STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Year Ended December 31, 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PIPESTONE, MINNESOTA

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

ORGANIZATION
DECEMBER 31, 2010

Office	Name	Term Expires
Commissioners		
1st District	Marge DeRuyter	January 2013
2nd District	Harold "Butch" Miller	January 2011
3rd District	Marvin Tinklenberg[2]	January 2013
4th District	James Keyes[1]	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	Nicole Names	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Family Services Board		
Chair	Marvin Tinklenberg	January 2013
Vice Chair	Jerry Remund	January 2013
Secretary	Judy Zwart	July 2011
Member	Harold "Butch" Miller	January 2011
Member	Marge DeRuyter	January 2013
Member	James Keyes	January 2011
Member	Darlene Bouman	July 2012

[1]Chair 2010
[2]Chair 2011

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pipestone 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (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 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, 2010, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pipestone County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2011, 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 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 $53,228,585, of which $42,596,597 is invested in capital assets and $1,535,040 is restricted for specific purposes. The unrestricted net assets of $9,096,948 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by $1,869,765 for the year ended December 31, 2010. 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 $3,620,644. The net cost was funded by general revenues totaling $5,490,409.

Fund balances of the governmental funds increased by $779,723. Most of the increase was due to unanticipated increases in revenue and overall decreases in expenditures county-wide.

At the end of the current fiscal year, the County had an unreserved General Fund balance of $5,020,126. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 86 percent of total General Fund expenditures of $5,807,385.

The Pipestone County Medical Center's assets exceeded its liabilities by $27,020,501 at December 31, 2010. The Medical Center recorded an increase in net assets of $1,763,107 for the fiscal year ending December 31, 2010.

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.

<u>Governmental funds</u> 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.

<u>Proprietary funds</u> 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.

<u>Fiduciary funds</u> 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 $53,228,585 at the close of 2010. The largest portion of the net assets (80 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 2009 is presented.

Governmental Activities

	2010	2009
Assets		
Current and other assets	$ 12,253,446	$ 11,902,834
Capital assets	42,820,815	40,709,523
Total Assets	$ 55,074,261	$ 52,612,357
Liabilities		
Long-term liabilities	$ 317,604	$ 312,131
Other liabilities	1,528,072	941,406
Total Liabilities	$ 1,845,676	$ 1,253,537
Net Assets		
Invested in capital assets	$ 42,596,597	$ 40,709,523
Restricted	1,535,040	2,523,298
Unrestricted	9,096,948	8,125,999
Total Net Assets	$ 53,228,585	$ 51,358,820

Unrestricted net assets (in the amount of $9,096,948)--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 17 percent of the net assets.

The County's governmental activities increased net assets by four percent ($53,228,585 for 2010 compared to $51,358,820 for 2009). Key elements in this increase in net assets are as follows with comparative amounts from 2009.

Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Revenues				
Program revenues				
Charges for services	$ 2,604,595	$ 2,273,856	$ 24,865,987	$ 25,916,926
Operating grants and contributions	5,123,557	4,712,775	-	-
Capital grants and contributions	944,342	442,150	-	-
General revenues				
Property taxes	3,741,979	3,557,092	-	-
Other	1,987,582	2,310,864	776,869	502,271
Total Revenues	$ 14,402,055	$ 13,296,737	$ 25,642,856	$ 26,419,197

