

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Year Ended December 31, 2009



**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, 2009

Office	Name	Term Expires
Commissioners		
1st District	Marge DeRuyter	January 2013
2nd District	Harold "Butch" Miller ¹	January 2011
3rd District	Marvin Tinklenberg	January 2013
4th District	James Keyes ²	January 2011
5th District	Jerry Remund	January 2013
Officers		
Elected		
Attorney	James O'Neill	January 2011
Auditor	Joyce Steinhoff	January 2011
Coroner	Dr. Larry Christensen	January 2011
County Recorder	Mary Ann DeGroot	January 2011
Sheriff	Dan Delaney	January 2011
Treasurer	Steve Weets	January 2011
Appointed		
Assessor	Joyce Schmidt	Indefinite
County Administrator	Sharon Hanson	Indefinite
Family Services Director	Mary Fischer	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Family Services Board		
Chair	James Keyes	January 2011
Vice Chair	Marvin Tinklenberg	January 2013
Secretary	Judy Zwart	July 2011
Member	Harold "Butch" Miller	January 2011
Member	Marge DeRuyter	January 2013
Member	Jerry Remund	January 2013
Member	Darlene Bouman	July 2012

¹Chair 2009

²Chair 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2009, 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, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely upon 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 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 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, 2009, 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 required supplementary information listed in the table of contents are not required parts 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 financial statements that collectively comprise Pipestone County's basic financial statements. 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 November 8, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 8, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(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, 2009. 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 \$51,358,820, of which \$40,709,523 is invested in capital assets and \$2,523,298 is restricted for specific purposes. The unrestricted net assets of \$8,125,999 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by \$1,702,374 for the year ended December 31, 2009. The increase is mainly attributable to the County investing in capital assets without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$3,920,248. The net cost was funded by general revenues totaling \$5,622,622.

Fund balances of the governmental funds decreased by \$1,315,469. Most of the decrease was due to payments issued for the construction of the County Public Services Building.

At the end of the current fiscal year, the County had an unreserved General Fund balance of \$4,446,300. 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 62 percent of total General Fund expenditures of \$7,130,620.

The Pipestone County Medical Center's assets exceeded its liabilities by \$25,257,394 at December 31, 2009. The Medical Center recorded a change in net assets of \$2,459,331 for the fiscal year ending December 31, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by \$51,358,820 at the close of 2009. The largest portion of the net assets (79.26 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 2008 is presented.

Governmental Activities

	<u>2009</u>	<u>2008</u>
Assets		
Current and other assets	\$ 11,902,834	\$ 13,066,834
Capital assets	<u>40,709,523</u>	<u>37,948,895</u>
Total Assets	<u>\$ 52,612,357</u>	<u>\$ 51,015,729</u>
Liabilities		
Long-term liabilities	\$ 312,131	\$ 287,493
Other liabilities	<u>941,406</u>	<u>1,071,790</u>
Total Liabilities	<u>\$ 1,253,537</u>	<u>\$ 1,359,283</u>
Net Assets		
Invested in capital assets	\$ 40,709,523	\$ 37,948,895
Restricted	2,523,298	2,553,497
Unrestricted	<u>8,125,999</u>	<u>9,154,054</u>
Total Net Assets	<u>\$ 51,358,820</u>	<u>\$ 49,656,446</u>

Unrestricted net assets (in the amount of \$8,125,999)--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 15.82 percent of the net assets.

The County's governmental activities increased net assets by slightly more than three percent (\$51,358,820 for 2009 compared to \$49,656,446 for 2008). Key elements in this increase in net assets are as follows with comparative amounts from 2008.

Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenues				
Program revenues				
Charges for services	\$ 2,273,856	\$ 2,176,444	\$ 25,916,926	\$ 24,158,046
Operating grants and contributions	4,712,775	4,858,142	-	-
Capital grants and contributions	442,150	369,577	-	-
General revenues				
Property taxes	3,557,092	3,448,115	-	-
Other	<u>2,310,864</u>	<u>2,401,829</u>	<u>502,271</u>	<u>625,060</u>
Total Revenues	<u>\$ 13,296,737</u>	<u>\$ 13,254,107</u>	<u>\$ 26,419,197</u>	<u>\$ 24,783,106</u>

	Governmental Activities		Business-Type Activities	
	2009	2008	2009	2008
Expenses				
General government	\$ 2,831,062	\$ 2,861,801	\$ -	\$ -
Public safety	2,191,002	1,989,283	-	-
Highways and streets	2,943,721	3,879,200	-	-
Sanitation	201,802	171,289	-	-
Human services	2,547,700	2,608,124	-	-
Health	56,361	63,773	-	-
Culture and recreation	185,129	193,555	-	-
Conservation of natural resources	328,334	613,602	-	-
Economic development	63,065	63,065	-	-
Interest	853	1,878	-	-
Medical Center	-	-	24,205,200	23,105,655
Total Expenses	\$ 11,349,029	\$ 12,445,570	\$ 24,205,200	\$ 23,105,655
Excess (Deficiency) Before Transfers	\$ 1,947,708	\$ 808,537	\$ 2,213,997	\$ 1,677,451
Transfers	(245,334)	(245,117)	245,334	245,117
Increase in Net Assets	\$ 1,702,374	\$ 563,420	\$ 2,459,331	\$ 1,922,568
Net Assets - January 1	49,656,446	49,093,026	22,798,063	20,875,495
Net Assets - December 31	<u>\$ 51,358,820</u>	<u>\$ 49,656,446</u>	<u>\$ 25,257,394</u>	<u>\$ 22,798,063</u>

Total governmental revenues for the County were \$13,296,737, total expenses were \$11,349,029, and total transfers out were \$245,334. This reflects a \$1,702,374 increase in net assets for the year ended December 31, 2009.

The cost of all governmental activities for the year was \$11,349,029. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only \$3,557,092 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,273,856; or by other governments and organizations that subsidized certain programs with grants and contributions--\$5,154,925. 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	
	2009	2008	2009	2008
Highways and streets	\$ 2,943,721	\$ 3,879,200	\$ (416,244)	\$ 525,730
Human services	2,547,700	2,608,124	979,359	1,144,689
General government	2,831,062	2,861,801	2,128,264	2,366,115
Public safety	2,191,002	1,989,283	781,551	583,238
All others	835,544	1,107,162	447,318	421,635
Totals	<u>\$ 11,349,029</u>	<u>\$ 12,445,570</u>	<u>\$ 3,920,248</u>	<u>\$ 5,041,407</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$8,314,048, a decrease of \$1,315,469 in comparison with the prior year. Of the combined ending fund balances, \$7,689,841 represents unreserved fund balances 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 \$4,446,300. 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 62 percent of total General Fund expenditures. During 2009, the ending fund balance decreased by \$1,023,368. The County received \$156,410 less in revenue than expected and underspent its budget by \$67,822 in the General Fund. However, a major portion of expenditures included the cost related to the completion of the County Public Services Building.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$2,080,560 at fiscal year-end, representing 48 percent of its 2009 expenditures. The ending fund balance decreased \$440,304 during 2009.

The Family Services Special Revenue Fund had an unreserved fund balance of \$1,100,087 at fiscal year-end, representing 43 percent of its 2009 expenditures. The ending fund balance increased \$161,794 during 2009.

