decrease was due to decreases in highway allotments/construction projects and family services expenditures exceeding revenues.

For the year ended December 31, 2006, the unreserved fund balance of the General Fund was \$6,162,829, or 114 percent, of the total General Fund expenditures for the year.

The Pipestone County Medical Center's assets exceeded its liabilities by \$17,287,444 at December 31, 2006. The Medical Center recorded a change in net assets of \$1,976,633 for the fiscal year ending December 31, 2006.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### **Government-Wide Financial Statements**

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

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

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

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

### **Fund Level Financial Statements**

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

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

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

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

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

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

### **Government-Wide Financial Analysis**

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$49,273,320 at the close of 2006. The largest portion of the net assets (74.56 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 2005 is presented.

**Governmental Activities**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current and other assets	\$ 14,017,149	\$ 14,878,509
Capital assets	<u>36,781,419</u>	<u>34,312,536</u>
<b>Total Assets</b>	<u>\$ 50,798,568</u>	<u>\$ 49,191,045</u>
<b>Liabilities</b>		
Long-term liabilities	\$ 295,331	\$ 288,325
Other liabilities	<u>1,229,917</u>	<u>1,121,567</u>
<b>Total Liabilities</b>	<u>\$ 1,525,248</u>	<u>\$ 1,409,892</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 36,736,730	\$ 34,250,516
Restricted	3,192,338	4,281,930
Unrestricted	<u>9,344,252</u>	<u>9,248,707</u>
<b>Total Net Assets</b>	<u>\$ 49,273,320</u>	<u>\$ 47,781,153</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 18.96 percent of the net assets.

The County's governmental activities increased net assets by three percent (\$49,273,320 for 2006 compared to \$47,781,153 for 2005). Key elements in this increase in net assets are as follows with comparative amounts from 2005.

**Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>				
<b>Program revenues</b>				
Charges for services	\$ 1,994,487	\$ 1,620,782	\$ 17,016,384	\$ 16,169,538
Operating grants and contributions	4,323,890	2,918,825	-	-
Capital grants and contributions	1,465,020	7,287,254	100,000	-
<b>General revenues</b>				
Property taxes	3,390,198	3,041,373	-	-
Other	<u>2,154,623</u>	<u>1,928,670</u>	<u>477,522</u>	<u>250,189</u>
<b>Total Revenues</b>	<u>\$ 13,328,218</u>	<u>\$ 16,796,904</u>	<u>\$ 17,593,906</u>	<u>\$ 16,419,727</u>

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Expenses				
General government	\$ 2,805,090	\$ 1,896,976	\$ -	\$ -
Public safety	1,903,130	1,832,426	-	-
Highways and streets	3,145,994	2,815,677	-	-
Sanitation	180,581	179,125	-	-
Human services	2,848,906	2,668,355	-	-
Health	55,833	55,833	-	-
Culture and recreation	160,941	127,004	-	-
Conservation of natural resources	430,441	302,651	-	-
Economic development	61,605	17,385	-	-
Interest	3,264	6,512	-	-
Medical Center	-	-	15,857,539	14,489,889
Total Expenses	\$ 11,595,785	\$ 9,901,944	\$ 15,857,539	\$ 14,489,889
Excess (Deficiency) Before Transfers	\$ 1,732,433	\$ 6,894,960	\$ 1,736,367	\$ 1,929,838
Transfers	(240,266)	(278,523)	240,266	278,523
Increase in Net Assets	\$ 1,492,167	\$ 6,616,437	\$ 1,976,633	\$ 2,208,361
Net Assets - January 1	47,781,153	41,164,716	15,310,811	13,102,450
Net Assets - December 31	\$ 49,273,320	\$ 47,781,153	\$ 17,287,444	\$ 15,310,811

Total governmental revenues for the County were \$13,328,218, total expenses were \$11,595,785, and total transfers out were \$240,266. This reflects a \$1,492,167 increase in net assets for the year ended December 31, 2006.

The cost of all governmental activities for the year was \$11,595,785. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$3,390,198 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$1,994,487 or by other governments and organizations that subsidized certain programs with grants and contributions--\$4,323,890. 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.

	<b>Governmental Activities</b>			
	Total Cost of Services		Net Cost (Revenue) of Services	
	2006	2005	2006	2005
Highways and streets	\$ 3,145,994	\$ 2,815,677	\$ (814,904)	\$ (5,693,612)
Human services	2,848,906	2,668,355	1,259,153	1,305,707
General government	2,805,090	1,896,976	2,085,219	1,324,529
Public safety	1,903,130	1,832,426	745,468	773,634
All others	892,665	688,510	537,452	364,825
Totals	<u>\$ 11,595,785</u>	<u>\$ 9,901,944</u>	<u>\$ 3,812,388</u>	<u>\$ (1,924,917)</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

### Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, 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 \$9,638,165, a decrease of \$1,281,805 in comparison with the prior year. Of the combined ending fund balances, \$8,199,425 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 \$6,162,829. 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 114 percent of total General Fund expenditures. During 2006, the ending fund balance increased by \$106,847. The County received \$280,238 more in revenue than expected and overspent its budget by \$139,549.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$937,781 at fiscal year-end, representing 16 percent of its annual expenditures. The ending fund balance decreased \$1,303,250 during 2006.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,077,557 at fiscal year-end, representing 37 percent of its annual expenditures. The ending fund balance decreased \$67,096 during 2006.

### **Proprietary Fund**

The statement of net assets at December 31, 2006, for the Pipestone County Medical Center indicates total assets of \$26,770,197, total liabilities of \$9,482,753, and net assets of \$17,287,444. Total current assets were \$3,251,044, and total current liabilities were \$2,456,709, for a current ratio of 1.32--down from 3.22 at December 31, 2005. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of \$17,016,384 and total operating expenses of \$15,122,825, for an operating income of \$1,893,559, and nonoperating revenues of \$477,522, nonoperating expenses of \$734,714, capital contributions of \$100,000, and transfers in of \$240,266, which contributed to the increase in net assets from \$15,310,811 to \$17,287,444.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

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

The actual charges to appropriations (expenditures) were \$139,549 over the final budget amounts. The most significant variances occurred in public safety, conservation of natural resources, and other general government expenditures.

On the other hand, resources available for appropriation were \$280,238 over the final budgeted amount. Intergovernmental revenue, charges for services, and investment earnings were more than expected.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

The County's capital assets for its governmental activities at December 31, 2006, totaled \$36,781,419 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,468,883, or seven percent, over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure.

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

	2006	2005
Land and other non-depreciated assets	\$ 1,304,358	\$ 1,280,113
Land improvements	265,958	276,795
Infrastructure	30,968,904	28,858,890
Buildings	2,292,161	2,257,714
Machinery and equipment	1,950,038	1,639,024
Total	\$ 36,781,419	\$ 34,312,536

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, 2006, amounted to \$13,342,766 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

**Long-Term Debt**

At December 31, 2006, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, Pipestone County Medical Center had total long-term debt outstanding of \$7,300,798, 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 2007 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2006 was 3.4 percent. This compares favorably with the average annual state unemployment rate of 4.0 percent and shows a 0.2 percent increase from the County’s rate in 2005. The 2006 County population is estimated at 9,423, a decrease of 472 from the 2000 census of 9,895.
  
