

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

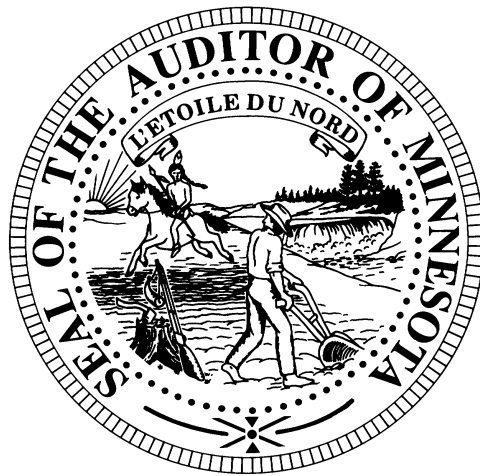
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

For the Year Ended December 31, 2005



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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

Office	Name	Term Expires
Commissioners		
1 st District	Luke Johnson	January 2009
2 nd District	Larry Carstensen ³	January 2007
3 rd District	Marvin Tinklenberg	January 2008
4 th District	John "Jack" Keers ²	January 2007
5 th District	Jerry Remund ¹	January 2008
Officers		
Elected		
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
Appointed		
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

¹Chair 2006

²Chair 2005

³Resigned effective November 1, 2005

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center Enterprise Fund, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us; and our opinion expressed here, insofar as it relates to amounts included for the Medical Center Enterprise Fund, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the

aggregate remaining fund information of Pipestone County as of December 31, 2005, 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 June 27, 2006, on our consideration of Pipestone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(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, 2005. 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 \$47,781,153 of which \$34,250,516 is invested in capital assets and \$4,281,930 is restricted for specific purposes. The unrestricted net assets of \$9,248,707 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$6,616,437 for the year ended December 31, 2005. A large part of that increase is attributable to capital grants for highways and streets.

The net cost of governmental activities for the current fiscal year was \$1,924,917. The net cost was funded by general revenues totaling \$4,691,520.

Fund balances of the governmental funds increased by \$897,448. Most of the increase was due to increases in miscellaneous fees, charges for services, highway allotments, and investment earnings.

For the year ended December 31, 2005, the unreserved fund balance of the General Fund was \$6,013,627, or 130 percent of the total General Fund expenditures for the year.

The Pipestone County Medical Center's assets exceeded its liabilities by \$15,310,811 at December 31, 2005. The Medical Center recorded a change in net assets of \$2,208,361 for the fiscal year ending December 31, 2005.

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 non-financial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

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

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

Fund Level Financial Statements

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

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

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

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

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

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$47,781,153 at the close of 2005. The largest portion of the net assets (71.68 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 2004 is presented.

Governmental Activities

	2005	2004
Assets		
Current and other assets	\$ 14,878,509	\$ 12,448,602
Capital assets	34,312,536	29,912,587
Total Assets	\$ 49,191,045	\$ 42,361,189
Liabilities		
Long-term liabilities	\$ 288,325	\$ 328,300
Other liabilities	1,121,567	868,173
Total Liabilities	\$ 1,409,892	\$ 1,196,473

	<u>2005</u>	<u>2004</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 34,250,516	\$ 29,757,742
Restricted	4,281,930	1,684,911
Unrestricted	<u>9,248,707</u>	<u>9,722,063</u>
Total Net Assets	<u>\$ 47,781,153</u>	<u>\$ 41,164,716</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 19.36 percent of the net assets.

The County's governmental activities increased net assets by sixteen percent (\$47,781,153 for 2005 compared to \$41,164,716 for 2004). Key elements in this increase in net assets are as follows with comparative amounts from 2004.

	Changes in Net Assets			
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues				
Program revenues				
Charges for services	\$ 1,620,782	\$ 1,440,859	\$ 16,169,538	\$ 14,795,429
Operating grants and contributions	2,918,825	2,717,801	-	-
Capital grants and contributions	7,287,254	2,373,845	-	-
General revenues				
Property taxes	3,041,373	3,706,498	-	-
Other	<u>1,928,670</u>	<u>1,309,993</u>	<u>250,189</u>	<u>114,022</u>
Total Revenues	<u>\$ 16,796,904</u>	<u>\$ 11,548,996</u>	<u>\$ 16,419,727</u>	<u>\$ 14,909,451</u>
Expenses				
General government	\$ 1,896,976	\$ 2,259,912	\$ -	\$ -
Public safety	1,832,426	1,638,941	-	-
Highways and streets	2,815,677	2,502,213	-	-
Sanitation	179,125	122,508	-	-
Human services	2,668,355	2,530,553	-	-
Health	55,833	55,833	-	-
Culture and recreation	127,004	129,618	-	-
Conservation of natural resources	302,651	325,827	-	-
Economic development	17,385	59,614	-	-
Interest	6,512	11,026	-	-
Medical Center	<u>-</u>	<u>-</u>	<u>14,489,889</u>	<u>13,322,625</u>
Total Expenses	<u>\$ 9,901,944</u>	<u>\$ 9,636,045</u>	<u>\$ 14,489,889</u>	<u>\$ 13,322,625</u>

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Excess (Deficiency) Before Transfers	\$ 6,894,960	\$ 1,912,951	\$ 1,929,838	\$ 1,586,826
Transfers	(278,523)	(240,591)	278,523	240,591
Increase in Net Assets	\$ 6,616,437	\$ 1,672,360	\$ 2,208,361	\$ 1,827,417
Net Assets - January 1	41,164,716	39,492,356	13,102,450	11,275,033
Net Assets - December 31	\$ 47,781,153	\$ 41,164,716	\$ 15,310,811	\$ 13,102,450

Total governmental revenues for the County were \$16,518,381 total expenses were \$9,901,944, and total transfers out were \$278,523. This reflects a \$6,616,437 increase in net assets for the year ended December 31, 2005.

The cost of all governmental activities for the year was \$9,901,944. However, as shown on the statement of activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$3,041,373 because some of the cost was paid by those who directly benefited from the programs--\$1,620,782, or by other governments and organizations that subsidized certain programs with grants and contributions--\$10,206,079. 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.