Proprietary Fund

The statement of net assets at December 31, 2009, for the Pipestone County Medical Center indicates total assets of \$35,057,425, total liabilities of \$9,800,031, and net assets of \$25,257,394. Total current assets were \$10,312,967, and total current liabilities were \$5,755,573, for a current ratio of 1.79--down from 2.13 at December 31, 2008. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of \$25,916,926 and total operating expenses of \$23,884,899, for an operating income of \$2,032,027 and nonoperating revenues of \$502,271, nonoperating expenses of \$320,301, and transfers in of \$245,334, which contributed to the increase in net assets from \$22,798,063 to \$25,257,394.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

The actual charges to appropriations (expenditures) were \$67,822 under the final budget amounts. The most significant variances occurred in information technology, buildings and plant, County-wide transportation, and general government expenditures.

On the other hand, resources available for appropriation were \$156,410 under the final budgeted amount. Intergovernmental revenue, charges for services, 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, 2009, totaled \$40,709,523 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,760,628, or about seven percent, over the previous year. The major change in the capital assets figure is attributable to the addition of buildings and land.

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

	2009	2008
Land and other nondepreciated assets	\$ 3,521,355	\$ 1,455,952
Land improvements	261,137	262,684
Infrastructure	30,399,894	30,882,833
Buildings	4,749,188	3,472,860
Machinery and equipment	1,777,949	1,874,566
Total	\$ 40,709,523	\$ 37,948,895

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, 2009, amounted to \$12,244,952 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2009, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, the Pipestone County Medical Center had total long-term debt outstanding of \$6,435,816, which is for a portion of the hospital expansion and remodeling project. The project was principally completed in May 2003 and is allowing for better care to patients, improved physical conditions, and enhanced equipment. The new rehabilitation and surgery areas are vastly expanded from the previous layout and are benefiting the Medical Center in recruitment and retention of patients, employees, and physicians.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2010 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2009 was 6.7 percent. This compares favorably with the average annual state unemployment rate of 7.4 percent. The 2009 County population is estimated at 9,339, a decrease of 556 from the 2000 census of 9,895.
- Among Pipestone County residents, the overall poverty rate was 10.6 percent in 2008, compared to 9.6 percent in Minnesota in 2008.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2009**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 7,456,469	\$ 2,808,100	\$ 10,264,569
Investments	1,403,000	-	1,403,000
Receivables - net	2,948,226	4,287,246	7,235,472
Internal balances	(149,686)	149,686	-
Inventories	197,207	704,398	901,605
Prepaid items	47,618	288,154	335,772
Investments restricted under indenture agreement	-	2,075,383	2,075,383
Assets restricted as to use for			
Capital acquisition and debt redemption	-	11,925,280	11,925,280
Insurance	-	500,000	500,000
Capital assets			
Nondepreciable capital assets	3,521,355	695,923	4,217,278
Depreciable capital assets - net of accumulated depreciation	37,188,168	11,549,029	48,737,197
Other assets			
Deferred financing costs - net of accumulated amortization	-	74,226	74,226
	\$ 52,612,357	\$ 35,057,425	\$ 87,669,782
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 898,792	\$ 3,282,633	\$ 4,181,425
Accrued interest payable	-	81,582	81,582
Unearned revenue	42,614	-	42,614
Long-term liabilities			
Due within one year	22,115	2,391,358	2,413,473
Due in more than one year	290,016	4,044,458	4,334,474
	\$ 1,253,537	\$ 9,800,031	\$ 11,053,568
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 40,709,523	\$ 7,884,519	\$ 48,594,042
Restricted for			
Other purposes	218,884	-	218,884
Public safety	67,933	-	67,933
Highways and streets	2,196,998	-	2,196,998
Debt service	39,483	-	39,483
Unrestricted	8,125,999	17,372,875	25,498,874
	\$ 51,358,820	\$ 25,257,394	\$ 76,616,214

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,831,062	\$ 356,209
Public safety	2,191,002	1,157,186
Highways and streets	2,943,721	166,389
Sanitation	201,802	235,853
Human services	2,547,700	280,977
Health	56,361	-
Culture and recreation	185,129	-
Conservation of natural resources	328,334	77,242
Economic development	63,065	-
Interest	853	-
	\$ 11,349,029	\$ 2,273,856
Total governmental activities		
Business-type activities		
Medical Center	24,205,200	25,916,926
	\$ 35,554,229	\$ 28,190,782
	\$ 35,554,229	\$ 28,190,782

General Revenues

Property taxes
Mortgage registry and deed tax
Wind production tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Interest income
Miscellaneous
Minority interest

Transfers

Total general revenues and transfers

Change in net 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
\$ 292,610	\$ 53,979	\$ (2,128,264)	\$ -	\$ (2,128,264)
252,265	-	(781,551)	-	(781,551)
2,805,405	388,171	416,244	-	416,244
55,475	-	89,526	-	89,526
1,287,364	-	(979,359)	-	(979,359)
-	-	(56,361)	-	(56,361)
-	-	(185,129)	-	(185,129)
19,656	-	(231,436)	-	(231,436)
-	-	(63,065)	-	(63,065)
-	-	(853)	-	(853)
\$ 4,712,775	\$ 442,150	\$ (3,920,248)	\$ -	\$ (3,920,248)
-	-	-	1,711,726	1,711,726
\$ 4,712,775	\$ 442,150	\$ (3,920,248)	\$ 1,711,726	\$ (2,208,522)
		\$ 3,557,092	\$ -	\$ 3,557,092
		6,190	-	6,190
		355,150	-	355,150
		40,691	-	40,691
		1,651,416	-	1,651,416
		231,184	447,927	679,111
		26,233	-	26,233
		-	54,344	54,344
		(245,334)	245,334	-
		\$ 5,622,622	\$ 747,605	\$ 6,370,227
		\$ 1,702,374	\$ 2,459,331	\$ 4,161,705
		49,656,446	22,798,063	72,454,509
		\$ 51,358,820	\$ 25,257,394	\$ 76,616,214

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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, 2009**