- Among Pipestone County residents, the overall poverty rate was 10.7 percent in 2005, 9.5 percent in 1999, and 14.8 percent in 1989 and was 10.7 percent compared to 9.2 percent in Minnesota in 2005.

- Property tax levy information for 2007 and previous four years:

<u>Year</u>	<u>Levy</u>
2007	\$ 3,619,681
2006	3,457,278
2005	3,208,923
2004	3,810,109
2003	3,964,550

### **REQUESTS FOR INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 8,596,521	\$ 659,155	\$ 9,255,676
Investments	1,748,377	-	1,748,377
Receivables - net	3,549,798	1,974,773	5,524,571
Internal balances	(119,362)	119,362	-
Inventories	241,815	389,367	631,182
Prepaid items	-	108,387	108,387
Assets restricted as to use for			
Capital acquisition and debt redemption	-	7,469,609	7,469,609
Insurance	-	500,000	500,000
Bond refunding	-	2,077,574	2,077,574
Capital assets			
Non-depreciable capital assets	1,304,358	1,767,058	3,071,416
Depreciable capital assets - net of accumulated depreciation	35,477,061	11,575,708	47,052,769
Other assets			
Deferred financing costs - net of accumulated amortization	-	129,204	129,204
<b>Total Assets</b>	<b>\$ 50,798,568</b>	<b>\$ 26,770,197</b>	<b>\$ 77,568,765</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 1,224,957	\$ 1,991,425	\$ 3,216,382
Accrued interest payable	-	87,577	87,577
Unearned revenue	4,960	-	4,960
Accumulated losses from investment in Pipestone Medical Center	-	102,953	102,953
Long-term liabilities			
Due within one year	35,697	274,754	310,451
Due in more than one year	259,634	7,026,044	7,285,678
<b>Total Liabilities</b>	<b>\$ 1,525,248</b>	<b>\$ 9,482,753</b>	<b>\$ 11,008,001</b>
<b><u>Net Assets</u></b>			
Invested in capital assets - net of related debt	\$ 36,736,730	\$ 8,119,542	\$ 44,856,272
Restricted for			
General government	169,826	-	169,826
Public safety	45,203	-	45,203
Highways and streets	2,905,115	-	2,905,115
Health	25,532	-	25,532
Debt service	46,662	-	46,662
Unrestricted	9,344,252	9,167,902	18,512,154
<b>Total Net Assets</b>	<b>\$ 49,273,320</b>	<b>\$ 17,287,444</b>	<b>\$ 66,560,764</b>

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other
<b><u>Functions/Programs</u></b>		
<b>Governmental activities</b>		
General government	\$ 2,805,090	\$ 321,057
Public safety	1,903,130	1,002,659
Highways and streets	3,145,994	215,845
Sanitation	180,581	32,733
Human services	2,848,906	410,453
Health	55,833	-
Culture and recreation	160,941	-
Conservation of natural resources	430,441	11,740
Economic development	61,605	-
Interest	3,264	-
<b>Total governmental activities</b>	<b>\$ 11,595,785</b>	<b>\$ 1,994,487</b>
<b>Business-type activities</b>		
Medical Center	15,857,539	17,016,384
<b>Total</b>	<b>\$ 27,453,324</b>	<b>\$ 19,010,871</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

**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>
\$ 242,814	\$ 156,000	\$ (2,085,219)	\$ -	\$ (2,085,219)
155,003	-	(745,468)	-	(745,468)
2,436,033	1,309,020	814,904	-	814,904
177,427	-	29,579	-	29,579
1,179,300	-	(1,259,153)	-	(1,259,153)
-	-	(55,833)	-	(55,833)
-	-	(160,941)	-	(160,941)
133,313	-	(285,388)	-	(285,388)
-	-	(61,605)	-	(61,605)
-	-	(3,264)	-	(3,264)
<b>\$ 4,323,890</b>	<b>\$ 1,465,020</b>	<b>\$ (3,812,388)</b>	<b>\$ -</b>	<b>\$ (3,812,388)</b>
-	100,000	-	1,258,845	1,258,845
<b>\$ 4,323,890</b>	<b>\$ 1,565,020</b>	<b>\$ (3,812,388)</b>	<b>\$ 1,258,845</b>	<b>\$ (2,553,543)</b>
		\$ 3,390,198	\$ -	\$ 3,390,198
		6,140	-	6,140
		35,081	-	35,081
		1,601,696	-	1,601,696
		443,815	477,522	921,337
		67,891	-	67,891
		(240,266)	240,266	-
		<b>\$ 5,304,555</b>	<b>\$ 717,788</b>	<b>\$ 6,022,343</b>
		<b>\$ 1,492,167</b>	<b>\$ 1,976,633</b>	<b>\$ 3,468,800</b>
		<b>47,781,153</b>	<b>15,310,811</b>	<b>63,091,964</b>
		<b>\$ 49,273,320</b>	<b>\$ 17,287,444</b>	<b>\$ 66,560,764</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, 2006**