	Governmental Activities			
	Total Cost of Services		Net Cost (Revenue) of Services	
	2005	2004	2005	2004
Highways and streets	\$ 2,815,677	\$ 2,502,213	\$ (5,693,612)	\$ (1,118,969)
Human services	2,668,355	2,530,553	1,305,707	1,471,881
General government	1,896,976	2,259,912	1,324,529	1,684,791
Public safety	1,832,426	1,638,941	773,634	641,752
All others	688,510	704,426	364,825	424,085
Totals	\$ 9,901,944	\$ 9,636,045	\$ (1,924,917)	\$ 3,103,540

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$10,919,970, an increase of \$897,448 in comparison with the prior year. Of the combined ending fund balances, \$9,022,809 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 \$6,013,627. 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 130 percent of total General Fund expenditures. During 2005, the ending fund balance increased by \$86,133. The County received \$219,244 less in revenue than expected and underspent its budget by \$291,772.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$1,871,573 at fiscal year-end, representing 27 percent of its annual expenditures. The ending fund balance increased \$1,132,680 during 2005.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,104,653 at fiscal year-end, representing 40 percent of its annual expenditures. The ending fund balance decreased \$299,570 during 2005.

Proprietary Fund

The statement of net assets at December 31, 2005, for the Pipestone County Medical Center indicates total assets of \$24,870,011, total liabilities of \$9,559,200, and net assets of \$15,310,811. Total current assets were \$7,260,861, and total current liabilities were \$2,258,406, for a current ratio of 3.22--down from 3.68 at December 31, 2004. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of \$16,169,538 and total operating expenses of \$14,335,341 for an operating income of \$1,834,197, and nonoperating revenues and transfer of \$374,164, which contributed to the increase in net assets from \$13,102,450 to \$15,310,811.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The actual charges to appropriations (expenditures) were \$291,772 under the final budget amounts. The most significant variances occurred in the building and plant budget and other general government expenditures.

On the other hand, resources available for appropriation were \$219,244 under the final budgeted amount. Taxes and investment earnings were less than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2005, totaled \$34,312,536 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$4,399,949, or 15 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)	
	2005	2004
Land and other non-depreciated assets	\$ 1,280,113	\$ 1,212,267
Land improvements	276,795	287,632
Infrastructure	28,858,890	24,697,599
Buildings	2,257,714	2,324,371
Machinery and equipment	1,639,024	1,390,718
Total	<u>\$ 34,312,536</u>	<u>\$ 29,912,587</u>

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

Pipestone County Medical Center's capital assets at December 31, 2005, amounted to \$10,168,251 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

At December 31, 2005, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, Pipestone County Medical Center had total long-term debt outstanding of \$7,562,534, 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 2006 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Pipestone County at the end of 2005 was 3.7 percent. This compares favorably with the state unemployment rate of 4.0 percent and shows a 0.1 percent decrease from the County's rate of one year ago. The 2005 County population is estimated at 9,421, a decrease of 474 from the 2000 census of 9,895.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The property tax levy for the County increased 7.7 percent (\$248,355) from 2005.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 9,780,653	\$ 4,201,154	\$ 13,981,807
Investments	1,713,875	-	1,713,875
Receivables - net	3,275,539	2,436,814	5,712,353
Internal balances	(114,846)	114,846	-
Inventories	223,288	372,646	595,934
Prepaid items	-	135,401	135,401
Assets restricted as to use for			
Capital acquisition and debt redemption	-	4,711,024	4,711,024
Insurance	-	500,000	500,000
Bond refunding	-	2,078,259	2,078,259
Capital assets			
Non-depreciable capital assets	1,280,113	915,361	2,195,474
Depreciable capital assets - net of accumulated depreciation	33,032,423	9,252,890	42,285,313
Other assets			
Investment in Pipestone Medical Center	-	1,844	1,844
Deferred financing costs - net of accumulated amortization	-	149,772	149,772
	\$ 49,191,045	\$ 24,870,011	\$ 74,061,056
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,103,584	\$ 1,906,587	\$ 3,010,171
Accrued interest payable	-	90,079	90,079
Unearned revenue	17,983	-	17,983
Long-term liabilities			
Due within one year	36,117	261,740	297,857
Due in more than one year	252,208	7,300,794	7,553,002
	\$ 1,409,892	\$ 9,559,200	\$ 10,969,092
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 34,250,516	\$ 4,745,717	\$ 38,996,233
Restricted for			
Highways and streets	4,208,660	-	4,208,660
Debt service	73,270	-	73,270
Unrestricted	9,248,707	10,565,094	19,813,801
	\$ 47,781,153	\$ 15,310,811	\$ 63,091,964

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 1,896,976	\$ 328,039
Public safety	1,832,426	875,434
Highways and streets	2,815,677	196,273
Sanitation	179,125	31,124
Human services	2,668,355	177,339
Health	55,833	-
Culture and recreation	127,004	-
Conservation of natural resources	302,651	12,573
Economic development	17,385	-
Interest	6,512	-
	\$ 9,901,944	\$ 1,620,782
Business-type activities		
Medical Center	14,489,889	16,169,538
	\$ 24,391,833	\$ 17,790,320

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

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 244,408	\$ -	\$ (1,324,529)	\$ -	\$ (1,324,529)
133,358	50,000	(773,634)	-	(773,634)
1,075,762	7,237,254	5,693,612	-	5,693,612
174,184	-	26,183	-	26,183
1,185,309	-	(1,305,707)	-	(1,305,707)
-	-	(55,833)	-	(55,833)
-	-	(127,004)	-	(127,004)
105,804	-	(184,274)	-	(184,274)
-	-	(17,385)	-	(17,385)
-	-	(6,512)	-	(6,512)
\$ 2,918,825	\$ 7,287,254	\$ 1,924,917	\$ -	\$ 1,924,917
-	-	-	1,679,649	1,679,649
\$ 2,918,825	\$ 7,287,254	\$ 1,924,917	\$ 1,679,649	\$ 3,604,566
		\$ 3,041,373	\$ -	\$ 3,041,373
		5,858	-	5,858
		22,686	-	22,686
		1,589,993	-	1,589,993
		304,556	250,189	554,745
		5,577	-	5,577
		(278,523)	278,523	-
		\$ 4,691,520	\$ 528,712	\$ 5,220,232
		\$ 6,616,437	\$ 2,208,361	\$ 8,824,798
		41,164,716	13,102,450	54,267,166
		\$ 47,781,153	\$ 15,310,811	\$ 63,091,964