	<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	\$ 4,982,263	\$ 1,011,299	\$ 1,149,118	\$ 208,544	\$ 7,351,224
Undistributed cash in agency funds	64,938	13,972	19,174	4,036	102,120
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,359,000	-	-	1,403,000
Taxes receivable					
Prior	27,544	7,538	10,407	6,497	51,986
Special assessments receivable					
Prior	11,199	-	-	-	11,199
Noncurrent	216,310	-	-	-	216,310
Accounts receivable	58,311	2,965	20,031	-	81,307
Accrued interest receivable	27,267	12,621	-	-	39,888
Due from other funds	8,624	13,005	1,664	-	23,293
Due from other governments	117,708	2,297,436	132,392	-	2,547,536
Inventories	-	197,207	-	-	197,207
Prepaid items	28,757	8,401	10,460	-	47,618
Total Assets	<u>\$ 5,589,946</u>	<u>\$ 4,923,544</u>	<u>\$ 1,343,246</u>	<u>\$ 219,077</u>	<u>\$ 12,075,813</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 147,808	\$ 21,022	\$ 89,131	\$ -	\$ 257,961
Salaries payable	260,849	84,787	97,195	-	442,831
Contracts payable	78,378	88,831	-	-	167,209
Due to other funds	14,615	446	8,232	149,686	172,979
Due to other governments	2,083	974	27,734	-	30,791
Deferred revenue - unavailable	316,974	2,313,502	10,407	6,497	2,647,380
Deferred revenue - unearned	-	42,614	-	-	42,614
Total Liabilities	<u>\$ 820,707</u>	<u>\$ 2,552,176</u>	<u>\$ 232,699</u>	<u>\$ 156,183</u>	<u>\$ 3,761,765</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<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>					
(Continued)					
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 85,200	\$ -	\$ -	\$ 85,200
Inventories	-	197,207	-	-	197,207
Prepaid items	28,757	8,401	10,460	-	47,618
Missing heirs	3,971	-	-	-	3,971
Law library	46,332	-	-	-	46,332
Recorder's technology fund	49,131	-	-	-	49,131
Recorder's compliance fund	74,690	-	-	-	74,690
Enhanced 911	33,602	-	-	-	33,602
Sheriff's contingency	3,646	-	-	-	3,646
Transportation	29,438	-	-	-	29,438
Probation supervision fees	4,315	-	-	-	4,315
DWI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Canteen fund	4,784	-	-	-	4,784
Gun permit fees	6,431	-	-	-	6,431
HAVA election monies	15,322	-	-	-	15,322
Septic/sewer loans	7,365	-	-	-	7,365
Unreserved					
Designated for					
Elections	63,080	-	-	-	63,080
Buildings	107,657	-	-	-	107,657
Capital improvements	359,709	-	-	-	359,709
Ambulance	61,500	-	-	-	61,500
Solid waste recycling	473,407	-	-	-	473,407
County septic loan program	25,423	-	-	-	25,423
Radio communications systems	100,000	-	-	-	100,000
Computer software	30,000	-	-	-	30,000
Undesignated	3,225,524	2,080,560	1,100,087	-	6,406,171
Unreserved, reported in nonmajor					
Special revenue fund	-	-	-	29,908	29,908
Debt service fund	-	-	-	32,986	32,986
Total Fund Balances	\$ 4,769,239	\$ 2,371,368	\$ 1,110,547	\$ 62,894	\$ 8,314,048
Total Liabilities and Fund Balances	\$ 5,589,946	\$ 4,923,544	\$ 1,343,246	\$ 219,077	\$ 12,075,813

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2009**

Fund balance - total governmental funds (Exhibit 3)	\$ 8,314,048
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.	40,709,523
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,647,380
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (266,532)
Loans payable	(45,599)
	<u>(312,131)</u>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 51,358,820</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 2,414,541	\$ 546,117	\$ 749,392	\$ 232,143	\$ 3,942,193
Special assessments	220,020	-	-	-	220,020
Licenses and permits	13,030	-	-	-	13,030
Intergovernmental	1,657,312	3,221,908	1,670,766	-	6,549,986
Charges for services	1,244,527	108,429	23,462	-	1,376,418
Fines and forfeits	12,896	-	-	-	12,896
Investment earnings	217,463	41,771	-	-	259,234
Miscellaneous	324,531	57,960	257,515	-	640,006
	\$ 6,104,320	\$ 3,976,185	\$ 2,701,135	\$ 232,143	\$ 13,013,783
Expenditures					
Current					
General government	\$ 4,161,950	\$ -	\$ -	\$ -	\$ 4,161,950
Public safety	2,119,459	-	-	-	2,119,459
Highways and streets	-	4,089,646	-	-	4,089,646
Sanitation	211,685	-	-	-	211,685
Human services	-	-	2,539,341	-	2,539,341
Health	528	-	-	-	528
Culture and recreation	133,382	-	-	-	133,382
Conservation of natural resources	327,525	-	-	400	327,925
Economic development	63,065	-	-	-	63,065
Intergovernmental	107,689	229,906	-	-	337,595
Debt service					
Principal	4,484	-	-	-	4,484
Interest	853	-	-	-	853
	\$ 7,130,620	\$ 4,319,552	\$ 2,539,341	\$ 400	\$ 13,989,913
Excess of Revenues Over (Under)					
Expenditures	\$ (1,026,300)	\$ (343,367)	\$ 161,794	\$ 231,743	\$ (976,130)
Other Financing Sources (Uses)					
Transfers out	\$ -	\$ -	\$ -	\$ (245,334)	\$ (245,334)
Proceeds from loans	1,831	-	-	-	1,831
Proceeds from the sale of capital assets	1,101	-	-	-	1,101
	\$ 2,932	\$ -	\$ -	\$ (245,334)	\$ (242,402)
Net Change in Fund Balance	\$ (1,023,368)	\$ (343,367)	\$ 161,794	\$ (13,591)	\$ (1,218,532)
Fund Balance - January 1	5,792,607	2,811,672	948,753	76,485	9,629,517
Increase (decrease) in reserved for inventories	-	(96,937)	-	-	(96,937)
Fund Balance - December 31	\$ 4,769,239	\$ 2,371,368	\$ 1,110,547	\$ 62,894	\$ 8,314,048

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Net change in fund balance - total governmental funds (Exhibit 5) \$ (1,218,532)

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

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

Deferred revenue - December 31	\$ 2,647,380	
Deferred revenue - January 1	<u>(2,365,527)</u>	281,853

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

Expenditures for general capital assets and infrastructure	\$ 4,082,370	
Net book value of capital assets disposed of	(84,580)	
Current year depreciation	<u>(1,237,162)</u>	2,760,628

The issuance of long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Proceeds of new debt	\$ (1,831)	
Principal payments on debt	<u>4,484</u>	2,653

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	\$ (27,291)	
Change in inventories	<u>(96,937)</u>	<u>(124,228)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,702,374

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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, 2009**

Assets

Current assets	
Cash and pooled investments	\$ 2,808,100
Investments restricted under indenture agreement	2,075,383
Accounts receivable - net	348,746
Patient and resident receivables - net	3,847,085
Due from minority interest partner	91,415
Due from other funds	149,686
Inventories	704,398
Prepaid items	288,154
	\$ 10,312,967
Noncurrent assets	
Assets restricted as to use for	
Capital acquisition and debt redemption	\$ 11,925,280
Insurance	500,000
	\$ 12,425,280
Capital assets - net	\$ 12,244,952
Other assets	
Deferred financing costs - net of accumulated amortization of \$129,261	\$ 74,226
	\$ 35,057,425

Liabilities

Current liabilities	
Accounts payable	\$ 2,302,184
Salaries payable	168,179
Paid time off	545,791
Payroll taxes and other	266,479
Interest	81,582
Current maturities of long-term debt	2,391,358
	\$ 5,755,573
Noncurrent liabilities	
Long-term debt, less current maturities	\$ 4,044,458
	\$ 9,800,031

Net Assets

Invested in capital assets - net of related debt	\$ 7,884,519
Unrestricted	17,372,875
	\$ 25,257,394

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

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**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, 2009**