	<b>General</b>	<b>Road and Bridge</b>	<b>Family Services</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 6,390,611	\$ 842,805	\$ 1,083,801	\$ 182,052	\$ 8,499,269
Undistributed cash in agency funds	55,848	13,826	19,223	5,230	94,127
Petty cash and change funds	3,025	100	-	-	3,125
Investments	226,484	1,521,893	-	-	1,748,377
Taxes receivable					
Prior	23,482	7,217	10,015	5,776	46,490
Special assessments receivable					
Prior	6,031	-	-	-	6,031
Noncurrent	43,387	-	-	-	43,387
Accounts receivable	33,909	2,456	46,576	-	82,941
Accrued interest receivable	105,591	21,356	-	-	126,947
Due from other funds	4,232	7,562	-	-	11,794
Due from other governments	48,862	3,060,302	134,838	-	3,244,002
Inventories	-	241,815	-	-	241,815
<b>Total Assets</b>	<b>\$ 6,941,462</b>	<b>\$ 5,719,332</b>	<b>\$ 1,294,453</b>	<b>\$ 193,058</b>	<b>\$ 14,148,305</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<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	\$ 179,792	\$ 73,496	\$ 89,572	\$ -	\$ 342,860
Salaries payable	233,875	78,549	78,993	-	391,417
Contracts payable	-	415,646	-	-	415,646
Due to other funds	7,452	-	4,342	119,362	131,156
Due to other governments	39,093	1,967	33,974	-	75,034
Deferred revenue - unavailable	72,900	3,060,376	10,015	5,776	3,149,067
Deferred revenue - unearned	4,960	-	-	-	4,960
<b>Total Liabilities</b>	<b>\$ 538,072</b>	<b>\$ 3,630,034</b>	<b>\$ 216,896</b>	<b>\$ 125,138</b>	<b>\$ 4,510,140</b>
<b>Fund Balances</b>					
Reserved for					
Debt service	\$ -	\$ -	\$ -	\$ 46,662	\$ 46,662
Encumbrances	15,849	90,280	-	-	106,129
Inventories	-	241,815	-	-	241,815
Missing heirs	3,971	-	-	-	3,971
Law library	53,111	-	-	-	53,111
Recorder's technology fund	13,499	-	-	-	13,499
Recorder's compliance fund	28,755	-	-	-	28,755
Sheriff's contingency	2,943	-	-	-	2,943
Drug forfeiture	6,263	-	-	-	6,263
Gun permit fees	4,361	-	-	-	4,361
Canteen fund	4,952	-	-	-	4,952
Transportation	44,787	-	-	-	44,787
Probation supervision fees	4,112	-	-	-	4,112
Nursing unit (Skailand estate)	25,532	-	-	-	25,532
HAVA election money	25,703	-	-	-	25,703
DWI fees	6,723	-	-	-	6,723
Highway projects	-	819,422	-	-	819,422
Unreserved					
Designated for capital improvements	336,503	-	-	-	336,503
Designated for elections	49,252	-	-	-	49,252
Designated for buildings	107,657	-	-	-	107,657
Designated for environmental services	166,028	-	-	-	166,028
Undesignated	5,503,389	937,781	1,077,557	-	7,518,727
Unreserved, reported in nonmajor Special revenue funds	-	-	-	21,258	21,258
<b>Total Fund Balances</b>	<b>\$ 6,403,390</b>	<b>\$ 2,089,298</b>	<b>\$ 1,077,557</b>	<b>\$ 67,920</b>	<b>\$ 9,638,165</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,941,462</b>	<b>\$ 5,719,332</b>	<b>\$ 1,294,453</b>	<b>\$ 193,058</b>	<b>\$ 14,148,305</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, 2006**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>9,638,165</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.		36,781,419
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,149,067
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Capital leases	\$ (44,689)	
Loans payable	(46,318)	
Compensated absences	(204,324)	(295,331)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 49,273,320</u></b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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	\$ 1,852,844	\$ 549,592	\$ 765,382	\$ 235,939	\$ 3,403,757
Special assessments	132,288	-	-	-	132,288
Licenses and permits	11,375	-	-	-	11,375
Intergovernmental	1,676,982	3,639,201	1,657,243	-	6,973,426
Charges for services	1,106,383	154,806	14,524	-	1,275,713
Fines and forfeits	17,184	-	-	-	17,184
Investment earnings	380,165	63,646	-	4	443,815
Miscellaneous	301,138	61,498	395,929	-	758,565
<b>Total Revenues</b>	<b>\$ 5,478,359</b>	<b>\$ 4,468,743</b>	<b>\$ 2,833,078</b>	<b>\$ 235,943</b>	<b>\$ 13,016,123</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,559,067	\$ -	\$ -	\$ -	\$ 2,559,067
Public safety	1,982,433	-	-	-	1,982,433
Highways and streets	-	5,580,864	-	-	5,580,864
Sanitation	180,310	-	-	-	180,310
Human services	-	-	2,844,341	-	2,844,341
Culture and recreation	121,051	-	-	-	121,051
Conservation of natural resources	418,299	-	-	11,698	429,997
Economic development	61,605	-	-	-	61,605
<b>Intergovernmental</b>	39,866	209,656	55,833	-	305,355
<b>Debt service</b>					
Principal	20,615	-	-	-	20,615
Interest	3,264	-	-	-	3,264
<b>Total Expenditures</b>	<b>\$ 5,386,510</b>	<b>\$ 5,790,520</b>	<b>\$ 2,900,174</b>	<b>\$ 11,698</b>	<b>\$ 14,088,902</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 91,849</b>	<b>\$ (1,321,777)</b>	<b>\$ (67,096)</b>	<b>\$ 224,245</b>	<b>\$ (1,072,779)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 2,285	\$ -	\$ -	\$ -	\$ 2,285
Transfers out	-	-	-	(242,551)	(242,551)
Proceeds from loans	12,713	-	-	-	12,713
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 14,998</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (242,551)</b>	<b>\$ (227,553)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Net Change in Fund Balances</b>	<b>\$ 106,847</b>	<b>\$ (1,321,777)</b>	<b>\$ (67,096)</b>	<b>\$ (18,306)</b>	<b>\$ (1,300,332)</b>
Fund Balances - January 1, as previously reported	\$ 6,276,543	\$ 3,392,548	\$ 1,144,653	\$ 106,226	\$ 10,919,970
Restatement (Note 1.E.)	20,000	-	-	(20,000)	-
<b>Fund Balances - January 1, as restated</b>	<b>\$ 6,296,543</b>	<b>\$ 3,392,548</b>	<b>\$ 1,144,653</b>	<b>\$ 86,226</b>	<b>\$ 10,919,970</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>\$ -</b>	<b>\$ 18,527</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,527</b>
<b>Fund Balances - December 31</b>	<b>\$ 6,403,390</b>	<b>\$ 2,089,298</b>	<b>\$ 1,077,557</b>	<b>\$ 67,920</b>	<b>\$ 9,638,165</b>

**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, 2006**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,300,332)**

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	\$ 3,149,067	
Deferred revenue - January 1	<u>(2,836,972)</u>	312,095

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	\$ 3,794,406	
Current year depreciation	<u>(1,226,410)</u>	2,567,996

The net effect of various miscellaneous transactions involving capital assets (such as sales, trade-ins, and retirements) is to decrease net assets.

Net book value of capital assets disposed of		(99,113)
--	--	----------

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		
Capital leases		20,615

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:

Loans issued		(12,713)
--------------	--	----------

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	\$ (14,908)	
Change in inventories	<u>18,527</u>	<u>3,619</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,492,167**

**PROPRIETARY FUND**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
MEDICAL CENTER ENTERPRISE FUND  
DECEMBER 31, 2006**

**Assets**

Current assets	
Cash and cash equivalents	\$ 659,155
Accounts receivable - net	59,634
Patient and resident receivables - net	1,915,139
Due from other funds	119,362
Inventories	389,367
Prepaid items	108,387
	<b>\$ 3,251,044</b>
Noncurrent assets	
Assets restricted as to use for	
Capital acquisition and debt redemption	\$ 7,469,609
Insurance	500,000
Bond refunding	2,077,574
	<b>\$ 10,047,183</b>
Capital assets - net	<b>\$ 13,342,766</b>
Other assets	
Deferred financing costs - net of accumulated amortization of \$74,283	\$ 129,204
	<b>\$ 26,770,197</b>

**Liabilities**

Current liabilities	
Accounts payable	\$ 1,249,790
Salaries payable	264,595
Payroll taxes and other	86,107
Paid time off	390,933
Interest	87,577
Current maturities of long-term debt	274,754
Accumulated losses from investment in Pipestone Medical Clinic	102,953
	<b>\$ 2,456,709</b>
Noncurrent liabilities	
Long-term debt, less current maturities	7,026,044
	<b>\$ 9,482,753</b>