	Governmental Activities		Business-Type Activities	
	2010	2009	2010	2009
Expenses				
General government	$ 2,812,922	$ 2,831,062	$ -	$ -
Public safety	2,257,896	2,191,002	-	-
Highways and streets	3,571,511	2,943,721	-	-
Sanitation	195,353	201,802	-	-
Human services	2,673,076	2,547,700	-	-
Health	66,261	56,361	-	-
Culture and recreation	187,108	185,129	-	-
Conservation of natural resources	519,883	328,334	-	-
Economic development	8,365	63,065	-	-
Interest	763	853	-	-
Medical Center	-	-	24,118,901	24,205,200
Total Expenses	$ 12,293,138	$ 11,349,029	$ 24,118,901	$ 24,205,200
Excess (Deficiency) Before Transfers	$ 2,108,917	$ 1,947,708	$ 1,523,955	$ 2,213,997
Transfers	(239,152)	(245,334)	239,152	245,334
Increase in Net Assets	$ 1,869,765	$ 1,702,374	$ 1,763,107	$ 2,459,331
Net Assets - January 1	51,358,820	49,656,446	25,257,394	22,798,063
Net Assets - December 31	$ 53,228,585	$ 51,358,820	$ 27,020,501	$ 25,257,394

Total governmental revenues for the County were $14,402,055, total expenses were $12,293,138, and total transfers out were $239,152. This reflects a $1,869,765 increase in net assets for the year ended December 31, 2010.

The cost of all governmental activities for the year was $12,293,138. 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 $3,741,979 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--$2,604,595; or by other governments and organizations that subsidized certain programs with grants and contributions--$6,067,899. 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	
	2010	2009	2010	2009
Highways and streets	$ 3,571,511	$ 2,943,721	$ (567,332)	$ (416,244)
General government	2,812,922	2,831,062	1,963,843	2,128,264
Human services	2,673,076	2,547,700	1,124,360	979,359
Public safety	2,257,896	2,191,002	711,778	781,551
All others	977,733	835,544	387,995	447,318
Totals	$ 12,293,138	$ 11,349,029	$ 3,620,644	$ 3,920,248

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $9,093,771, an increase of $779,723 in comparison with the prior year. Of the combined ending fund balances, $8,448,669 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 $5,020,126. 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 86 percent of total General Fund expenditures of $5,807,385. During 2010, the ending fund balance increased by $633,973. Most of the increase was due to unanticipated increases in revenue and overall decreases in expenditures.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $2,128,961 at fiscal year-end, representing 36 percent of its 2010 expenditures. The ending fund balance increased $8,479 during 2010.

The Family Services Special Revenue Fund had an unreserved fund balance of $1,239,854 at fiscal year-end, representing 46 percent of its 2010 expenditures. The ending fund balance increased $140,437 during 2010.

Proprietary Fund

The statement of net assets at December 31, 2010, for the Pipestone County Medical Center indicates total assets of $33,130,089, total liabilities of $6,109,588, and net assets of $27,020,501. Total current assets were $8,013,675, and total current liabilities were 2,419,826, for a current ratio of 3.31, up from 1.79 at December 31, 2009. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of $24,865,987 and total operating expenses of $23,940,753, for an operating income of $925,234 and nonoperating revenues of $487,774, nonoperating expenses of $178,148, capital contributions of $289,095, and transfers in of $239,152, which contributed to the increase in net assets from $25,257,394 to $27,020,501.

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 $355,847 under the final budget amounts. The most significant variances occurred in Data processing, Recorder, Geographic information systems, County jail, E-911, County ambulance, County-wide transportation, and Other general government expenditures.

Resources available for appropriation were $190,673 over the final budgeted amount. Intergovernmental revenue, charges for services, and miscellaneous were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2010, totaled $42,820,815 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased by $2,111,292 or about five percent, over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure.

Capital Assets at Year-End
(Net of Depreciation)

	2010	2009
Land and other nondepreciated assets	$ 3,686,349	$ 3,521,355
Land improvements	249,153	261,137
Infrastructure	32,405,180	30,399,894
Buildings	4,612,983	4,749,188
Machinery and equipment	1,867,150	1,777,949
Total	$ 42,820,815	$ 40,709,523

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, 2010, amounted to $12,051,863 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2010, 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 $4,035,910, 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 2011 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2010 was 5.6 percent. This compares favorably with the average annual state unemployment rate of 6.8 percent at the end of 2010. The 2010 County population is 9,596, a decrease of 299 or 3.0 percent from the 2000 census of 9,895.