Operating Revenues	
Net patient and resident service revenue - net of provisions for bad debts	\$ 25,601,341
Miscellaneous	315,585
	<hr/>
Total Operating Revenues	\$ 25,916,926
Operating Expenses	
Professional care of patients and residents	\$ 17,441,988
General and administrative	3,192,766
Property and household	1,294,140
Depreciation and amortization	1,267,728
Dietary	688,277
	<hr/>
Total Operating Expenses	\$ 23,884,899
Operating Income (Loss)	\$ 2,032,027
Nonoperating Revenues (Expenses)	
Interest income	\$ 447,927
Minority interest share of clinic operations	54,344
Interest expense	(303,414)
Other expense	(16,887)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 181,970
Income (Loss) Before Transfers	\$ 2,213,997
Transfers in	245,334
	<hr/>
Change in net assets	\$ 2,459,331
Net Assets - January 1	22,798,063
	<hr/>
Net Assets - December 31	\$ 25,257,394
	<hr/> <hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 25,821,189
Other revenues	51,510
Cash payments to employees for services	(11,530,005)
Cash payments to suppliers for goods and services	<u>(11,220,283)</u>
Net cash provided by (used in) operating activities	<u>\$ 3,122,411</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of property and equipment	\$ (877,745)
Repayment of long-term debt	(302,043)
Transfer from County	245,334
Interest paid on long-term debt	<u>(305,810)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (1,240,264)</u>
Cash Flows from Investing Activities	
Increase (decrease) in assets limited as to use	\$ (1,488,470)
Interest income and other	<u>431,040</u>
Net cash provided by (used in) investing activities	<u>\$ (1,057,430)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 824,717
Cash and Cash Equivalents - January 1	<u>1,983,383</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 2,808,100</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 2,032,027</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 1,267,728
Loss on disposal of equipment	19,613
(Increase) decrease in receivables	(563,840)
(Increase) decrease in supplies	(164,555)
Increase (decrease) in prepaid expenses	(43,835)
Increase (decrease) in accounts payable	436,439
Increase (decrease) in accrued expenses	<u>138,834</u>
Total adjustments	<u>\$ 1,090,384</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 3,122,411</u></u>

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, 2009**

Assets

Cash and pooled investments	<u>\$ 166,735</u>
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Liabilities

Due to other governments	<u>\$ 166,735</u>
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The County reports the following major enterprise fund:

The Medical Center Fund is used to account for the operation of the Medical Center, a blended component unit of Pipestone County. The Medical Center consists of a 25-bed acute care hospital and a 43-bed nursing facility.

Additionally, the County reports the following funds:

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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, 2009, 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 2009 were \$216,163.

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

The Medical Center's investment income for the year ended December 31, 2009, was \$447,927 and is included in nonoperating revenues (expenses).

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans).

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

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

All receivables are shown net of an allowance for uncollectibles.

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

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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, 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 method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

5. Restricted Assets and Limited as to Use

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Restricted Assets and Limited as to Use (Continued)

Assets limited as to use include assets restricted by bond indentures and those set aside by the 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 \$5,000 for business-type activities. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 35
Buildings	10 - 60
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 30

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 20
Buildings and fixed equipment	5 - 40
Major movable equipment	5 - 20

7. Compensated Absences

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

8. Deferred Revenue

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Fund Equity

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

11. Use of Estimates

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. 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 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 - The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2007. The Hospital's classification of patients under the Medicare program and the appropriateness of the admission are subject to an independent review by a peer review organization under contract with the Hospital.

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 October 1 each year by an inflation index. Additional services may be paid on a fee-for-service basis. The Medical Center also participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate that varies based on a case-mix resident classification system.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

For the year ended December 31, 2009, there were no funds where expenditures exceeded appropriations (the legal level of budgetary control).

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	\$ 7,456,469
Investments	1,403,000
Business-type activities	
Cash and pooled investments	2,808,100
Restricted assets	
Investments under indenture agreement	2,075,383
Capital acquisition and debt redemption	11,925,280
Insurance	500,000
Statement of fiduciary net assets	
Cash and pooled investments	<u>166,735</u>
Total Cash and Investments	<u>\$ 26,334,967</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2009, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

b. Investments

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2009, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2009, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal National Mortgage Association note	AAA	S&P		07/07/2014	\$ 400,000
Federal National Mortgage Association note	AAA	S&P		12/16/2016	299,875
Total Federal National Mortgage Association notes			16.6%		\$ 699,875
Federal Home Loan Mortgage Corporation note					
Federal Home Loan Mortgage Corporation note	AAA	S&P		12/15/2010	\$ 250,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		12/11/2014	590,000
Total Federal Home Loan Mortgage Corporation notes			19.9%		\$ 840,000
Federal Home Loan Bank bond					
Federal Home Loan Bank bond	AAA	S&P		10/15/2014	\$ 500,000
Federal Home Loan Bank bond	AAA	S&P		10/14/2015	100,000
Federal Home Loan Bank bond	AAA	S&P		12/17/2019	200,000
Total Federal Home Loan Bank bonds			19.0%		\$ 800,000
Investment pools/mutual funds					
Raymond James Money Market Account	N/R	N/A	N/A	N/A	\$ 2,500
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	\$ 1,831,000
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 39,000
Total investments					\$ 4,212,375
Checking					
Checking					4,389,487
Savings					
Savings					2,377,372
Petty cash and change funds					
Petty cash and change funds					23,350
Certificates of deposit					
Certificates of deposit					13,257,000
Cash with escrow agent					
Cash with escrow agent					2,075,383
Total Cash and Investments					\$ 26,334,967

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2009, 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	\$ 51,986	\$ -
Special assessments	227,509	183,893
Due from other governments	2,547,536	-
Accounts	81,307	-
Interest	39,888	-
	\$ 2,948,226	\$ 183,893
Business-Type Activities		
Accounts	\$ 348,746	\$ -
Patient and resident service revenue	3,847,085	-
Due from minority interest partner	91,415	-
	\$ 4,287,246	\$ -

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

Total patient and resident service revenue	\$ 36,961,531
Contractual adjustments	
Medicare	\$ (5,823,384)
Medicaid	(1,767,059)
Clinic	(665,714)
Other	(2,613,611)
	\$ (10,869,768)
Total contractual adjustments	\$ (10,869,768)
Provision for bad debts	\$ (490,422)
Net Patient and Resident Service Revenue	\$ 25,601,341

**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, 2009, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 391,569	\$ 732,910	\$ -	\$ 1,124,479
Right-of-way	936,422	120,046	-	1,056,468
Construction in progress	92,037	1,304,484	92,037	1,304,484
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	<u>\$ 1,455,952</u>	<u>\$ 2,157,440</u>	<u>\$ 92,037</u>	<u>\$ 3,521,355</u>
Capital assets depreciated				
Buildings	\$ 5,847,889	\$ 1,391,276	\$ -	\$ 7,239,165
Land improvements	344,351	10,100	-	354,451
Machinery and equipment	4,103,427	281,901	163,528	4,221,800
Infrastructure	40,416,025	333,690	-	40,749,715
Total capital assets depreciated	<u>\$ 50,711,692</u>	<u>\$ 2,016,967</u>	<u>\$ 163,528</u>	<u>\$ 52,565,131</u>
Less: accumulated depreciation for				
Buildings	\$ 2,375,029	\$ 114,948	\$ -	\$ 2,489,977
Land improvements	81,667	11,647	-	93,314
Machinery and equipment	2,228,861	293,938	78,948	2,443,851
Infrastructure	9,533,192	816,629	-	10,349,821
Total accumulated depreciation	<u>\$ 14,218,749</u>	<u>\$ 1,237,162</u>	<u>\$ 78,948</u>	<u>\$ 15,376,963</u>
Total capital assets depreciated, net	<u>\$ 36,492,943</u>	<u>\$ 779,805</u>	<u>\$ 84,580</u>	<u>\$ 37,188,168</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,948,895</u>	<u>\$ 2,937,245</u>	<u>\$ 176,617</u>	<u>\$ 40,709,523</u>