**Net Assets**

Invested in capital assets - net of related debt	\$ 8,119,542
Unrestricted	9,167,902
	<b>\$ 17,287,444</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
MEDICAL CENTER ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Operating Revenues</b>	
Net patient and resident service revenue	\$ 16,539,477
Miscellaneous	476,907
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 17,016,384</b>
<b>Operating Expenses</b>	
Professional care of patients and residents	\$ 10,150,600
General and administrative	2,014,761
Property and household	1,232,697
Depreciation and amortization	965,027
Dietary	590,079
Provision for bad debts	169,661
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 15,122,825</b>
<b>Operating Income (Loss)</b>	<b>\$ 1,893,559</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 477,522
Loss on investment in Pipestone Medical Clinic	(385,558)
Interest expense	(345,640)
Other expenses	(3,516)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (257,192)</b>
<b>Income (Loss) Before Contributions and Transfers</b>	<b>\$ 1,636,367</b>
Capital contributions	100,000
Transfers in	240,266
	<hr/>
<b>Change in Net Assets</b>	<b>\$ 1,976,633</b>
<b>Net Assets - January 1</b>	<b>15,310,811</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 17,287,444</b>
	<hr/> <hr/>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
MEDICAL CENTER ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows From Operating Activities</b>	
Cash received from patient and resident services	\$ 16,372,858
Other revenue	471,391
Cash payments to employees for services	(7,199,965)
Cash payments to suppliers for goods and services	(6,233,042)
	<hr/>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 3,411,242</b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchase of property and equipment	\$ (4,118,974)
Capital contributions	100,000
Repayment of long-term debt	(261,736)
Transfer from County	240,266
Interest paid on long-term debt	(348,142)
	<hr/>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (4,388,586)</b>
<b>Cash Flows From Investing Activities</b>	
(Increase) decrease in assets limited as to use	\$ (2,757,900)
Investment in Pipestone Medical Clinic	(280,761)
Interest income and other	474,006
	<hr/>
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (2,564,655)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (3,541,999)</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>4,201,154</b>
	<hr/>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 659,155</b>
	<hr/> <hr/>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ 1,893,559</b>
	<hr/>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation and amortization	\$ 965,027
(Increase) decrease in receivables	457,525
(Increase) decrease in supplies	(16,721)
Increase (decrease) in prepaid expenses	27,014
Increase (decrease) in accounts payable	(103,422)
Increase (decrease) in accrued expenses	188,260
	<hr/>
<b>Total adjustments</b>	<b>\$ 1,517,683</b>
	<hr/>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 3,411,242</b>
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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, 2006**

**Assets**

Cash and pooled investments	<u>\$ 126,559</u>
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**Liabilities**

Due to other governments	<u>\$ 126,559</u>
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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. 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 so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Pipestone County has one blended component unit.

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (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.

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. The Medical Center consists of a 25-bed acute care hospital and a 43-bed nursing facility.

Additionally, the County reports the following funds:

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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 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.

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

**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 highly liquid investments with original maturities of three months or less, excluding assets limited as to use. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can be deposited or effectively withdrawn from cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, 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 2006 were \$367,418.

Pipestone County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

The Medical Center's investment income for the year ended December 31, 2006, was \$477,522 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

**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)

in the Pipestone Medical Group (Group). The Group operates a clinic in Pipestone, Minnesota. The Group rents its building from the Medical Center. At December 31, 2006, the Group owed the Medical Center \$13,291.

The loss on the investment, totaling \$385,558 for the year ended December 31, 2006, is included in nonoperating revenues and expenses. During 2006, the Medical Center invested additional funds of \$280,761 in the Clinic.

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).

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 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.

**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)

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

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

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the 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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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 restricted by bond indentures and those 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 government-wide financial statements. Capital assets are defined by the County as assets with an estimated useful life in excess of two years and an initial, individual cost of more than \$10,000 for governmental activities or more than \$1,000 for business-type activities. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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.

**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)

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

8. Deferred Revenue

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements, and 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.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or 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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

E. Restatement of Fund Balance

Fund balance at January 1, 2006, was restated for an amount due to the General Fund from the Debt Service Fund at year-end 2005 that was not reported. The following table summarizes the change:

	General Fund	Debt Service Fund
Fund Balance - January 1, as previously reported	\$ 6,276,543	\$ 73,270
Restatement	20,000	(20,000)
Fund Balance - January 1, as restated	\$ 6,296,543	\$ 53,270

F. Medical Center - Net Patient and Resident Service Revenue

Net patient and resident service revenue for the Medical Center are determined based on agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include 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.

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

Medicare - Effective September 1, 2005, the Hospital was relicensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. Prior to critical access designation, services rendered to Medicare program beneficiaries were paid at prospectively determined rates per visit. These rates varied according to a patient classification system based on clinical, diagnostic, and other factors. The Hospital was reimbursed for these services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2003.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

The Hospital's classification of patients under the Medicare program and the appropriateness of the admission are subject to an independent review by a peer review organization under contract with the Hospital.

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.

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

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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2006, of \$139,549. Total budgeted expenditures were \$5,246,961, and the General Fund expended \$5,386,510.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget (Continued)

The Family Services Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2006, of \$95,714. Total budgeted expenditures were \$2,804,460, and the Family Services Special Revenue Fund expended \$2,900,174.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$	8,596,521
Investments		1,748,377
Business-type activities		
Cash and pooled investments		659,155
Restricted assets		
Capital acquisition and debt redemption		7,469,609
Bond refunding		2,077,574
Insurance		500,000
Statement of fiduciary net assets		
Cash and pooled investments		<u>126,559</u>
 Total Cash and Investments	\$	<u>21,177,795</u>

a. Deposits

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County’s deposits in banks at December 31, 2006, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

b. Investments

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;

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2006, \$5,039,035 of the County's investments was exposed to custodial credit risk.

Concentration of Credit Risk

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	AAA	S&P	<5%	10/14/2009	\$ 246,250
Federal Home Loan Mortgage Corporation note	Aaa	Moody's		09/15/2012	\$ 588,618
Federal Home Loan Mortgage Corporation note	AAA	S&P		05/15/2013	393,104
Federal Home Loan Mortgage Corporation note	AAA	S&P		05/15/2014	198,388
Federal Home Loan Mortgage Corporation note	AAA	S&P		07/15/2014	97,385
Federal Home Loan Mortgage Corporation note	AAA	S&P		11/15/2014	97,783
Federal Home Loan Mortgage Corporation note	AAA	S&P		02/25/2008	198,410
Total Federal Home Loan Mortgage Corporation notes			23.9%		\$ 1,573,688
Federal Home Loan Bank bond	AAA	S&P		06/18/2009	\$ 245,312
Federal Home Loan Bank bond	AAA	S&P		08/11/2014	62,583
Federal Home Loan Bank bond	AAA	S&P		05/24/2007	99,174
Federal Home Loan Bank bond	AAA	S&P		05/24/2007	149,410
Federal Home Loan Bank bond	AAA	S&P		07/30/2007	197,786
Federal Home Loan Bank bond	AAA	S&P		09/10/2007	148,104
Federal Home Loan Bank bond	AAA	S&P		11/09/2007	98,794
Federal Home Loan Bank bond	AAA	S&P		01/15/2008	296,115
Federal Home Loan Bank bond	AAA	S&P		04/08/2008	98,455
Federal Home Loan Bank bond	AAA	S&P		07/29/2008	196,222
Federal Home Loan Bank bond	AAA	S&P		08/19/2009	98,785
Federal Home Loan Bank bond	AAA	S&P		08/26/2009	98,748
Federal Home Loan Bank bond	AAA	S&P		12/28/2009	99,681
Federal Home Loan Bank bond	Aaa	Moody's		06/19/2013	193,752
Federal Home Loan Bank bond	AAA	S&P		02/26/2013	190,626
Federal Home Loan Bank bond	AAA	S&P		11/09/2007	98,794
Federal Home Loan Bank bond	AAA	S&P		04/08/2008	98,455
Federal Home Loan Bank bond	AAA	S&P		07/29/2008	98,111
Federal Home Loan Bank bond	AAA	S&P		08/26/2009	98,748
Federal Home Loan Bank bond	AAA	S&P		09/29/2011	249,375
Total Federal Home Loan Bank bonds			44.4%		\$ 2,917,030