- Among Pipestone County residents, the overall poverty rate was 10.6 percent in 2009, compared to 10.9 percent in Minnesota.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Pipestone County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to 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, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 8,741,932	$ 3,749,628	$ 12,491,560
Investments	1,450,000	-	1,450,000
Receivables - net	1,939,052	3,257,055	5,196,107
Internal balances	(167,047)	167,047	-
Inventories	235,503	711,616	947,119
Prepaid items	54,006	128,329	182,335
Assets restricted as to use for			
Capital acquisition and debt redemption	-	11,864,965	11,864,965
Insurance	-	500,000	500,000
Restricted by contributors for capital acquisitions	-	289,095	289,095
Investment in joint venture	-	337,865	337,865
Capital assets			
Nondepreciable capital assets	3,686,349	848,723	4,535,072
Depreciable capital assets - net of accumulated depreciation	39,134,466	11,203,140	50,337,606
Other assets			
Deferred financing costs - net of accumulated amortization	-	72,626	72,626
Total Assets	**$ 55,074,261**	**$ 33,130,089**	**$ 88,204,350**
Liabilities			
Accounts payable and other current liabilities	$ 1,279,760	$ 2,039,548	$ 3,319,308
Accrued interest payable	-	34,130	34,130
Advance from other governments	248,312	-	248,312
Long-term liabilities			
Due within one year	21,965	346,148	368,113
Due in more than one year	295,639	3,689,762	3,985,401
Total Liabilities	**$ 1,845,676**	**$ 6,109,588**	**$ 7,955,264**
Net Assets			
Invested in capital assets - net of related debt	$ 42,596,597	$ 8,015,953	$ 50,612,550
Restricted for			
Other purposes	215,084	289,095	504,179
Public safety	122,004	-	122,004
Highways and streets	1,158,688	-	1,158,688
Debt service	39,264	-	39,264
Unrestricted	9,096,948	18,715,453	27,812,401
Total Net Assets	**$ 53,228,585**	**$ 27,020,501**	**$ 80,249,086**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		Expenses		Fees, Charges, Fines, and Other
Functions/Programs				
Primary Government				
Governmental activities				
General government	$	2,812,922	$	543,805
Public safety		2,257,896		1,232,560
Highways and streets		3,571,511		249,653
Sanitation		195,353		223,992
Human services		2,673,076		272,845
Health		66,261		-
Culture and recreation		187,108		15,000
Conservation of natural resources		519,883		66,740
Economic development		8,365		-
Interest		763		-
Total governmental activities	**$**	**12,293,138**	**$**	**2,604,595**
Business-type activities				
Medical Center		24,118,901		24,865,987
Total Primary Government	**$**	**36,412,039**	**$**	**27,470,582**

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

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

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Business-Type Activities	Total
$ 305,274	$ -	$ (1,963,843)	$ -	$ (1,963,843)
313,558	-	(711,778)	-	(711,778)
2,944,848	944,342	567,332	-	567,332
55,950	-	84,589	-	84,589
1,275,871	-	(1,124,360)	-	(1,124,360)
-	-	(66,261)	-	(66,261)
-	-	(172,108)	-	(172,108)
228,056	-	(225,087)	-	(225,087)
-	-	(8,365)	-	(8,365)
-	-	(763)	-	(763)
$ 5,123,557	**$ 944,342**	**$ (3,620,644)**	**$ -**	**$ (3,620,644)**
-	-	-	747,086	747,086
$ 5,123,557	**$ 944,342**	**$ (3,620,644)**	**$ 747,086**	**$ (2,873,558)**
		$ 3,741,979	$ -	$ 3,741,979
		9,673	-	9,673
		404,770	-	404,770
		40,393	-	40,393
		1,331,218	362,490	1,693,708
		180,620	291,609	472,229
		20,908	496	21,404
		-	122,274	122,274
		(239,152)	239,152	-
		$ 5,490,409	**$ 1,016,021**	**$ 6,506,430**
		$ 1,869,765	**$ 1,763,107**	**$ 3,632,872**
		51,358,820	**25,257,394**	**76,616,214**
		$ 53,228,585	**$ 27,020,501**	**$ 80,249,086**