**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	\$ 472,111	\$ 161,927	\$ -	\$ 634,038
Construction in progress	-	61,885	-	61,885
Total capital assets not depreciated	\$ 472,111	\$ 223,812	\$ -	\$ 695,923
Capital assets depreciated				
Buildings	\$ 13,007,960	\$ -	\$ 300	\$ 13,007,660
Land improvements	566,147	-	-	566,147
Fixed equipment	3,055,681	36,027	-	3,091,708
Major movable equipment	6,477,406	617,906	55,957	7,039,355
Total capital assets depreciated	\$ 23,107,194	\$ 653,933	\$ 56,257	\$ 23,704,870
Less: accumulated depreciation for				
Buildings	\$ 4,506,646	\$ 445,322	\$ -	\$ 4,951,968
Land improvements	310,166	23,369	-	333,535
Fixed equipment	1,956,085	125,656	-	2,081,741
Major movable equipment	4,166,907	657,149	35,459	4,788,597
Total accumulated depreciation	\$ 10,939,804	\$ 1,251,496	\$ 35,459	\$ 12,155,841
Total capital assets depreciated, net	\$ 12,167,390	\$ (597,563)	\$ 20,798	\$ 11,549,029
Business-Type Activities				
Capital Assets, Net	\$ 12,639,501	\$ (373,751)	\$ 20,798	\$ 12,244,952

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

Governmental Activities	
General government	\$ 156,030
Public safety	70,502
Highways and streets, including depreciation of infrastructure assets	1,010,462
Sanitation	168
Total Depreciation Expense - Governmental Activities	\$ 1,237,162
Business-Type Activities	
Medical Center	\$ 1,251,496

**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, 2009, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge	\$ 446
General	Family Services	8,178
Road and Bridge	General	12,951
Road and Bridge	Family Services	54
Family Services	General	1,664
Medical Center	Nonmajor Debt Service	149,686
Total Due To/From Other Funds		\$ 172,979

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 Transfer

There was one interfund transfer for the year ended December 31, 2009. A \$245,334 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, was made to provide funds for debt service.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 257,961	\$ 2,302,184
Salaries	442,831	168,179
Payroll taxes and other	-	266,479
Contracts	167,209	-
Due to other governments	30,791	-
Paid time off	-	545,791
	<u>\$ 898,792</u>	<u>\$ 3,282,633</u>
Total Payables		

2. Construction Commitments

The County has active construction projects as of December 31, 2009. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Public service building	\$ 1,131,253	\$ 78,378
Roads and bridges	1,716,117	147,842
Gravel crushing	-	85,200
	<u>\$ 2,847,370</u>	<u>\$ 311,420</u>
Total Construction Commitments		

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Leases

Operating Leases

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Total lease expense for the year ended December 31, 2009, for all operating leases was \$225,828. Minimum future lease payments for the operating leases are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>
2010	\$ 112,776
2011	112,776
2012	112,776
2013	56,388
Total	<u>\$ 394,716</u>

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Advance Crossover Refunding of Debt (Continued)

2005 bonds through February 1, 2010; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issue and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 2000 bonds will be paid and the liability for those bonds will be removed.

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

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

Loans Payable

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt

Loans Payable (Continued)

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</u>
2005 Redwood River CWP Project	2017	\$2,668.17	2.00	\$ 48,149	\$ 39,270
2009 Redwood River CWP Project	2021	\$3,892.39	2.00	6,329	6,329
Total Loans Payable				<u>\$ 54,478</u>	<u>\$ 45,599</u>

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</u>
G.O. Hospital Bonds of 2000	2022	\$90,000 - \$225,000	4.75 - 5.30	\$ 2,935,000	\$ 2,200,000
G.O. Hospital Bonds of 2005	2022	\$145,000 - \$220,000	3.25 - 4.15	2,140,000	2,140,000
Health Facilities Revenue Note, Series 2001	2018	\$70,000 - \$80,000	5.00	3,075,000	2,095,816
Total G.O. Bonds and Revenue Notes				<u>\$ 8,150,000</u>	<u>\$ 6,435,816</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

Governmental Activities

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 4,574	\$ 763
2011	4,666	671
2012	4,759	577
2013	4,855	481
2014	4,953	384
2015 - 2017	<u>15,463</u>	<u>545</u>
Totals	<u>\$ 39,270</u>	<u>\$ 3,421</u>

The debt service requirements for the loan of \$6,329 from the Minnesota Pollution Control Agency are not known as of December 31, 2009.

Business-Type Activities

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,391,358	\$ 237,943
2011	346,148	170,211
2012	361,439	155,052
2013	377,257	139,000
2014	393,627	122,045
2015 - 2019	1,935,987	327,735
2020 - 2022	<u>630,000</u>	<u>39,790</u>
Totals	<u>\$ 6,435,816</u>	<u>\$ 1,191,776</u>

**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, 2009, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans payable	\$ 48,252	\$ 1,831	\$ 4,484	\$ 45,599	\$ 4,574
Compensated absences	239,241	27,291	-	266,532	17,541
Governmental Activities Long-Term Liabilities	<u>\$ 287,493</u>	<u>\$ 29,122</u>	<u>\$ 4,484</u>	<u>\$ 312,131</u>	<u>\$ 22,115</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds	\$ 4,460,000	\$ -	\$ 120,000	\$ 4,340,000	\$ 2,200,000
Health Facilities Revenue Note, Series 2001	2,277,859	-	182,043	2,095,816	191,358
Business-Type Activities Long-Term Liabilities	<u>\$ 6,737,859</u>	<u>\$ -</u>	<u>\$ 302,043</u>	<u>\$ 6,435,816</u>	<u>\$ 2,391,358</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

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 as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 781,067	\$ 746,046	\$ 587,448
Public Employees Police and Fire Fund	94,483	78,756	71,795
Public Employees Correctional Fund	29,265	30,870	26,239

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

B. Defined Contribution Plan

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,196	\$ 2,196
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Risk Management (Continued)

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 \$430,000 per claim in 2009 and \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in one known lawsuit. Although the outcome of this lawsuit is not presently determinable, in the opinion of the County Attorney, the resolution of this matter will not have a material adverse effect on the financial condition of the government.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2009, the Lincoln-Pipestone Rural Water System had \$36,989,000 of general obligation bonds outstanding through 2034. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

In 2010, Nobles County issued General Obligation Bonds for \$800,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

B. Joint Ventures

Lincoln, Lyon, Murray, and Pipestone Public Health Services

Pipestone County participates with other surrounding counties to provide health services 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 2009 was \$55,833.

The Lincoln, Lyon, Murray, and Pipestone Public Health Services' 2009 financial report shows total net assets of \$1,106,488 and an increase in net assets of \$87,742.

In June 2010, Lincoln, Lyon, Murray, and Pipestone Counties approved a joint powers agreement creating the Southwest Health and Human Services (SWHHS) agency and terminating the joint powers agreements for Lincoln, Lyon, and Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Pipestone County's participation in the SWHHS is for community health services only. Dissolution of LLMHS and LLMPPHS is effective December 31, 2010, although the agreement recognizes that both LLMHS and LLMPPHS shall continue to exist after dissolution as long as is necessary to conclude the affairs of the agencies.

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report for the year ended December 31, 2009:

Total assets	\$ 2,304,308
Total liabilities	327,637
Total net assets	1,976,671
Total revenues	4,271,686
Total expenditures	4,327,451
Net change in net assets	(55,765)

The Board reported no long-term obligations at December 31, 2009.