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Investment pools/mutual funds					
Edward D. Jones mutual fund	N/R	N/A	N/A	N/A	\$ 2,500
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	\$ 1,302,067
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 534,000
Total investments					\$ 6,575,535
Checking					1,276,839
Savings					3,598,902
Petty cash and change funds					16,325
Certificates of deposit					7,632,620
Cash with escrow agent					2,077,574
Total Cash and Investments					\$ 21,177,795

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

S&P - Standard & Poor's

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 46,490	\$ -
Special assessments	49,418	43,387
Due from other governments	3,244,002	-
Accounts	82,941	-
Interest	126,947	-
Total Governmental Activities	\$ 3,549,798	\$ 43,387

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	\$ 59,634	\$ -
Patient and resident service revenue	1,915,139	-
Total Business-Type Activities	\$ 1,974,773	\$ -

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

Total patient and resident service revenue	\$ 25,439,395
Contractual adjustments	
Medicare	\$ (5,810,459)
Medicaid	(1,138,319)
Other	(1,951,140)
Total contractual adjustments	\$ (8,899,918)
Provision for bad debts	\$ (169,661)
Net Patient and Resident Service Revenue	\$ 16,369,816

**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, 2006, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 367,490	\$ -	\$ 2,500	\$ 364,990
Right-of-way	876,699	26,745	-	903,444
Historical treasures	35,924	-	-	35,924
<b>Total capital assets not depreciated</b>	<b>\$ 1,280,113</b>	<b>\$ 26,745</b>	<b>\$ 2,500</b>	<b>\$ 1,304,358</b>
Capital assets depreciated				
Buildings	\$ 4,360,697	\$ 133,843	\$ 13,647	\$ 4,480,893
Land improvements	325,095	-	-	325,095
Machinery and equipment	3,414,937	742,458	388,749	3,768,646
Infrastructure	35,987,308	2,891,360	-	38,878,668
<b>Total capital assets depreciated</b>	<b>\$ 44,088,037</b>	<b>\$ 3,767,661</b>	<b>\$ 402,396</b>	<b>\$ 47,453,302</b>
Less: accumulated depreciation for				
Buildings	\$ 2,102,983	\$ 85,749	\$ -	\$ 2,188,732
Land improvements	48,300	10,837	-	59,137
Machinery and equipment	1,775,913	348,478	305,783	1,818,608
Infrastructure	7,128,418	781,346	-	7,909,764
<b>Total accumulated depreciation</b>	<b>\$ 11,055,614</b>	<b>\$ 1,226,410</b>	<b>\$ 305,783</b>	<b>\$ 11,976,241</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 33,032,423</b>	<b>\$ 2,541,251</b>	<b>\$ 96,613</b>	<b>\$ 35,477,061</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 34,312,536</b>	<b>\$ 2,567,996</b>	<b>\$ 99,113</b>	<b>\$ 36,781,419</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
Construction in progress	687,669	2,085,380	1,233,683	1,539,366
 Total capital assets not depreciated	 \$ 915,361	 \$ 2,085,380	 \$ 1,233,683	 \$ 1,767,058
Capital assets depreciated				
Buildings	\$ 10,415,388	\$ 1,049,931	\$ -	\$ 11,465,319
Land improvements	419,082	27,716	-	446,798
Fixed equipment	2,291,157	469,237	14,038	2,746,356
Major movable equipment	4,147,538	1,736,018	9,752	5,873,804
 Total capital assets depreciated	 \$ 17,273,165	 \$ 3,282,902	 \$ 23,790	 \$ 20,532,277
Less: accumulated depreciation for				
Buildings	\$ 3,285,146	\$ 336,624	\$ -	\$ 3,621,770
Land improvements	254,465	14,670	-	269,135
Fixed equipment	1,644,302	97,273	6,668	1,734,907
Major movable equipment	2,836,362	495,894	1,499	3,330,757
 Total accumulated depreciation	 \$ 8,020,275	 \$ 944,461	 \$ 8,167	 \$ 8,956,569
 Total capital assets depreciated, net	 \$ 9,252,890	 \$ 2,338,441	 \$ 15,623	 \$ 11,575,708
 Business-Type Activities Capital Assets, Net	 \$ 10,168,251	 \$ 4,423,821	 \$ 1,249,306	 \$ 13,342,766

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

Governmental Activities	
General government	\$ 137,648
Public safety	37,148
Highways and streets, including depreciation of infrastructure assets	1,050,434
Family services	1,180
 Total Depreciation Expense - Governmental Activities	 \$ 1,226,410

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities		
Medical Center	\$	944,461

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 4,232
Road and Bridge	General	7,452
Road and Bridge	Family Services	110
Medical Center	Nonmajor Debt Service	119,362
Total Due To/From Other Funds		\$ 131,156

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

2. Interfund Transfers

There were two interfund transfers for the year ended December 31, 2006. One was a \$240,266 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, to provide funds for debt service. The other was a \$2,285 transfer to the General Fund from the Medical Facility Bonds Debt Service Fund to provide funding.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 342,860	\$ 1,249,790
Salaries	391,417	264,595
Payroll taxes and other	-	86,107
Contracts	415,646	-
Due to other governments	75,034	-
Paid time off	-	390,933
	<hr/>	<hr/>
Total Payables	<u>\$ 1,224,957</u>	<u>\$ 1,991,425</u>

2. Construction Commitments

The County has active construction projects as of December 31, 2006. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
911 equipment	\$ -	\$ 15,849
Roads and bridges	7,897,264	1,203,388
Truck storage shed	93,296	38,095
Gravel crushing	-	90,280
	<hr/>	<hr/>
Total Construction Commitments	<u>\$ 7,990,560</u>	<u>\$ 1,347,612</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Leases

Operating Leases

Total equipment rental expense for the Medical Center for the year ended December 31, 2006, was \$83,216.

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>\$ 44,689</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2007	\$ 23,879
2008	<u>23,878</u>
Total minimum lease payments	\$ 47,757
Less: amount representing interest	<u>(3,068)</u>
Present Value of Minimum Lease Payments	<u>\$ 44,689</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

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.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury Securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2010. The refunded bonds will be called and paid (refunded) by the escrow agent on February 1, 2010. The escrow agent will pay the interest due on the 2005 bonds through February 1, 2010; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issue and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 2000 bonds will be paid and the liability for those bonds will be removed.