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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, 2010

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 5,538,242	$ 1,605,480	$ 1,253,778	$ 222,932	$ 8,620,432
Undistributed cash in agency funds	65,667	19,871	28,994	3,843	118,375
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,406,000	-	-	1,450,000
Taxes receivable					
Prior	19,182	6,844	9,839	7,053	42,918
Special assessments receivable					
Prior	12,074	-	-	-	12,074
Noncurrent	224,183	-	-	-	224,183
Accounts receivable	53,077	1,384	18,614	-	73,075
Accrued interest receivable	35,736	9,368	-	-	45,104
Due from other funds	6,461	7,557	-	-	14,018
Due from other governments	56,263	1,337,184	148,251	-	1,541,698
Inventories	-	235,503	-	-	235,503
Prepaid items	33,239	9,637	11,130	-	54,006
Total Assets	**$ 6,091,149**	**$ 4,638,928**	**$ 1,470,606**	**$ 233,828**	**$ 12,434,511**
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 150,707	$ 187,175	$ 89,560	$ -	$ 427,442
Salaries payable	264,425	84,488	97,677	-	446,590
Contracts payable	-	355,009	-	-	355,009
Due to other funds	7,508	-	6,510	167,047	181,065
Due to other governments	432	34,251	16,036	-	50,719
Deferred revenue - unavailable	264,865	1,349,846	9,839	7,053	1,631,603
Advance from other governments	-	248,312	-	-	248,312
Total Liabilities	**$ 687,937**	**$ 2,259,081**	**$ 219,622**	**$ 174,100**	**$ 3,340,740**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances (Continued)					
Fund Balances					
Reserved for					
Encumbrances	$ -	$ 5,746	$ -	$ -	$ 5,746
Inventories	-	235,503	-	-	235,503
Prepaid items	33,239	9,637	11,130	-	54,006
Missing heirs	3,971	-	-	-	3,971
Law library	43,478	-	-	-	43,478
Recorder's technology fund	49,485	-	-	-	49,485
Recorder's compliance fund	82,520	-	-	-	82,520
Enhanced 911	88,722	-	-	-	88,722
Sheriff's contingency	2,256	-	-	-	2,256
Transportation	29,938	-	-	-	29,938
Probation supervision fees	4,567	-	-	-	4,567
DWI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Canteen fund	4,087	-	-	-	4,087
Gun permit fees	7,217	-	-	-	7,217
HAVA election monies	5,692	-	-	-	5,692
Septic/sewer loans	12,759	-	-	-	12,759
Unreserved					
Designated for					
Elections	74,456	-	-	-	74,456
Buildings	107,657	-	-	-	107,657
Capital improvements	359,722	-	-	-	359,722
Ambulance	82,000	-	-	-	82,000
Solid waste recycling	564,128	-	-	-	564,128
County septic loan program	5,208	-	-	-	5,208
Radio communications systems	200,000	-	-	-	200,000
Computer software	65,000	-	-	-	65,000
Undesignated	3,561,955	2,128,961	1,239,854	-	6,930,770
Unreserved, reported in nonmajor					
Special revenue fund	-	-	-	27,517	27,517
Debt service fund	-	-	-	32,211	32,211
Total Fund Balances	**$ 5,403,212**	**$ 2,379,847**	**$ 1,250,984**	**$ 59,728**	**$ 9,093,771**
Total Liabilities and Fund Balances	**$ 6,091,149**	**$ 4,638,928**	**$ 1,470,606**	**$ 233,828**	**$ 12,434,511**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2010