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

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln, Nobles, and Yellow Medicine Counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2009, are \$36,989,000.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2009 financial report shows total net assets of \$37,083,055, including unrestricted net assets of \$26,538,044. The decrease in net assets for the year ended December 31, 2009, is \$979,969.

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

Southwest Regional Solid Waste Commission

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

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 \$500.

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

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership was established July 2007 by a joint powers agreement among Pipestone County and 11 other counties under the authority of Minn. Stat. §§ 145A.17 and 471.59. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2009, the County's contribution was \$9,900.

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

Southwest Minnesota Regional Radio Board

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

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

During 2009, Pipestone County did not contribute to the Joint Powers Board.

**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 \$2,471 of the County levy to the Project.

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 \$780 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, makes up the Authority. During the year, the County paid \$50,000 of the County levy to the Authority.

Workforce Investment Act

The Workforce Investment Act (WIA) of 1998 is to consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States. During the year, the County did not contribute to the WIA.

D. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,452,417	\$ 2,452,417	\$ 2,414,541	\$ (37,876)
Special assessments	186,500	186,500	220,020	33,520
Licenses and permits	9,030	9,030	13,030	4,000
Intergovernmental	1,753,595	1,753,595	1,657,312	(96,283)
Charges for services	1,282,767	1,282,767	1,244,527	(38,240)
Fines and forfeits	13,000	13,000	12,896	(104)
Investment earnings	300,000	300,000	217,463	(82,537)
Miscellaneous	263,421	263,421	324,531	61,110
Total Revenues	\$ 6,260,730	\$ 6,260,730	\$ 6,104,320	\$ (156,410)
Expenditures				
Current				
General government				
Commissioners	\$ 177,064	\$ 177,064	\$ 168,191	\$ 8,873
Travel management	8,815	8,815	1,279	7,536
Courts	35,300	35,300	39,135	(3,835)
Law library	17,000	17,000	19,039	(2,039)
Administrator	107,816	107,816	105,493	2,323
Auditor	211,070	211,070	199,648	11,422
Treasurer	179,504	179,504	171,385	8,119
Accounting and auditing	48,000	48,000	64,250	(16,250)
Personnel	64,392	64,392	58,953	5,439
Data processing	84,845	84,845	86,576	(1,731)
Elections	9,300	9,300	10,825	(1,525)
Information technology	150,560	150,560	218,630	(68,070)
Attorney	189,631	189,631	183,004	6,627
Recorder	176,400	176,400	150,346	26,054
Assessor	193,899	193,899	179,425	14,474
Planning and zoning	37,624	37,624	35,047	2,577
Geographic information system	21,000	21,000	6,092	14,908
Buildings and plant	1,261,704	1,261,704	1,608,822	(347,118)
Fairgrounds	76,600	76,600	32,408	44,192
Veterans service officer	51,797	51,797	49,739	2,058
County-wide transportation	399,700	399,700	441,923	(42,223)
Other general government	498,071	498,071	331,740	166,331
Total general government	\$ 4,000,092	\$ 4,000,092	\$ 4,161,950	\$ (161,858)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,138,246	\$ 1,138,246	\$ 1,112,495	\$ 25,751
Dispatch	226,858	226,858	201,783	25,075
Coroner	3,000	3,000	3,683	(683)
County jail	385,199	385,199	335,125	50,074
Probation and parole	77,724	77,724	80,821	(3,097)
Emergency management	73,752	73,752	71,708	2,044
E-911 system	59,260	59,260	48,734	10,526
County ambulance	289,931	289,931	265,110	24,821
Total public safety	<u>\$ 2,253,970</u>	<u>\$ 2,253,970</u>	<u>\$ 2,119,459</u>	<u>\$ 134,511</u>
Sanitation				
Recycling	<u>\$ 181,980</u>	<u>\$ 181,980</u>	<u>\$ 211,685</u>	<u>\$ (29,705)</u>
Health				
Nursing services	<u>\$ 10,515</u>	<u>\$ 10,515</u>	<u>\$ 528</u>	<u>\$ 9,987</u>
Culture and recreation				
Senior citizens	\$ 61,756	\$ 61,756	\$ 61,634	\$ 122
Parks	4,400	4,400	2,360	2,040
Hiawatha trails	30,000	30,000	19,656	10,344
Other	49,114	49,114	49,732	(618)
Total culture and recreation	<u>\$ 145,270</u>	<u>\$ 145,270</u>	<u>\$ 133,382</u>	<u>\$ 11,888</u>
Conservation of natural resources				
Extension	\$ 183,271	\$ 183,271	\$ 173,508	\$ 9,763
Agricultural inspection	25,223	25,223	24,611	612
Other	221,620	221,620	129,406	92,214
Total conservation of natural resources	<u>\$ 430,114</u>	<u>\$ 430,114</u>	<u>\$ 327,525</u>	<u>\$ 102,589</u>
Economic development				
Community development	<u>\$ 63,165</u>	<u>\$ 63,165</u>	<u>\$ 63,065</u>	<u>\$ 100</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Intergovernmental				
Health	\$ 56,000	\$ 56,000	\$ 55,833	\$ 167
Culture and recreation	<u>52,000</u>	<u>52,000</u>	<u>51,856</u>	<u>144</u>
Total intergovernmental	<u>\$ 108,000</u>	<u>\$ 108,000</u>	<u>\$ 107,689</u>	<u>\$ 311</u>
Debt service				
Principal	\$ 5,336	\$ 5,336	\$ 4,484	\$ 852
Interest	<u>-</u>	<u>-</u>	<u>853</u>	<u>(853)</u>
Total Expenditures	<u>\$ 7,198,442</u>	<u>\$ 7,198,442</u>	<u>\$ 7,130,620</u>	<u>\$ 67,822</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ (937,712)</u>	<u>\$ (937,712)</u>	<u>\$ (1,026,300)</u>	<u>\$ (88,588)</u>
Other Financing Sources (Uses)				
Proceeds from loans	\$ -	\$ -	\$ 1,831	\$ 1,831
Proceeds from sale of assets	<u>2,000</u>	<u>2,000</u>	<u>1,101</u>	<u>(899)</u>
Total Other Financing Sources (Uses)	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 2,932</u>	<u>\$ 932</u>
Net Change in Fund Balance	<u>\$ (935,712)</u>	<u>\$ (935,712)</u>	<u>\$ (1,023,368)</u>	<u>\$ (87,656)</u>
Fund Balance - January 1	<u>5,792,607</u>	<u>5,792,607</u>	<u>5,792,607</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 4,856,895</u></u>	<u><u>\$ 4,856,895</u></u>	<u><u>\$ 4,769,239</u></u>	<u><u>\$ (87,656)</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 622,511	\$ 622,511	\$ 546,117	\$ (76,394)
Intergovernmental	5,112,126	5,112,126	3,221,908	(1,890,218)
Charges for services	179,000	179,000	108,429	(70,571)
Investment earnings	54,000	54,000	41,771	(12,229)
Miscellaneous	57,050	57,050	57,960	910
Total Revenues	\$ 6,024,687	\$ 6,024,687	\$ 3,976,185	\$ (2,048,502)
Expenditures				
Current				
Highways and streets				
Administration	\$ 273,079	\$ 273,079	\$ 1,003,701	\$ (730,622)
Construction	3,800,269	3,800,269	1,938,708	1,861,561
Maintenance	1,189,660	1,189,660	880,994	308,666
Equipment and maintenance shops	551,679	551,679	266,243	285,436
Total highways and streets	\$ 5,814,687	\$ 5,814,687	\$ 4,089,646	\$ 1,725,041
Intergovernmental				
Highways and streets	210,000	210,000	229,906	(19,906)
Total Expenditures	\$ 6,024,687	\$ 6,024,687	\$ 4,319,552	\$ 1,705,135
Net Change in Fund Balance	\$ -	\$ -	\$ (343,367)	\$ (343,367)
Fund Balance - January 1	2,811,672	2,811,672	2,811,672	-
Increase (decrease) in reserved for inventories	-	-	(96,937)	(96,937)
Fund Balance - December 31	\$ 2,811,672	\$ 2,811,672	\$ 2,371,368	\$ (440,304)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 853,959	\$ 853,959	\$ 749,392	\$ (104,567)
Intergovernmental	1,581,684	1,581,684	1,670,766	89,082
Charges for services	12,500	12,500	23,462	10,962
Miscellaneous	191,200	191,200	257,515	66,315
Total Revenues	\$ 2,639,343	\$ 2,639,343	\$ 2,701,135	\$ 61,792
Expenditures				
Current				
Human services				
Income maintenance	\$ 920,840	\$ 920,840	\$ 959,691	\$ (38,851)
Social services	1,811,125	1,811,125	1,579,650	231,475
Total Expenditures	\$ 2,731,965	\$ 2,731,965	\$ 2,539,341	\$ 192,624
Net Change in Fund Balance	\$ (92,622)	\$ (92,622)	\$ 161,794	\$ 254,416
Fund Balance - January 1	948,753	948,753	948,753	-
Fund Balance - December 31	\$ 856,131	\$ 856,131	\$ 1,110,547	\$ 254,416