The General Obligation Hospital Refunding Bonds of 2005 were issued at a discount of \$27,935 and, after paying debt issuance costs of \$32,000, the net proceeds were \$2,080,293. The County deposited \$1,846 of excess proceeds into the Medical Facility Bonds Debt Service Fund for future debt payments. The remaining \$2,078,447 of bond proceeds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Hospital Refunding Bonds of 2005, until February 1, 2010, at which time the refunded bonds will be paid off.

As a result of the advance crossover refunding, the County reduced its total debt service requirements by \$104,073, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$69,386.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for financing of failing septic systems. The loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. Loan payments will be reported in the General Fund. The debt service requirement for the loan is not known as of December 31, 2006.

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
2005 Redwood River CWP Project	N/A	N/A	2.00	\$ 46,318	\$ 46,318

Business-Type Activities

<u>Type 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, 2006</u>
G.O. Hospital Bonds of 2000	2022	\$90,000 - \$225,000	4.75 - 5.30	\$ 2,935,000	\$ 2,545,000
G.O. Hospital Bonds of 2005	2022	\$145,000 - \$220,000	3.25 - 4.15	2,140,000	2,140,000
Health Facilities Revenue Note, Series 2001	2018	\$70,000 - \$80,000	5.00	3,075,000	2,615,798
Total G.O. Bonds and Revenue Notes				\$ 8,150,000	\$ 7,300,798

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Business-Type Activities

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 274,754	\$ 334,051
2008	288,183	320,222
2009	302,044	305,722
2010	2,391,358	237,943
2011	346,148	170,211
2012 - 2016	1,976,048	605,301
2017 - 2021	1,502,263	146,745
2022	220,000	4,565
Total	<u>\$ 7,300,798</u>	<u>\$ 2,124,760</u>

Governmental Activities

Debt service requirements for governmental activities cannot be determined at this time because the County has not received a fixed repayment schedule for the Clean Water loans.

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 65,304	\$ -	\$ 20,615	\$ 44,689	\$ 21,747
Loans payable	33,605	12,713	-	46,318	-
Compensated absences	189,416	14,908	-	204,324	13,950
Governmental Activities Long-Term Liabilities	<u>\$ 288,325</u>	<u>\$ 27,621</u>	<u>\$ 20,615</u>	<u>\$ 295,331</u>	<u>\$ 35,697</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 4,790,000	\$ -	\$ 105,000	\$ 4,685,000	\$ 110,000
Health Facilities Revenue Note, Series 2001	<u>2,772,534</u>	<u>-</u>	<u>156,736</u>	<u>2,615,798</u>	<u>164,754</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 7,562,534</u>	<u>\$ -</u>	<u>\$ 261,736</u>	<u>\$ 7,300,798</u>	<u>\$ 274,754</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.

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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all 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.

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 internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans (Continued)

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. The County 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 were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 488,615	\$ 58,150	\$ 28,663
2005	438,027	48,307	25,980
2004	378,878	39,881	21,542

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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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 MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and at \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis. 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. 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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

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.

B. 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 2006 was \$55,833.

The Lincoln, Lyon, Murray, and Pipestone Public Health Service's 2005 financial report shows total net assets of \$905,772 and an increase in net assets of \$92,474.

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.

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.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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

Bonds were issued by Lincoln County to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2006, are \$21,957,644.

The Rural Water System's 2006 financial report shows total net assets of \$38,147,114, including unrestricted of \$20,545,521. The decrease in net assets for the year ended December 31, 2006, is \$134,179. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

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

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

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

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.

C. Jointly-Governed Organizations

Pipestone County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations listed below:

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides 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.

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 \$741 of the County levy to the RCRCA.

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Pipestone County Economic Development Authority

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

D. Agricultural Best Management Loan Program

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 1*

**BUDGETARY COMPARISON SCHEDULE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,210,522	\$ 2,001,698	\$ 1,852,844	\$ (148,854)
Special assessments	120,600	120,600	132,288	11,688
Licenses and permits	7,700	7,700	11,375	3,675
Intergovernmental	1,380,389	1,589,213	1,676,982	87,769
Charges for services	959,368	959,368	1,106,383	147,015
Fines and forfeits	15,500	15,500	17,184	1,684
Investment earnings	300,000	300,000	380,165	80,165
Miscellaneous	204,042	204,042	301,138	97,096
<b>Total Revenues</b>	<b>\$ 5,198,121</b>	<b>\$ 5,198,121</b>	<b>\$ 5,478,359</b>	<b>\$ 280,238</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 175,349	\$ 175,349	\$ 164,678	\$ 10,671
Travel management	-	-	18,112	(18,112)
Courts	29,800	29,800	35,257	(5,457)
Law library	19,000	19,000	18,788	212
Coordinator	94,537	94,537	92,749	1,788
Auditor	184,251	184,251	176,181	8,070
Treasurer	160,852	160,852	161,182	(330)
Assessor	162,529	162,529	133,923	28,606
Elections	193,613	193,613	165,398	28,215
Accounting and auditing	30,000	30,000	30,551	(551)
Data processing	126,009	126,009	126,015	(6)
Personnel	57,343	57,343	50,487	6,856
Information technology	66,033	66,033	102,966	(36,933)
Attorney	166,850	166,850	160,302	6,548
Recorder	106,998	106,998	126,819	(19,821)
Planning and zoning	29,345	29,345	43,446	(14,101)
Geographic information systems	40,200	40,200	15,000	25,200
Buildings and plant	288,413	288,413	216,936	71,477
Veterans service officer	47,739	47,739	43,211	4,528
County-wide transportation	309,327	309,327	353,994	(44,667)
Fairgrounds	86,391	86,391	29,856	56,535
Other general government	179,870	179,870	293,216	(113,346)
<b>Total general government</b>	<b>\$ 2,554,449</b>	<b>\$ 2,554,449</b>	<b>\$ 2,559,067</b>	<b>\$ (4,618)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