Fund balance - total governmental funds (Exhibit 3)			**$**	**9,093,771**
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.				42,820,815
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				1,631,603
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.				
Compensated absences	$	(276,579)		
Loans payable		(41,025)		(317,604)
Net Assets of Governmental Activities (Exhibit 1)			**$**	**53,228,585**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 2,190,268	$ 706,316	$ 1,030,529	$ 238,377	$ 4,165,490
Special assessments	236,896	-	-	-	236,896
Licenses and permits	13,500	-	-	-	13,500
Intergovernmental	2,130,425	4,929,848	1,390,961	-	8,451,234
Charges for services	1,310,182	91,943	18,705	-	1,420,830
Fines and forfeits	9,791	-	-	-	9,791
Gifts and contributions	2,507	-	-	-	2,507
Investment earnings	146,393	35,492	-	-	181,885
Miscellaneous	515,896	157,710	254,140	-	927,746
Total Revenues	**$ 6,555,858**	**$ 5,921,309**	**$ 2,694,335**	**$ 238,377**	**$ 15,409,879**
Expenditures					
Current					
General government	$ 2,633,956	$ -	$ -	$ -	$ 2,633,956
Public safety	2,176,388	-	-	-	2,176,388
Highways and streets	-	5,711,676	-	-	5,711,676
Sanitation	194,961	-	-	-	194,961
Human services	-	-	2,668,898	-	2,668,898
Health	528	-	-	-	528
Culture and recreation	96,534	-	-	-	96,534
Conservation of natural resources	514,894	-	-	2,391	517,285
Economic development	8,365	-	-	-	8,365
Intergovernmental	176,422	246,902	-	-	423,324
Debt service					
Principal	4,574	-	-	-	4,574
Interest	763	-	-	-	763
Total Expenditures	**$ 5,807,385**	**$ 5,958,578**	**$ 2,668,898**	**$ 2,391**	**$ 14,437,252**
Excess of Revenues Over (Under) Expenditures	**$ 748,473**	**$ (37,269)**	**$ 25,437**	**$ 235,986**	**$ 972,627**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 5
(Continued)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Transfers in	$ -	$ -	$ 115,000	$ -	$ 115,000
Transfers out	(115,000)	-	-	(239,152)	(354,152)
Proceeds from the sale of capital assets	500	7,453	-	-	7,953
Total Other Financing Sources (Uses)	**$ (114,500)**	**$ 7,453**	**$ 115,000**	**$ (239,152)**	**$ (231,199)**
Net Change in Fund Balance	**$ 633,973**	**$ (29,816)**	**$ 140,437**	**$ (3,166)**	**$ 741,428**
Fund Balance - January 1	**4,769,239**	**2,371,368**	**1,110,547**	**62,894**	**8,314,048**
Increase (decrease) in reserved for inventories	**-**	**38,295**	**-**	**-**	**38,295**
Fund Balance - December 31	**$ 5,403,212**	**$ 2,379,847**	**$ 1,250,984**	**$ 59,728**	**$ 9,093,771**

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, 2010

Net change in fund balance - total governmental funds (Exhibit 5)		**$ 741,428**
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	$ 1,631,603	
Deferred revenue - January 1	(2,647,380)	(1,015,777)
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	$ 3,420,545	
Current year depreciation	(1,309,253)	2,111,292
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.		
Principal payments on debt		4,574
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	$ (10,047)	
Change in inventories	38,295	28,248
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 1,869,765**