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

There were no amendments to the budget in the current year.

4. Excess of Expenditures Over Budget

For the year ended December 31, 2009, there were no funds where expenditures exceeded appropriations (the legal level of budgetary control).

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SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Statement 1

**BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2009**

	<u>Special Revenue</u> <u>Ditch</u>	<u>Debt Service</u> <u>Medical</u> <u>Facility Bonds</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 29,908	\$ 178,636	\$ 208,544
Undistributed cash in agency funds	-	4,036	4,036
Taxes receivable			
Prior	-	6,497	6,497
Total Assets	<u>\$ 29,908</u>	<u>\$ 189,169</u>	<u>\$ 219,077</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Due to other funds	\$ -	\$ 149,686	\$ 149,686
Deferred revenue - unavailable	-	6,497	6,497
Total Liabilities	\$ -	\$ 156,183	\$ 156,183
 Fund Balances			
Unreserved			
Undesignated	29,908	32,986	62,894
Total Liabilities and Fund Balances	<u>\$ 29,908</u>	<u>\$ 189,169</u>	<u>\$ 219,077</u>

**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, 2009**

	<u>Special Revenue</u> <u>Ditch</u>	<u>Debt Service</u> <u>Medical</u> <u>Facility Bonds</u>	<u>Total</u>
Revenues			
Taxes	\$ -	\$ 232,143	\$ 232,143
Expenditures			
Current			
Conservation of natural resources	<u>400</u>	<u>-</u>	<u>400</u>
Excess of Revenues Over (Under)			
Expenditures	\$ (400)	\$ 232,143	\$ 231,743
Other Financing Sources (Uses)			
Transfers out	<u>-</u>	<u>(245,334)</u>	<u>(245,334)</u>
Net Change in Fund Balance	\$ (400)	\$ (13,191)	\$ (13,591)
Fund Balance - January 1	<u>30,308</u>	<u>46,177</u>	<u>76,485</u>
Fund Balance - December 31	<u>\$ 29,908</u>	<u>\$ 32,986</u>	<u>\$ 62,894</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,081	\$ 129,944	\$ 137,325	\$ 3,700
<u>Liabilities</u>				
Due to other governments	\$ 11,081	\$ 129,944	\$ 137,325	\$ 3,700
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,392	\$ 767,566	\$ 768,238	\$ 23,720
<u>Liabilities</u>				
Due to other governments	\$ 24,392	\$ 767,566	\$ 768,238	\$ 23,720
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 15,811	\$ 1,080	\$ 14,731
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 15,811	\$ 1,080	\$ 14,731

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 117,737</u>	<u>\$ 9,836,448</u>	<u>\$ 9,829,601</u>	<u>\$ 124,584</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 117,737</u>	<u>\$ 9,836,448</u>	<u>\$ 9,829,601</u>	<u>\$ 124,584</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 153,210</u>	<u>\$ 10,749,769</u>	<u>\$ 10,736,244</u>	<u>\$ 166,735</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 153,210</u>	<u>\$ 10,749,769</u>	<u>\$ 10,736,244</u>	<u>\$ 166,735</u>

OTHER SCHEDULE

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 4

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Shared Revenue

State

Highway users tax	\$ 2,662,776
County program aid	1,170,486
PERA rate reimbursement	14,804
Disparity reduction aid	71,377
Police aid	73,138
E-911	82,062
Market value credit	394,749
	<u>4,469,392</u>

Total shared revenue **\$ 4,469,392**

Reimbursement for Services

Minnesota Department of Public Safety	\$ 22,601
Minnesota Department of Human Services	263,984
	<u>286,585</u>

Total reimbursement for services **\$ 286,585**

Payments

Local

Payments in lieu of taxes	\$ 40,691
	<u>40,691</u>

Grants

State

Minnesota Department/Board of	
Corrections	\$ 10,804
Human Services	412,893
Natural Resources	19,656
Public Safety	50,338
Transportation	463,276
Veterans Affairs	1,400
Pollution Control Agency	55,475
	<u>1,013,842</u>

Total state **\$ 1,013,842**

Federal

Department of	
Agriculture	\$ 72,082
Transportation	78,116
Health and Human Services	575,956
Homeland Security	13,322
	<u>739,476</u>

Total federal **\$ 739,476**

Total state and federal grants **\$ 1,753,318**

Total Intergovernmental Revenue **\$ 6,549,986**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 5

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Pipestone County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pipestone County and are 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Pipestone County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs 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 programs for 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 programs are:
- | | |
|---|--------------|
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster | |
| State Administrative Matching Grants for SNAP | CFDA #10.561 |
| State Administrative Matching Grants for SNAP - ARRA | CFDA #10.561 |
| Child Support Enforcement Cluster | |
| Child Support Enforcement | CFDA #93.563 |
| Child Support Enforcement - ARRA | CFDA #93.563 |
| Medical Assistance Program | CFDA #93.778 |

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

I. Pipestone County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Segregation of Duties

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

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

Some of the County's departments that collect fees are not able to segregate the accounting duties. These departments generally have one staff person who is responsible for billing, collecting, depositing, and recording receipts as well as reconciling bank accounts.

We recommend that Pipestone County's management be aware of the lack of segregation of duties within the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed 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.

06-1 Audit Adjustments

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

During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

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

Client's Response:

The County has compiled some internal control narratives from Departments. The County will review and update internal controls to improve financial reporting. The County will seek out qualified individual(s) to review balances and supporting documentation.