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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, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 6,159,353	\$ 2,147,035	\$ 1,166,473	\$ 214,404	\$ 9,687,265
Undistributed cash in agency funds	52,732	12,973	19,292	5,266	90,263
Petty cash and change funds	3,025	100	-	-	3,125
Investments	246,116	1,466,359	-	1,400	1,713,875
Taxes receivable					
Prior	27,037	8,317	11,945	6,610	53,909
Special assessments receivable					
Prior	6,732	-	-	-	6,732
Noncurrent	33,605	-	-	-	33,605
Accounts receivable	12,059	884	40,868	-	53,811
Accrued interest receivable	71,744	11,755	-	2	83,501
Loans receivable	-	-	40,000	-	40,000
Due from other funds	4,418	5,675	-	-	10,093
Due from other governments	61,119	2,666,453	276,409	-	3,003,981
Inventories	-	223,288	-	-	223,288
Total Assets	\$ 6,677,940	\$ 6,542,839	\$ 1,554,987	\$ 227,682	\$ 15,003,448

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 103,548	\$ 82,384	\$ 98,478	\$ -	\$ 284,410
Salaries payable	190,858	72,448	82,362	-	345,668
Contracts payable	-	314,988	-	-	314,988
Due to other funds	5,675	-	4,418	114,846	124,939
Due to other governments	15,959	10,770	131,789	-	158,518
Deferred revenue - unavailable	67,374	2,669,701	93,287	6,610	2,836,972
Deferred revenue - unearned	17,983	-	-	-	17,983
Total Liabilities	\$ 401,397	\$ 3,150,291	\$ 410,334	\$ 121,456	\$ 4,083,478
Fund Balances					
Reserved for					
Debt service	\$ -	\$ -	\$ -	\$ 73,270	\$ 73,270
Encumbrances	99,702	153,017	-	-	252,719
Inventories	-	223,288	-	-	223,288
Loans receivable	-	-	40,000	-	40,000
Missing heirs	3,971	-	-	-	3,971
Law library	50,880	-	-	-	50,880
Recorder's technology fund	8,278	-	-	-	8,278
Recorder's compliance fund	9,284	-	-	-	9,284
Sheriff's contingency	1,914	-	-	-	1,914
Drug forfeiture	5,874	-	-	-	5,874
Gun permit fees	3,731	-	-	-	3,731
Canteen fund	5,372	-	-	-	5,372
Transportation	21,934	-	-	-	21,934
Probation supervision fees	7,247	-	-	-	7,247
Nursing unit (Skailand estate)	25,119	-	-	-	25,119
Zoning restitution	12,887	-	-	-	12,887
DWI fees	6,723	-	-	-	6,723
Highway allotments	-	1,144,670	-	-	1,144,670
Unreserved					
Designated for elections	43,595	-	-	-	43,595
Designated for ambulance	83,500	-	-	-	83,500
Designated for buildings	107,657	-	-	-	107,657
Designated for environmental services	150,690	-	-	-	150,690
Undesignated	5,628,185	1,871,573	1,104,653	-	8,604,411
Nonmajor special revenue funds	-	-	-	32,956	32,956
Total Fund Balances	\$ 6,276,543	\$ 3,392,548	\$ 1,144,653	\$ 106,226	\$ 10,919,970
Total Liabilities and Fund Balances	\$ 6,677,940	\$ 6,542,839	\$ 1,554,987	\$ 227,682	\$ 15,003,448

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$ 10,919,970
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.	34,312,536
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,836,972
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Capital leases	\$ (65,304)
Loans payable	(33,605)
Compensated absences	(189,416)
	<u>(288,325)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 47,781,153</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,618,645	\$ 481,966	\$ 717,180	\$ 235,516	\$ 3,053,307
Special assessments	126,463	-	-	-	126,463
Licenses and permits	11,209	-	-	-	11,209
Intergovernmental	1,438,207	7,422,655	1,530,806	-	10,391,668
Charges for services	934,200	120,157	6,800	-	1,061,157
Fines and forfeits	21,807	-	-	-	21,807
Gifts and contributions	8,426	-	-	-	8,426
Investment earnings	265,806	38,727	-	23	304,556
Miscellaneous	279,954	79,176	174,271	1,845	535,246
Total Revenues	\$ 4,704,717	\$ 8,142,681	\$ 2,429,057	\$ 237,384	\$ 15,513,839
Expenditures					
Current					
General government	\$ 2,137,317	\$ -	\$ -	\$ -	\$ 2,137,317
Public safety	1,773,939	-	-	-	1,773,939
Highways and streets	-	6,823,056	-	-	6,823,056
Sanitation	179,061	-	-	-	179,061
Human services	-	-	2,672,794	-	2,672,794
Culture and recreation	91,889	-	-	-	91,889
Conservation of natural resources	301,831	-	-	656	302,487
Economic development	17,385	-	-	-	17,385
Intergovernmental	34,714	213,521	55,833	-	304,068
Debt service					
Principal	89,541	-	-	-	89,541
Interest	6,087	-	-	-	6,087
Administrative (fiscal) fees	425	-	-	-	425
Total Expenditures	\$ 4,632,189	\$ 7,036,577	\$ 2,728,627	\$ 656	\$ 14,398,049
Excess of Revenues Over (Under) Expenditures	\$ 72,528	\$ 1,106,104	\$ (299,570)	\$ 236,728	\$ 1,115,790
Other Financing Sources (Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 20,000	\$ 20,000
Transfers out	(20,000)	-	-	(278,523)	(298,523)
Loans issued	33,605	-	-	-	33,605
Total Other Financing Sources (Uses)	\$ 13,605	\$ -	\$ -	\$ (258,523)	\$ (244,918)
Net Change in Fund Balance	\$ 86,133	\$ 1,106,104	\$ (299,570)	\$ (21,795)	\$ 870,872
Fund Balance - January 1, Note 1.E.	6,190,410	2,259,868	1,444,223	128,021	10,022,522
Increase (decrease) in reserved for inventories	-	26,576	-	-	26,576
Fund Balance - December 31	\$ 6,276,543	\$ 3,392,548	\$ 1,144,653	\$ 106,226	\$ 10,919,970

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 870,872

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	\$ 2,836,972	
Deferred revenue - January 1	(1,557,907)	1,279,065

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	\$ 5,507,575	
Current year depreciation	(1,107,626)	4,399,949