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

**BUDGETARY COMPARISON SCHEDULE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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>Public safety</b>				
Sheriff	\$ 911,820	\$ 911,820	\$ 951,703	\$ (39,883)
Dispatch	204,501	204,501	188,626	15,875
Ambulance	237,296	237,296	314,333	(77,037)
Coroner	5,000	5,000	2,300	2,700
E-911 system	75,400	75,400	62,967	12,433
County jail	352,660	352,660	343,298	9,362
Probation and parole	76,914	76,914	50,750	26,164
Civil defense	69,484	69,484	68,456	1,028
<b>Total public safety</b>	<b>\$ 1,933,075</b>	<b>\$ 1,933,075</b>	<b>\$ 1,982,433</b>	<b>\$ (49,358)</b>
<b>Sanitation</b>				
Recycling	\$ 169,265	\$ 169,265	\$ 180,310	\$ (11,045)
<b>Culture and recreation</b>				
Parks	\$ 900	\$ 900	\$ 4,060	\$ (3,160)
Hiawatha Trails	-	-	24,666	(24,666)
Senior citizens	52,428	52,428	49,362	3,066
Other	42,295	42,295	42,963	(668)
<b>Total culture and recreation</b>	<b>\$ 95,623</b>	<b>\$ 95,623</b>	<b>\$ 121,051</b>	<b>\$ (25,428)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 165,112	\$ 165,112	\$ 165,648	\$ (536)
Agricultural inspection	21,865	21,865	20,851	1,014
Other	182,122	182,122	231,800	(49,678)
<b>Total conservation of natural resources</b>	<b>\$ 369,099</b>	<b>\$ 369,099</b>	<b>\$ 418,299</b>	<b>\$ (49,200)</b>
<b>Economic development</b>				
Community development	\$ 61,705	\$ 61,705	\$ 61,605	\$ 100
<b>Intergovernmental</b>				
Library	\$ 39,866	\$ 39,866	\$ 39,866	\$ -
<b>Debt service</b>				
Principal	\$ 20,615	\$ 20,615	\$ 20,615	\$ -
Interest	\$ 3,264	\$ 3,264	\$ 3,264	\$ -
<b>Total Expenditures</b>	<b>\$ 5,246,961</b>	<b>\$ 5,246,961</b>	<b>\$ 5,386,510</b>	<b>\$ (139,549)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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>	<b>\$ (48,840)</b>	<b>\$ (48,840)</b>	<b>\$ 91,849</b>	<b>\$ 140,689</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 2,285	\$ 2,285
Transfers out	(20,000)	(20,000)	-	20,000
Proceeds from loans	-	-	12,713	12,713
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (20,000)</b>	<b>\$ (20,000)</b>	<b>\$ 14,998</b>	<b>\$ 34,998</b>
<b>Net Change in Fund Balance</b>	<b>\$ (68,840)</b>	<b>\$ (68,840)</b>	<b>\$ 106,847</b>	<b>\$ 175,687</b>
Fund Balance - January 1, as previously reported	\$ 6,276,543	\$ 6,276,543	\$ 6,276,543	\$ -
Restatement (Note 1.E.)	-	-	20,000	20,000
<b>Fund Balance - January 1, as restated</b>	<b>\$ 6,276,543</b>	<b>\$ 6,276,543</b>	<b>\$ 6,296,543</b>	<b>\$ 20,000</b>
<b>Fund Balance - December 31</b>	<b>\$ 6,207,703</b>	<b>\$ 6,207,703</b>	<b>\$ 6,403,390</b>	<b>\$ 195,687</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 566,579	\$ 503,089	\$ 549,592	\$ 46,503
Intergovernmental	3,221,942	4,174,020	3,639,201	(534,819)
Charges for services	188,500	188,500	154,806	(33,694)
Investment earnings	30,000	30,000	63,646	33,646
Miscellaneous	71,050	71,050	61,498	(9,552)
<b>Total Revenues</b>	<b>\$ 4,078,071</b>	<b>\$ 4,966,659</b>	<b>\$ 4,468,743</b>	<b>\$ (497,916)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 244,476	\$ 379,789	\$ 355,535	\$ 24,254
Maintenance	1,125,972	1,232,782	1,231,328	1,454
Construction	2,303,248	3,958,229	3,641,595	316,634
Equipment and maintenance shops	265,389	353,221	352,406	815
<b>Total highways and streets</b>	<b>\$ 3,939,085</b>	<b>\$ 5,924,021</b>	<b>\$ 5,580,864</b>	<b>\$ 343,157</b>
<b>Intergovernmental</b>	<b>213,521</b>	<b>213,521</b>	<b>209,656</b>	<b>3,865</b>
<b>Total Expenditures</b>	<b>\$ 4,152,606</b>	<b>\$ 6,137,542</b>	<b>\$ 5,790,520</b>	<b>\$ 347,022</b>
<b>Net Change in Fund Balance</b>	<b>\$ (74,535)</b>	<b>\$ (1,170,883)</b>	<b>\$ (1,321,777)</b>	<b>\$ (150,894)</b>
<b>Fund Balance - January 1</b>	<b>3,392,548</b>	<b>3,392,548</b>	<b>3,392,548</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>18,527</b>	<b>18,527</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,318,013</b>	<b>\$ 2,221,665</b>	<b>\$ 2,089,298</b>	<b>\$ (132,367)</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 788,587	\$ 700,225	\$ 765,382	\$ 65,157
Intergovernmental	1,193,490	1,281,852	1,657,243	375,391
Charges for services	8,560	8,560	14,524	5,964
Miscellaneous	174,000	174,000	395,929	221,929
<b>Total Revenues</b>	<b>\$ 2,164,637</b>	<b>\$ 2,164,637</b>	<b>\$ 2,833,078</b>	<b>\$ 668,441</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 876,690	\$ 876,690	\$ 1,010,762	\$ (134,072)
Social services	1,927,770	1,927,770	1,833,579	94,191
<b>Total human services</b>	<b>\$ 2,804,460</b>	<b>\$ 2,804,460</b>	<b>\$ 2,844,341</b>	<b>\$ (39,881)</b>
<b>Intergovernmental</b>				
Health	-	-	55,833	(55,833)
<b>Total Expenditures</b>	<b>\$ 2,804,460</b>	<b>\$ 2,804,460</b>	<b>\$ 2,900,174</b>	<b>\$ (95,714)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (639,823)</b>	<b>\$ (639,823)</b>	<b>\$ (67,096)</b>	<b>\$ 572,727</b>
<b>Fund Balance - January 1</b>	<b>1,144,653</b>	<b>1,144,653</b>	<b>1,144,653</b>	-
<b>Fund Balance - December 31</b>	<b>\$ 504,830</b>	<b>\$ 504,830</b>	<b>\$ 1,077,557</b>	<b>\$ 572,727</b>

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2006

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1. 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. Budgets are adopted on a basis consistent with generally accepted accounting principles. The budgets may be amended or modified at any time by the County Board.

2. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 5,386,510	\$ 5,246,961	\$ 139,549
Family Services Special Revenue	2,900,174	2,804,460	95,714

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**SUPPLEMENTARY INFORMATION**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Ditch</b>	<b>Debt Service Medical Facility Bonds</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 21,258	\$ 160,794	\$ 182,052
Undistributed cash in agency funds	-	5,230	5,230
Taxes receivable			
Prior	-	5,776	5,776
	<b>\$ 21,258</b>	<b>\$ 171,800</b>	<b>\$ 193,058</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Due to other funds	\$ -	\$ 119,362	\$ 119,362
Deferred revenue - unavailable	-	5,776	5,776
	<b>\$ -</b>	<b>\$ 125,138</b>	<b>\$ 125,138</b>
<b>Fund Balances</b>			
Reserved for debt service	\$ -	\$ 46,662	\$ 46,662
Unreserved			
Undesignated	21,258	-	21,258
	<b>\$ 21,258</b>	<b>\$ 46,662</b>	<b>\$ 67,920</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 21,258</b>	<b>\$ 171,800</b>	<b>\$ 193,058</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, 2006**