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

PROPRIETARY FUND

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2010

Assets		
Current assets		
Cash and pooled investments	$	3,749,628
Accounts receivable - net		138,747
Patient and resident receivables - net		2,904,619
Due from minority interest partner		213,689
Due from other funds		167,047
Inventories		711,616
Prepaid items		128,329
Total current assets	**$**	**8,013,675**
Noncurrent assets		
Assets internally designated for		
Capital acquisition and debt redemption	$	11,864,965
Insurance		500,000
Restricted by contributors for capital acquisitions		289,095
Investment in joint venture		337,865
Total noncurrent restricted assets	**$**	**12,991,925**
Capital assets - net	**$**	**12,051,863**
Other assets		
Deferred financing costs - net of accumulated amortization of $71,270	**$**	**72,626**
Total Assets	**$**	**33,130,089**
Liabilities		
Current liabilities		
Accounts payable	$	1,143,982
Salaries payable		166,556
Paid time off		502,401
Payroll taxes and other		226,609
Interest		34,130
Current maturities of long-term debt		346,148
Total current liabilities	**$**	**2,419,826**
Noncurrent liabilities		
Long-term debt, less current maturities		**3,689,762**
Total Liabilities	**$**	**6,109,588**

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

EXHIBIT 7
(Continued)

STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2010

Net Assets		
Invested in capital assets - net of related debt	$	8,015,953
Restricted expendable net assets		289,095
Unrestricted		18,715,453
Total Net Assets	**$**	**27,020,501**

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, 2010

Operating Revenues		
Net patient and resident service revenue - net of provisions for bad debts	$	24,501,781
Miscellaneous		364,206
Total Operating Revenues	**$**	**24,865,987**
Operating Expenses		
Professional care of patients and residents	$	17,613,939
General and administrative		3,178,300
Property and household		1,178,996
Depreciation and amortization		1,339,951
Dietary		629,567
Total Operating Expenses	**$**	**23,940,753**
Operating Income (Loss)	**$**	**925,234**
Nonoperating Revenues (Expenses)		
Interest income	$	291,609
Noncapital grants and contributions		73,395
Minority interest in joint ventures		122,274
Interest expense		(178,148)
Other revenue		496
Total Nonoperating Revenues (Expenses)	**$**	**309,626**
Income (Loss) Before Capital Contributions and Transfers	**$**	**1,234,860**
Capital contributions		289,095
Transfers in		239,152
Change in net assets	**$**	**1,763,107**
Net Assets - January 1		**25,257,394**
Net Assets - December 31	**$**	**27,020,501**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Cash received from patient and resident services	$	24,494,247
Other receipts		385,365
Cash payments to employees for services		(11,435,697)
Cash payments to suppliers for goods and services		(11,585,795)
Net cash provided by (used in) operating activities	**$**	**1,858,120**
Cash Flows from Noncapital Financing Activities		
Noncapital grants and contributions	**$**	**73,395**
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	$	(1,154,921)
Principal paid on long-term debt		(2,399,906)
Transfer from County		239,152
Grants and contributions for capital assets		289,095
Interest paid on long-term debt		(225,600)
Net cash provided by (used in) capital and related financing activities	**$**	**(3,252,180)**
Cash Flows from Investing Activities		
Increase (decrease) in investments, net	$	1,846,250
Interest income and other nonoperating cash flows		292,107
Distribution from joint venture		123,483
Net cash provided by (used in) investing activities	**$**	**2,261,840**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**941,175**
Cash and Cash Equivalents - January 1		**3,098,292**
Cash and Cash Equivalents - December 31	**$**	**4,039,467**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents in current assets	$	3,749,628.00
Noncurrent cash		289,839.00
Cash and Cash Equivalents - December 31	**$**	**4,039,467.00**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 9
(Continued)

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010
Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**925,234**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	$	1,339,951
Loss on disposal of equipment		9,657
Non-cash patronage allocation		(280,213)
(Increase) decrease in receivables		953,969
(Increase) decrease in supplies		(7,218)
Increase (decrease) in prepaid expenses		159,825
Increase (decrease) in accounts payable		(1,158,202)
Increase (decrease) in accrued expenses		(84,883)
Total adjustments	**$**	**932,886**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,858,120**

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, 2010

Assets	
Cash and pooled investments	**$ 175,986**
Liabilities	
Due to other governments	**$ 175,986**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2010. 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 not to apply FASB pronouncements issued after 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.

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

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.