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

Principal repayments		
General obligation bonds	\$ 70,000	
Capital leases	19,541	89,541

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		(33,605)
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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	\$ (15,961)	
Change in inventories	26,576	10,615

Change in net assets of governmental activities (Exhibit 2) \$ 6,616,437

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PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2005**

Assets

Current assets	
Cash and cash equivalents	\$ 4,201,154
Accounts receivable - net	58,634
Patient and resident receivables - net	2,378,180
Due from other funds	114,846
Inventories	372,646
Prepaid items	135,401
	\$ 7,260,861
Noncurrent assets	
Assets restricted as to use for	
Capital acquisition and debt redemption	\$ 4,711,024
Insurance	500,000
Bond refunding	2,078,259
	\$ 7,289,283
Capital assets - net	\$ 10,168,251
Other assets	
Investment in Pipestone Medical Clinic	\$ 1,844
Deferred financing costs - net of accumulated amortization of \$32,733	149,772
	\$ 151,616
Total Assets	\$ 24,870,011

Liabilities

Current liabilities	
Accounts payable	\$ 1,353,212
Salaries payable	215,030
Payroll taxes and other	43,755
Paid time off	294,590
Interest	90,079
Current maturities of long-term debt	261,740
	\$ 2,258,406
Noncurrent liabilities	
Long-term debt, less current maturities	7,300,794
	\$ 9,559,200

Net Assets

Invested in capital assets - net of related debt	\$ 4,745,717
Unrestricted	10,565,094
	\$ 15,310,811

**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, 2005**

Operating Revenues	
Net patient and resident service revenue	\$ 15,575,014
Miscellaneous	594,524
	\$ 16,169,538
Operating Expenses	
Professional care of patients and residents	\$ 9,428,004
General and administrative	1,951,614
Property and household	1,002,466
Depreciation and amortization	840,037
Dietary	565,127
Interest	324,188
Provision for bad debts	223,905
	\$ 14,335,341
	\$ 1,834,197
Nonoperating Revenues (Expenses)	
Interest income	\$ 250,189
Loss on investment in Pipestone Medical Clinic	(150,805)
Other expenses	(3,743)
	\$ 95,641
Income (Loss) Before Contributions and Transfers	\$ 1,929,838
Transfers in	278,523
	\$ 2,208,361
Net Assets - January 1	13,102,450
Net Assets - December 31	\$ 15,310,811

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Cash received from patient and resident services	\$ 14,968,966
Other revenue	594,792
Cash payments to employees for services	(6,862,714)
Cash payments to suppliers for goods and services	(5,937,032)
	\$ 2,764,012
Cash Flows From Capital and Related Financing Activities	
Purchase of property and equipment	\$ (1,133,695)
Deferred financing costs	(59,934)
Proceeds from long-term debt	2,140,000
Repayment of long-term debt	(249,107)
Transfer from County	278,523
Interest paid on long-term debt	(291,430)
	\$ 684,357
Cash Flows From Investing Activities	
(Increase) decrease in assets limited as to use	\$ (3,970,599)
Investment in Pipestone Medical Clinic	(101,383)
Interest income and other	250,189
	\$ (3,821,793)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (373,424)
Cash and Cash Equivalents - January 1	4,574,578
Cash and Cash Equivalents - December 31	\$ 4,201,154
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ 1,834,197
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Interest expense considered capital financing activity	\$ 324,188
Depreciation and amortization	840,037
(Increase) decrease in receivables	(541,875)
(Increase) decrease in supplies	(22,610)
Increase (decrease) in prepaid expenses	52,441
Increase (decrease) in accounts payable	249,521
Increase (decrease) in accrued expenses	28,113
	\$ 929,815
Total adjustments	\$ 929,815
Net Cash Provided by (Used in) Operating Activities	\$ 2,764,012

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

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FIDUCIARY FUNDS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005**

Assets

Cash and pooled investments	<u>\$ 163,259</u>
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Liabilities

Due to other governments	<u>\$ 163,259</u>
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. 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 Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Pipestone County Medical Center provides acute in-patient and out-patient care to the County area.	County Commissioners are the members of the Pipestone County Medical Center Board.	Separate financial statements can be obtained at: 911 Fifth Avenue S.W. P. O. Box 370 Pipestone, Minnesota 56164.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures, which are described in Note 6.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**

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 fund type:

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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**

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, 2005, 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 2005 were \$315,121.

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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. 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, 2005, was \$250,189 and is included in nonoperating revenues (expenses).

Pipestone Medical Clinic (Clinic) is a wholly-owned subsidiary of the Medical Center. The Medical Center's investment in the Clinic is reported on the equity method of accounting. The Clinic's major asset is a 50 percent ownership interest in the Pipestone Medical Group (Group). The Group operates a clinic in

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

Pipestone, Minnesota. The Group rents its building from the Medical Center. At December 31, 2005, the Group owed the Medical Center \$20,074; and at December 31, 2004, the Medical Center owed the Group \$16,143.

The loss on the investment, totaling \$150,805 for the year ended December 31, 2005, is included in nonoperating revenues and expenses. During 2005 and 2004, the Medical Center invested additional funds of \$101,383 and \$29,632 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 on May 15 and the second half payment due October 15.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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**

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 the business-type activities. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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, is depreciated using the straight-line method over the following estimated useful lives:

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

7. Compensated Absences

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

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements, and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Long-Term Obligations (Continued)

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 that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Use of Estimates

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Reclassification

In prior years, a portion of the General Fund accounting for funds set aside for building improvements was reported as a separate special revenue fund. As of January 1, 2005, that has been combined with the General Fund.

Fund Balance - December 31, 2004	General Fund	\$ 5,772,894
	Capital Improvements Fund	<u>417,516</u>
Fund Balance - January 1, 2005	General Fund	<u>\$ 6,190,410</u>

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 in-patient and out-patient 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**

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 - In-patient 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. Out-patient services related to Medicaid program beneficiaries are reimbursed on a fee-screen basis.

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

2. Stewardship, Compliance, and Accountability

The Family Services Fund had expenditures in excess of budget for the year ended December 31, 2005, of \$474,311. Total budgeted expenditures were \$2,254,316, and the Family Services Fund expended \$2,728,627.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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	\$ 9,780,653
Investments	1,713,875
Business-type activities	
Cash and pooled investments	4,201,154
Restricted assets	
Capital acquisition and debt redemption	4,711,024
Bond refunding	2,078,259
Insurance	500,000
Statement of fiduciary net assets	
Cash and pooled investments	163,259
Total Cash and Investments	\$ 23,148,224

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.