06-5 Accounting Policies and Procedures Manual

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

Schedule 5
(Continued)

All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures that make up the County's internal control system.

Written policies and procedures should exist to set forth requirements to account for such matters as:

- receipt and deposit of funds;
- cash and investment activities;
- investment practices and restrictions;
- collections on accounts, including when to involve a collection agency;
- purchases of goods and services;
- contracting practices;
- authorizing credit cards or establishing charge accounts at local businesses;
- approval and payment of bills;
- accounting for payroll activities;
- accounting for capital assets [capitalization process (including disposal of infrastructure), related depreciation, the redetermination of useful lives, and a tracking system for all County property sold];
- physical counts of capital assets and inventory items;
- creating, approving, and amending budgets;
- upgrades to software;
- access to applications and the network;
- creating, changing, and updating passwords;
- data back-ups;
- risk management; and
- annual financial reporting practices.

These policies should be designed to help detect and deter fraud and include procedures for monitoring the internal controls. Written policies and procedures should exist to ensure the County's practices are followed as intended by management. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

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

Management should periodically evaluate its policies and procedures to assess whether internal controls that have been established are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. We recommend the policies and procedures manual document significant internal controls in the accounting system, including a risk assessment and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County has compiled some internal control narratives from Departments. The County will review and update internal controls to improve financial reporting. The County will seek out qualified individual(s) to review balances and supporting documentation.

07-4 Segregation of Duties - Payroll

During our review of the County's payroll function, we noted the person who processes payroll also has the ability to change pay rates and add new employees. These duties should ideally be segregated. However, if that is not practical, changes to pay rates and additions of new employees should be monitored on a monthly basis by someone independent of payroll processing.

We recommend the County re-evaluate whether payroll staff need to have the ability to change pay rates and add new employees. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor the authorization of pay rate changes and the addition of new employees.

Client's Response:

A process has been put in place in 2009 for Human Resources to verify employees' names, rate of pay, and any changes made. Although this process was implemented, it was not completed by the time of the audit. The final end of the year payroll report was checked and signed off on. Starting with 2010, our goal is to keep up on a monthly basis.

ITEM ARISING THIS YEAR

09-1 Credit Card Usage

During 2009, the County issued 37 credit cards. Old credit cards are collected, and new credit cards are re-issued every year in March. Based on the County's most current actuary report, the County has 92 employees and officials. This indicates that the County Board has authorized more than 40 percent of its employees/officials to make purchases on behalf of the County. Although the Board has adopted a credit card policy, audit procedures indicate that the policy was not consistently followed.

We noted some instances where payments were made for charges by County personnel that did not include itemized proof of purchase. The County's credit card policy states, in part, "If no documentation is produced to verify a purchase, the cardholder must immediately reimburse the County for the purchase amount." There was no indication that these undocumented charges had been reimbursed to the County. We also noted that although credit card statements may be reconciled by department heads (also required by the County's policy), in some instances there was no clear indication that this procedure was performed, such as an initial/date by the department head.

We recommend that the County follow its Board-approved credit card policy. We also recommend that the monthly reconciliation process be initialed and dated by the reviewer. The ability to use a credit card for small purchases in the ordinary course of business offers many advantages. However, the ability of the cardholder to make the County liable for an improper or illegal purchase is an inherent risk associated with credit cards. Minimizing the number of credit cards approved and compliance with the County's credit card policy will greatly reduce exposure to loss of public funds through theft or misuse of a credit card.

Client's Response:

The County follows its Board-approved credit card policy. The County will ensure that the monthly reconciliation process be initialed and dated by the department head.

The County will review the number of credit cards issued and minimize the number of credit cards approved to reduce the possible exposure to loss of public funds through theft or misuse of a credit card.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Family Services Reporting (08-1)

The County included expenditures that were reimbursed by Nobles County for its portion of the Family Services Director's salary on quarterly reports to the Minnesota Department of Human Services.

Resolution

The County is properly omitting expenditures that are reimbursed by Nobles County for its portion of the Family Services Director's salary on quarterly reports to the Minnesota Department of Human Services.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

09-2 Publication of Vendors

The County annually publishes a summary of disbursements by vendor; however, it does not list individual vendors paid with credit cards. Conditions for publication of payments to vendors are specified in Minn. Stat. § 375.17, subd. 2. Conditions for payment of claims are specified in Minn. Stat. § 471.38, which states that claims presented for payment must be in writing and itemized. Bills received from a credit card company lack sufficient detail to comply with these statutory requirements.

We recommend Pipestone County comply with Minnesota statutes regarding the proper publication of information regarding payments to vendors.

Client's Response:

The County will comply with Minnesota statutes regarding the proper publication of information regarding payments to vendors.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-7

Disaster Recovery Plan

Pipestone County does not have a disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County would need to continue to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

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

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 8, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Pipestone County Medical Center, a component unit of Pipestone County, which represents the amounts shown as the business-type activities and the Medical Center Enterprise Fund, as described in our report on Pipestone County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pipestone County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 99-3, 06-1, 06-5, 07-4, and 09-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing (TIF). Our study included all of the listed categories, except that we did not test for compliance in TIF because the County does not have any TIF districts.

The results of our tests indicate that, for the items tested, Pipestone County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 09-2.

Also included in the Schedule of Findings and Questioned Costs are a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to the County, and they are reported for that purpose.

Pipestone County's written responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, audit committee, management, others within Pipestone County, 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/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 8, 2010

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 each of its major federal programs for the year ended December 31, 2009. Pipestone County's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

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 internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 8, 2010. We did not audit the financial statements of 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. Our audit was performed for the purpose of forming opinions on Pipestone County's 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, audit committee, management, and others within the County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 8, 2010

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Schedule 6

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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 the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 70,103
State Administrative Matching Grants for SNAP - ARRA	10.561	1,979
Total U.S. Department of Agriculture		\$ 72,082
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Formula Grants for Other Than Urbanized Areas Cluster		
Formula Grants for Other Than Urbanized Areas	20.509	\$ 78,116
Formula Grants for Other Than Urbanized Areas - ARRA	20.509	53,979
Total U.S. Department of Transportation		\$ 132,095
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	\$ 1,105
Promoting Safe and Stable Families	93.556	3,640
Temporary Assistance for Needy Families	93.558	86,045
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	123,616
Child Support Enforcement - ARRA	93.563	28,860
Refugee and Entrant Assistance - State-Administered Programs	93.566	139
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	9,753
Child Welfare Services - State Grants	93.645	4,194
Foster Care - Title IV-E Cluster		
Foster Care - Title IV-E	93.658	9,908
Foster Care - Title IV-E - ARRA	93.658	386
Social Services Block Grant	93.667	78,907
Chafee Foster Care Independence Program	93.674	3,800
Medical Assistance Program	93.778	223,756
Block Grants for Community Mental Health Services	93.958	1,847
Total U.S. Department of Health and Human Services		\$ 575,956
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	\$ 13,322
Total Federal Awards		\$ 793,455

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Pipestone County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pipestone County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Pipestone County, it is not intended to and does not present the financial position, changes in net assets, or cash flows for Pipestone County.

3. Summary of Significant Account Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 739,476
Grants received more than 60 days after year-end deferred in 2009	
Formula Grants for Other Than Urbanized Areas - ARRA	<u>53,979</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 793,455</u>

5. Subrecipients

During 2009, the County did not pass any federal money to subrecipients.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.