	<u>Special Revenue</u>	<u>Debt Service</u>		<u>Total</u>
	<u>Ditch</u>	<u>Medical</u>		
		<u>Facility Bonds</u>		
<b>Revenues</b>				
Taxes	\$ -	\$ 235,939		\$ 235,939
Investment earnings	-	4		4
<b>Total Revenues</b>	<b>\$ -</b>	<b>\$ 235,943</b>		<b>\$ 235,943</b>
<b>Expenditures</b>				
<b>Current</b>				
Conservation of natural resources	11,698	-		11,698
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (11,698)</b>	<b>\$ 235,943</b>		<b>\$ 224,245</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(242,551)		(242,551)
<b>Net Change in Fund Balance</b>	<b>\$ (11,698)</b>	<b>\$ (6,608)</b>		<b>\$ (18,306)</b>
Fund Balance - January 1, as previously reported	\$ 32,956	\$ 73,270		\$ 106,226
Restatement (Note 1.E.)	-	(20,000)		(20,000)
<b>Fund Balance - January 1, as restated</b>	<b>\$ 32,956</b>	<b>\$ 53,270</b>		<b>\$ 86,226</b>
<b>Fund Balance - December 31</b>	<b>\$ 21,258</b>	<b>\$ 46,662</b>		<b>\$ 67,920</b>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 3*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>6,329</u>	\$ <u>255,370</u>	\$ <u>247,779</u>	\$ <u>13,920</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>6,329</u>	\$ <u>255,370</u>	\$ <u>247,779</u>	\$ <u>13,920</u>
 <b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>14,614</u>	\$ <u>749,012</u>	\$ <u>748,281</u>	\$ <u>15,345</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>14,614</u>	\$ <u>749,012</u>	\$ <u>748,281</u>	\$ <u>15,345</u>
 <b><u>FORFEITED TAX SALE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>15,267</u>	\$ <u>1,093</u>	\$ <u>16,010</u>	\$ <u>350</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>15,267</u>	\$ <u>1,093</u>	\$ <u>16,010</u>	\$ <u>350</u>

**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Statement 3*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 127,049	\$ 7,937,736	\$ 7,967,841	\$ 96,944
<b><u>Liabilities</u></b>				
Due to other governments	\$ 127,049	\$ 7,937,736	\$ 7,967,841	\$ 96,944
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 163,259	\$ 8,943,211	\$ 8,979,911	\$ 126,559
<b><u>Liabilities</u></b>				
Due to other governments	\$ 163,259	\$ 8,943,211	\$ 8,979,911	\$ 126,559

**OTHER SCHEDULE**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

*Schedule 4*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Shared Revenue**

**State**

Highway users tax	\$	3,352,819
County program aid		1,154,216
PERA rate reimbursement		14,804
Disparity reduction aid		72,000
Police aid		48,307
Enhanced 911		81,990
Market value credit		360,676
		360,676

**Total Shared Revenue** **\$ 5,084,812**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	608,312
		608,312

**Payments**

**Local**

Payments in lieu of taxes	\$	35,081
		35,081

**Grants**

**State**

Minnesota Department of Corrections	\$	9,769
Human Services		464,836
Natural Resources		24,666
Transportation		156,805
Veterans Affairs		1,400
Water and Soil Resources Board		95,626
Pollution Control Agency		49,079
		49,079

**Total State** **\$ 802,181**

**Federal**

Department of Agriculture	\$	2,286
Transportation		68,148
Health and Human Services		207,400
Homeland Security		9,206
Election Assistance Commission		156,000
		156,000

**Total Federal** **\$ 443,040**

**Total State and Federal Grants** **\$ 1,245,221**

**Total Intergovernmental Revenue** **\$ 6,973,426**

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**PIPESTONE COUNTY  
PIPESTONE, MINNESOTA**

Schedule 5

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**I. 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.*

ITEMS ARISING THIS YEAR

06-1 Audit Adjustments and Restatements

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are identification by the

auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements including a material restatement. The restatement related an amount due to the General Fund from the Medical Facility Bonds Debt Service Fund at year-end 2005 that was not reported. Other adjustments resulted from: County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; accounting staff not keeping current on new accounting and reporting requirements; errors made in recording transactions and with mapping of various account codes; control over calculating the proper amounts of assets and liabilities that did not detect a number of errors resulting in the client's records understating assets, liabilities, revenues, and expenditures; and the County not considering the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

*The County will review and update internal controls to improve financial reporting. The County will seek out qualified individual(s) to review balances and supporting documentation.*

06-2 Computer Risk Management

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain segregation of duties over the control of the computer system, require strong passwords, maintain system administrator activity logs, or have a disaster recovery plan.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and testing its disaster recovery plan.

We recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

*Pipestone County will address the risk management of the computer system (general system and i5 series) during the 2008 fiscal year.*

*Internal controls, risk assessment, segregation of duties, passwords, logging, number of devices allowed to sign on the system, and controls will be reviewed and addressed.*

*A disaster recovery plan will be discussed when a business continuity plan has been developed.*

06-3 Capital Assets Policies and Procedures

The County's current capital assets policy defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods; however, the policy does not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital asset will take place. Also, the County includes work in progress with the finished projects and capitalizes them early, and it is not clear how the costs of replaced infrastructure assets are being deleted.

The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of redetermination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board address these issues in the capital assets policy. The policy should establish procedures to address the point when useful lives of current capital assets should be reconsidered.

Client's Response:

*The Road and Bridge will no longer include any work in process with its finished projects.*

*The County will review its current Capital Asset Policy to address assets that are fully depreciated but still in use. The estimated useful lives assigned to capital assets will need to be reviewed and made current. The Capital Asset Policy should include language as to when the useful lives of current capital assets should be reconsidered.*

06-4 Controls Over the Accounting System Journal Entry Function

The County does limit access to the accounting system journal entry function to select County employees. Several employees in the County have access to this function. Not all journal entries made to the accounting system are reviewed or approved.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County strengthen the controls over the journal entries by reevaluating who has access to the journal entry function and determine whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form, or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

*The County will review who has access to the accounting system journal entry function to see if adjustments need to be made. The Auditor and Treasurer have discussed measures of signing off on the Manual Journal entry forms monthly.*

06-5 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

*The County will start to develop an accounting policies and procedures manual with input from all levels of management and eventual approval by the County Board.*

**II. OTHER FINDINGS AND RECOMMENDATIONS**

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

**Family Services Reporting (05-1)**

At the time of our audit, the Fiscal Supervisor was six months behind in reporting for Medicaid Management Information System (MMIS), which delayed income from the state. When reviewing the remittance advices, we noted funds were received for service dates as far back as 2004. Also, Medical Assistance (MA) recoveries had not been paid to the state for all of 2005. In March 2006, MA recoveries for 2004 and part of 2005 were made to the state, leaving a balance of \$50,000 pending.

**Resolution**

The Fiscal Supervisor ensures that the MMIS report is done on a monthly basis and that MA recoveries are paid over to the state on a timely basis and reconciled for financial reporting at the end of the year.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage

pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Pipestone County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

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

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, 2006, and have issued our report thereon dated March 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 99-3 and 06-1 through 06-5 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Pipestone County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 06-1 and 06-4 to be material weaknesses.

### 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.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to Pipestone County and report it for that purpose.

Pipestone County's written responses to the significant deficiencies and material weakness identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 7, 2008