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 standard 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2005, 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;
- (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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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, 2005, \$5,773,572 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 investment balances at December 31, 2005, 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	\$ 245,157
Federal Home Loan Mortgage Corporation note	Aaa	Moody's		9/15/2012	\$ 583,500
Federal Home Loan Mortgage Corporation note	AAA	S&P		5/15/2013	392,020
Federal Home Loan Mortgage Corporation note	AAA	S&P		5/15/2014	198,502
Federal Home Loan Mortgage Corporation note	AAA	S&P		7/15/2014	98,185
Federal Home Loan Mortgage Corporation note	AAA	S&P		11/15/2014	98,364
Federal Home Loan Mortgage Corporation note	AAA	S&P		2/25/2008	198,730
Total Federal Home Loan Bank			24.6%		\$ 1,569,301
Federal Home Loan Bank bond	AAA	S&P		6/18/2009	\$ 243,438
Federal Home Loan Bank bond	AAA	S&P		8/11/2014	62,826
Federal Home Loan Bank bond	AAA	S&P		6/28/2006	99,796
Federal Home Loan Bank bond	AAA	S&P		12/27/2006	199,400
Federal Home Loan Bank bond	AAA	S&P		5/24/2007	99,357
Federal Home Loan Bank bond	AAA	S&P		5/24/2007	149,640
Federal Home Loan Bank bond	AAA	S&P		7/30/2007	197,730
Federal Home Loan Bank bond	AAA	S&P		9/10/2007	148,209
Federal Home Loan Bank bond	AAA	S&P		11/9/2007	98,846
Federal Home Loan Bank bond	AAA	S&P		1/15/2008	296,529
Federal Home Loan Bank bond	AAA	S&P		4/8/2008	98,306
Federal Home Loan Bank bond	AAA	S&P		7/29/2008	196,526
Federal Home Loan Bank bond	AAA	S&P		8/19/2009	98,541
Federal Home Loan Bank bond	AAA	S&P		8/26/2009	98,509
Federal Home Loan Bank bond	AAA	S&P		12/28/2009	99,179
Federal Home Loan Bank bond	Aaa	Moody's		6/19/2013	195,082
Federal Home Loan Bank bond	AAA	S&P		2/26/2013	191,504
Federal Home Loan Bank bond	AAA	S&P		10/12/2007	348,705
Federal Home Loan Bank bond	AAA	S&P		11/9/2007	98,846
Federal Home Loan Bank bond	AAA	S&P		4/8/2008	98,306
Federal Home Loan Bank bond	AAA	S&P		7/29/2008	98,263
Federal Home Loan Bank bond	AAA	S&P		8/26/2009	98,509
Total Federal Home Loan Bank			52.01%		\$ 3,316,047

**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	\$ 1,243,067
Total investments					\$ 6,376,072
Checking					2,033,896
Savings					4,894,934
Petty cash and change funds					16,325
Certificates of deposit					7,748,738
Cash with escrow agent					2,078,259
Total Cash and Investments					\$ 23,148,224

N/A - Not Applicable

N/R - Not Rated

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

2. Receivables

Receivables as of December 31, 2005, 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	\$ 53,909	\$ -
Special assessments	40,337	33,605
Due from other governments	3,003,981	-
Accounts	53,811	-
Loans receivable	40,000	-
Interest	83,501	-
Total Governmental Activities	\$ 3,275,539	\$ 33,605

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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	\$ 58,634	\$ -
Patient and resident service revenue	2,378,180	-
Total Business-Type Activities	\$ 2,436,814	\$ -

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

Total patient and resident service revenue	\$ 25,553,137
Contractual adjustments	
Medicare	\$ (7,719,228)
Medicaid	(1,306,421)
Other	(952,474)
Total contractual adjustments	\$ (9,978,123)
Net Patient and Resident Service Revenue	\$ 15,575,014

**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, 2005, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 367,490	\$ -	\$ -	\$ 367,490
Right-of-way	808,853	67,846	-	876,699
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	\$ 1,212,267	\$ 67,846	\$ -	\$ 1,280,113
Capital assets depreciated				
Land improvements	\$ 325,095	\$ -	\$ -	\$ 325,095
Buildings	4,341,481	19,216	-	4,360,697
Infrastructure	31,102,415	4,884,893	-	35,987,308
Machinery and equipment	2,963,223	535,620	83,906	3,414,937
Total capital assets depreciated	\$ 38,732,214	\$ 5,439,729	\$ 83,906	\$ 44,088,037
Less: accumulated depreciation for				
Land improvements	\$ 37,463	\$ 10,837	\$ -	\$ 48,300
Buildings	2,017,110	85,873	-	2,102,983
Infrastructure	6,404,816	723,602	-	7,128,418
Machinery and equipment	1,572,505	287,314	83,906	1,775,913
Total accumulated depreciation	\$ 10,031,894	\$ 1,107,626	\$ 83,906	\$ 11,055,614
Total capital assets depreciated, net	\$ 28,700,320	\$ 4,332,103	\$ -	\$ 33,032,423
Governmental Activities Capital Assets, Net	\$ 29,912,587	\$ 4,399,949	\$ -	\$ 34,312,536

**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	294	687,375	-	\$ 687,669
 Total capital assets not depreciated	 \$ 227,986	 \$ 687,375	 \$ -	 \$ 915,361
Capital assets depreciated				
Land improvements	\$ 375,737	\$ 43,345	\$ -	\$ 419,082
Buildings	10,415,388	-	-	10,415,388
Fixed equipment	2,114,205	177,169	217	2,291,157
Major movable equipment	3,939,627	225,806	17,895	4,147,538
 Total capital assets depreciated	 \$ 16,844,957	 \$ 446,320	 \$ 18,112	 \$ 17,273,165
Less: accumulated depreciation for				
Land improvements	\$ 240,864	\$ 13,601	\$ -	\$ 254,465
Buildings	2,956,619	329,223	696	3,285,146
Fixed equipment	1,566,654	77,747	99	1,644,302
Major movable equipment	2,455,195	398,484	17,317	2,836,362
 Total accumulated depreciation	 \$ 7,219,332	 \$ 819,055	 \$ 18,112	 \$ 8,020,275
 Total capital assets depreciated, net	 \$ 9,625,625	 \$ (372,735)	 \$ -	 \$ 9,252,890
 Business-Type Activities Capital Assets, Net	 \$ 9,853,611	 \$ 314,640	 \$ -	 \$ 10,168,251

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

Governmental Activities	
General government	\$ 142,779
Public safety	48,418
Highways and streets, including depreciation of infrastructure assets	915,249
Family services	1,180
 Total Depreciation Expense - Governmental Activities	 \$ 1,107,626

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 4,418
Road and Bridge	General	5,675
Medical Center	Nonmajor Debt Service	114,846
Total Due To/From Other Funds		\$ 124,939

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, 2005. One was a \$278,523 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 \$20,000 transfer from the General Fund to the Medical Facility Bonds Debt Service Fund to provide funding.

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 284,410	\$ 1,353,212
Salaries	345,668	215,030
Payroll taxes and other	-	43,755
Contracts	314,988	-
Due to other governments	158,518	-
Paid time off	-	294,590
Total Payables	\$ 1,103,584	\$ 1,906,587

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction Commitments

The County has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
2006 Lifeline ambulance	\$ -	\$ 99,702
Chassis	-	72,497
Roads and bridges	6,299,753	1,277,378
Gravel crushing	-	80,520
Total Construction Commitments	\$ 6,299,753	\$ 1,530,097

3. Leases

Operating Leases

Total equipment rental expense for the Medical Center for the year ended December 31, 2005, was \$89,395.

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.

Lease	Maturity	Installment	Payment Amount	Original	Balance
1998 retrofit heating and cooling system	2008	Semi-annual	\$ 11,939	\$ 182,484	\$ 65,304

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending December 31	Governmental Activities
2006	\$ 23,878
2007	23,879
2008	23,878
Total minimum lease payments	\$ 71,635
Less: amount representing interest	(6,331)
Present Value of Minimum Lease Payments	\$ 65,304

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Advance Crossover Refunding of Debt (Continued)

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 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.

Loans Payable

In 2005, 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 are reported in the General Fund.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds 1995 G.O. Courthouse Bonds	2005	\$50,000 - \$70,000	4.60 - 5.00	\$ 605,000	\$ -
Clean water loans payable				36,536	33,605
Total G.O Bonds and Loans Payable				\$ 641,536	\$ 33,605

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
G.O. Hospital Bonds of 2000	2022	\$90,000 - \$225,000	4.75 - 5.30	\$ 2,935,000	\$ 2,650,000
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 2002	2018	\$70,000 - \$80,000	5.00	3,075,000	2,772,534
Total G.O. Bonds and Revenue Notes				<u>\$ 8,150,000</u>	<u>\$ 7,562,534</u>

5. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Business-Type Activities

Year Ending December 31	Principal	Interest
2006	\$ 261,740	\$ 347,226
2007	274,762	334,044
2008	287,850	320,556
2009	302,041	305,725
2010	2,391,356	290,528
2011 - 2015	1,893,820	1,101,341
2016 - 2020	1,720,965	483,627
2021 - 2022	430,000	41,531
Total	<u>\$ 7,562,534</u>	<u>\$ 3,224,578</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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 70,000	\$ -	\$ 70,000	\$ -	\$ -
Capital leases	84,845	-	19,541	65,304	20,615
Clean water loans payable	-	36,536	2,931	33,605	2,931
Compensated absences	173,455	16,155	194	189,416	12,571
	<u>328,300</u>	<u>52,691</u>	<u>92,666</u>	<u>288,325</u>	<u>36,117</u>
Governmental Activity Long-Term Liabilities	<u>\$ 328,300</u>	<u>\$ 52,691</u>	<u>\$ 92,666</u>	<u>\$ 288,325</u>	<u>\$ 36,117</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 2,750,000	\$ 2,140,000	\$ 100,000	\$ 4,790,000	\$ 105,000
Health Facilities Revenue Note, Series 2001	2,921,641	-	149,107	2,772,534	156,740
	<u>5,671,641</u>	<u>2,140,000</u>	<u>249,107</u>	<u>7,562,534</u>	<u>261,740</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 5,671,641</u>	<u>\$ 2,140,000</u>	<u>\$ 249,107</u>	<u>\$ 7,562,534</u>	<u>\$ 261,740</u>

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. 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 2005 and 2006:

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 438,027	\$ 48,307	\$ 25,980
2004	378,878	39,881	21,542
2003	392,332	39,563	23,861

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

5. Risk Management

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

The Workers' Compensation Division of 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 \$760,000 per claim in 2005 and at \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Risk Management (Continued)

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

The 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 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 2005 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the 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.

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln County to finance the construction of the Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2005, are \$19,479,940.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted of \$17,280,678. The increase in net assets for the year ended December 31, 2005, is \$552,492. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides 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 \$702 of the County levy to the RCRCA.

Pipestone County Economic Development Authority

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

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 non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement.

REQUIRED SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,662,354	\$ 2,662,354	\$ 1,618,645	\$ (1,043,709)
Special assessments	120,000	120,000	126,463	6,463
Licenses and permits	7,925	7,925	11,209	3,284
Intergovernmental	755,510	755,510	1,438,207	682,697
Charges for services	888,652	888,652	934,200	45,548
Fines and forfeits	15,500	15,500	21,807	6,307
Gifts and contributions	-	-	8,426	8,426
Investment earnings	300,000	300,000	265,806	(34,194)
Miscellaneous	174,020	174,020	279,954	105,934
Total Revenues	\$ 4,923,961	\$ 4,923,961	\$ 4,704,717	\$ (219,244)
Expenditures				
Current				
General government				
Commissioners	\$ 169,153	\$ 169,153	\$ 150,048	\$ 19,105
Courts	31,600	31,600	23,930	7,670
Law library	19,000	19,000	23,281	(4,281)
Coordinator	78,000	78,000	87,880	(9,880)
Auditor	174,537	174,537	172,270	2,267
Treasurer	162,995	162,995	144,315	18,680
Assessor	153,835	153,835	147,061	6,774
Elections	30,300	30,300	26,896	3,404
Accounting and auditing	30,000	30,000	25,210	4,790
Data processing	118,644	118,644	127,249	(8,605)
Personnel	59,034	59,034	47,931	11,103
Information technology	-	-	98	(98)
Attorney	158,206	158,206	154,482	3,724
Recorder	99,215	99,215	112,933	(13,718)
Planning and zoning	24,662	24,662	29,250	(4,588)
Geographic information systems	50,000	50,000	15,050	34,950
Buildings and plant	295,744	295,744	191,682	104,062
Veterans service officer	44,624	44,624	42,875	1,749
County-wide transportation	261,752	261,752	307,973	(46,221)
Fairgrounds	73,586	73,586	61,965	11,621
Other general government	383,988	383,988	244,938	139,050
Total general government	\$ 2,418,875	\$ 2,418,875	\$ 2,137,317	\$ 281,558

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 850,340	\$ 850,340	\$ 885,380	\$ (35,040)
Dispatch	182,797	182,797	166,113	16,684
Ambulance	212,661	212,661	191,620	21,041
Coroner	5,000	5,000	2,920	2,080
E-911 system	82,510	82,510	67,298	15,212
County jail	313,557	313,557	330,298	(16,741)
Probation and parole	52,838	52,838	45,054	7,784
Civil defense	63,096	63,096	85,256	(22,160)
Total public safety	\$ 1,762,799	\$ 1,762,799	\$ 1,773,939	\$ (11,140)
Sanitation				
Recycling	\$ 168,942	\$ 168,942	\$ 179,061	\$ (10,119)
Culture and recreation				
Parks	\$ 2,500	\$ 2,500	\$ 3,114	\$ (614)
Senior citizens	46,758	46,758	47,725	(967)
Other	41,525	41,525	41,050	475
Total culture and recreation	\$ 90,783	\$ 90,783	\$ 91,889	\$ (1,106)
Conservation of natural resources				
Extension	\$ 127,304	\$ 127,304	\$ 122,476	\$ 4,828
Agricultural inspection	21,682	21,682	20,466	1,216
Other	167,292	167,292	158,889	8,403
Total conservation of natural resources	\$ 316,278	\$ 316,278	\$ 301,831	\$ 14,447
Economic development				
Community development	\$ 59,820	\$ 59,820	\$ 17,385	\$ 42,435
Intergovernmental				
Library	\$ 34,714	\$ 34,714	\$ 34,714	\$ -
Debt service				
Principal	\$ 70,000	\$ 70,000	\$ 89,541	\$ (19,541)
Interest	\$ 1,750	\$ 1,750	\$ 6,087	\$ (4,337)
Administrative (fiscal) fees	\$ -	\$ -	\$ 425	\$ (425)
Total Expenditures	\$ 4,923,961	\$ 4,923,961	\$ 4,632,189	\$ 291,772

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 72,528	\$ 72,528
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (20,000)	\$ (20,000)
Loans issued	-	-	33,605	33,605
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 13,605	\$ 13,605
Net Change in Fund Balance	\$ -	\$ -	\$ 86,133	\$ 86,133
Fund Balance - January 1	<u>6,190,410</u>	<u>6,190,410</u>	<u>6,190,410</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 6,190,410</u>	<u>\$ 6,190,410</u>	<u>\$ 6,276,543</u>	<u>\$ 86,133</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 719,500	\$ 719,500	\$ 481,966	\$ (237,534)
Intergovernmental	7,709,255	7,709,255	7,422,655	(286,600)
Charges for services	83,500	83,500	120,157	36,657
Investment earnings	35,000	35,000	38,727	3,727
Miscellaneous	65,100	65,100	79,176	14,076
Total Revenues	\$ 8,612,355	\$ 8,612,355	\$ 8,142,681	\$ (469,674)
Expenditures				
Current				
Highways and streets				
Administration	\$ 277,185	\$ 277,185	\$ 214,956	\$ 62,229
Maintenance	957,675	957,675	955,854	1,821
Construction	6,905,699	6,905,699	5,346,412	1,559,287
Equipment and maintenance shops	246,796	246,796	305,834	(59,038)
Total highways and streets	\$ 8,387,355	\$ 8,387,355	\$ 6,823,056	\$ 1,564,299
Intergovernmental	225,000	225,000	213,521	11,479
Total Expenditures	\$ 8,612,355	\$ 8,612,355	\$ 7,036,577	\$ 1,575,778
Net Change in Fund Balance	\$ -	\$ -	\$ 1,106,104	\$ 1,106,104
Fund Balance - January 1	2,259,868	2,259,868	2,259,868	-
Increase (decrease) in reserved for inventories	-	-	26,576	26,576
Fund Balance - December 31	\$ 2,259,868	\$ 2,259,868	\$ 3,392,548	\$ 1,132,680

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,071,370	\$ 1,071,370	\$ 717,180	\$ (354,190)
Intergovernmental	1,001,045	1,001,045	1,530,806	529,761
Charges for services	22,101	22,101	6,800	(15,301)
Miscellaneous	159,800	159,800	174,271	14,471
Total Revenues	\$ 2,254,316	\$ 2,254,316	\$ 2,429,057	\$ 174,741
Expenditures				
Current				
Human services				
Income maintenance	\$ 687,876	\$ 687,876	\$ 888,266	\$ (200,390)
Social services	1,566,440	1,566,440	1,784,528	(218,088)
Total human services	\$ 2,254,316	\$ 2,254,316	\$ 2,672,794	\$ (418,478)
Intergovernmental				
Health	-	-	55,833	(55,833)
Total Expenditures	\$ 2,254,316	\$ 2,254,316	\$ 2,728,627	\$ (474,311)
Net Change in Fund Balance	\$ -	\$ -	\$ (299,570)	\$ (299,570)
Fund Balance - January 1	1,444,223	1,444,223	1,444,223	-
Fund Balance - December 31	\$ 1,444,223	\$ 1,444,223	\$ 1,144,653	\$ (299,570)

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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.

2. Budget Basis of Accounting

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

3. Budget Amendments

The budgets may be amended or modified at any time by the County Board. In 2005, the County Board did not amend its budgets.

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
Family Services	\$ 2,728,627	\$ 2,254,316	\$ 474,311

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SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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, 2005**

	Special Revenue Ditch	Debt Service Medical Facility Bonds	Total
<u>Assets</u>			
Cash and pooled investments	\$ 32,956	\$ 181,448	\$ 214,404
Undistributed cash in agency funds	-	5,266	5,266
Investments	-	1,400	1,400
Taxes receivable			
Prior	-	6,610	6,610
Accrued interest receivable	-	2	2
	\$ 32,956	\$ 194,726	\$ 227,682
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Due to other funds	\$ -	\$ 114,846	\$ 114,846
Deferred revenue - unavailable	-	6,610	6,610
	\$ -	\$ 121,456	\$ 121,456
 Fund Balances			
Reserved for debt service	\$ -	\$ 73,270	\$ 73,270
Unreserved			
Undesignated	32,956	-	32,956
	\$ 32,956	\$ 73,270	\$ 106,226
Total Liabilities and Fund Balances	\$ 32,956	\$ 194,726	\$ 227,682

**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, 2005**

	Special Revenue Ditch	Debt Service Medical Facility Bonds	Total
Revenues			
Taxes	\$ -	\$ 235,516	\$ 235,516
Investment earnings	-	23	23
Miscellaneous	-	1,845	1,845
Total Revenues	\$ -	\$ 237,384	\$ 237,384
Expenditures			
Current			
Conservation of natural resources	656	-	656
Excess of Revenues Over (Under) Expenditures	\$ (656)	\$ 237,384	\$ 236,728
Other Financing Sources (Uses)			
Transfers in	-	20,000	20,000
Transfers out	-	(278,523)	(278,523)
Total Other Financing Sources (Uses)	\$ -	\$ (258,523)	\$ (258,523)
Net Change in Fund Balance	\$ (656)	\$ (21,139)	\$ (21,795)
Fund Balance - January 1	33,612	94,409	128,021
Fund Balance - December 31	\$ 32,956	\$ 73,270	\$ 106,226

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HIAWATHA TRAILS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 5,054	\$ 5,054	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 5,054	\$ 5,054	\$ -
 <u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,252	\$ 236,731	\$ 231,654	\$ 6,329
<u>Liabilities</u>				
Due to other governments	\$ 1,252	\$ 236,731	\$ 231,654	\$ 6,329
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 702,339	\$ 687,725	\$ 14,614
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 702,339	\$ 687,725	\$ 14,614

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,967	\$ 16,077	\$ 19,777	\$ 15,267
<u>Liabilities</u>				
Due to other governments	\$ 18,967	\$ 16,077	\$ 19,777	\$ 15,267
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 135,536	\$ 7,128,313	\$ 7,136,800	\$ 127,049
<u>Liabilities</u>				
Due to other governments	\$ 135,536	\$ 7,128,313	\$ 7,136,800	\$ 127,049
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 155,755	\$ 8,088,514	\$ 8,081,010	\$ 163,259
<u>Liabilities</u>				
Due to other governments	\$ 155,755	\$ 8,088,514	\$ 8,081,010	\$ 163,259

OTHER SCHEDULE

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue

State

Highway users tax	\$	6,644,730
County program aid		1,140,471
PERA rate reimbursement		14,804
Disparity reduction aid		75,870
Police aid		39,881
Enhanced 911		61,776
Market value credit		358,848
		358,848

Total Shared Revenue **\$ 8,336,380**

Reimbursement for Services

Minnesota Department of Human Services	\$	543,155
		543,155

Payments

Local

Payments in lieu of taxes	\$	22,686
		22,686

Grants

State

Minnesota Department of		
Corrections	\$	12,011
Human Services		386,206
Transportation		161,391
Water and Soil Resources		72,199
Office of Environmental Assistance		24,539
Peace Officer Standards and Training Board		3,172
Pollution Control Agency		24,540
		24,540

Total State **\$ 684,058**

Federal

Department of		
Agriculture	\$	3,243
Justice		2,479
Transportation		543,825
Health and Human Services		196,136
Homeland Security		59,706
		59,706

Total Federal **\$ 805,389**

Total State and Federal Grants **\$ 1,489,447**

Total Intergovernmental Revenue **\$ 10,391,668**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 5

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Pipestone County.
- B. A reportable condition in internal control over financial reporting is disclosed by the audit of financial statements of Pipestone County and is reported in the "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*." It is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Pipestone County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program of Pipestone County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:

Highway Planning and Construction	CFDA #20.205
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- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pipestone County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-3 Internal Accounting Controls

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

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

Client's Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

County Sheriff's Checking Account Balance (04-1)

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

Resolution

The Sheriff's Department identified all amounts remaining in the checking account.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

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

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

Resolution

The County Sheriff now takes city contract funds directly to the Treasurer's office to be receipted.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-1 Family Services Reporting

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.

We recommend that the Fiscal Supervisor ensure 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.

Client's Response:

The Fiscal Supervisor will ensure that the MMIS report be 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.

PREVIOUSLY REPORTED ITEM RESOLVED

Budgeting Procedures (00-3)

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

Resolution

The County implemented procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget.

C. 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, like 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 years ended December 31, 2007 and 2008, respectively.

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

**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, 2005, and have issued our report thereon dated June 27, 2006. We did not audit the financial statements of the Medical Center Enterprise Fund, a component unit of Pipestone County, which was audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Pipestone County complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 27, 2006



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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Pipestone County

Compliance

We have audited the compliance of Pipestone County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to a major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Pipestone County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of 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, 2005, and have issued our report thereon dated June 27, 2006. Our audit did not include the audit of the Medical Center Enterprise Fund, which was audited by other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 27, 2006

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 6

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>3,243</u>
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	\$ <u>2,479</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 489,674
Public Transportation for Non-Urbanized Areas	20.509	49,818
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>4,333</u>
Total U.S. Department of Transportation		\$ <u>543,825</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 2,871
Temporary Assistance for Needy Families (TANF)	93.558	78,485
Child Care and Development Block Grant	93.575	2,085
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	5,799
Child Welfare Services - State Grants	93.645	1,169
Foster Care - Title IV-E	93.658	13,876
Social Services Block Grant - Title XX	93.667	79,933
Chafee Foster Care Independence Program	93.674	6,298
Block Grants for Community Mental Health Services	93.958	<u>5,620</u>
Total U.S. Department of Health and Human Services		\$ <u>196,136</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 50,000
Homeland Security Grant Program	97.067	<u>9,706</u>
Total U.S. Department of Homeland Security		\$ <u>59,706</u>
Total Federal Awards		\$ <u>805,389</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 6
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Pipestone County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.