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, which ceased operations during 2010.

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of bonded debt.

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pipestone County considers all revenues 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.

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, 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, 2010, 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 2010 were $142,865.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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, 2010, was $291,609 and is included in nonoperating revenues (expenses).

3. Receivables and Payables

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

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

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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's 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 weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

5. Restricted Assets 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.

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:

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

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:

Assets	Years
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.

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.

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 Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center subject to audits thereof by the Medicare intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2008.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Medical Center's Medicare Cost Report, or rates as established by the Medicaid program. The Medical Center is reimbursed at a tentative rate with final settlement determined by the program based on the Medical Center's final Medicare Cost Report.

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.

1. Summary of Significant Accounting Policies

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

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

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

For the year ended December 31, 2010, the Ditch Special Revenue Fund expenditures exceeded appropriations (the legal level of budgetary control) by $91.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	8,741,932
Investments		1,450,000
Business-type activities		
Cash and pooled investments		3,749,628
Restricted assets		
Capital acquisition and debt redemption		11,864,965
Insurance		500,000
Restricted by contributors for capital acquisitions		289,095
Statement of fiduciary net assets		
Cash and pooled investments		175,986
Total Cash and Investments	$	26,771,606

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, 2010, 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;

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.

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, 2010, 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.

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, 2010, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	(Fair) Value
U.S. government agency securities					
Federal National Mortgage Association note	AAA	S&P		07/27/2018	$ 100,000
Federal National Mortgage Association note	AAA	S&P		07/27/2018	400,000
Federal National Mortgage Association note	AAA	S&P		04/05/2019	100,000
Federal National Mortgage Association note	AAA	S&P		04/05/2019	199,875
Federal National Mortgage Association note	AAA	S&P		09/10/2019	200,000
Federal National Mortgage Association note	AAA	S&P		10/28/2020	100,000
Federal National Mortgage Association note	AAA	S&P		10/28/2020	150,000
Total Federal National Mortgage Association notes			24.0%		$ 1,249,875
Federal Home Loan Mortgage Corporation note	AAA	S&P		12/14/2017	$ 195,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		12/14/2017	395,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		03/21/2019	100,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		03/21/2019	200,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		11/15/2020	90,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		12/15/2020	250,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		11/15/2025	90,000
Total Federal Home Loan Mortgage Corporation notes			25.3%		$ 1,320,000
Federal Home Loan Bank bond	AAA	S&P		12/14/2015	$ 515,000
Federal Home Loan Bank bond	AAA	S&P		08/03/2020	500,000
Federal Home Loan Bank bond	AAA	S&P		11/23/2020	90,000
Total Federal Home Loan Bank bonds			21.2%		$ 1,105,000
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	$ 1,495,000
MAGIC Fund	N/R	N/A	N/A	N/A	$ 39,000
Total investments					$ 5,211,375
Checking					5,255,444
Savings					2,662,216
Petty cash and change funds					23,350
Certificates of deposit					13,619,221
Total Cash and Investments					$ 26,771,606

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

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, 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	$ 42,918	$ -
Special assessments	236,257	185,356
Due from other governments	1,541,698	-
Accounts	73,075	-
Interest	45,104	-
Total Governmental Activities	$ 1,939,052	$ 185,356
Business-Type Activities		
Accounts	$ 138,747	$ -
Patient and resident service revenue	2,904,619	-
Due from minority interest partner	213,689	-
Total Business-Type Activities	$ 3,257,055	$ -

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

Total patient and resident service revenue	$ 35,416,587
Contractual adjustments	
Medicare	$ (5,445,413)
Medicaid	(2,017,389)
Clinic	(563,431)
Other	(2,539,195)
Total contractual adjustments	$ (10,565,428)
Provision for bad debts	$ (349,378)
Net Patient and Resident Service Revenue	$ 24,501,781

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,124,479	$ -	$ -	$ 1,124,479
Right-of-way	1,056,468	-	7,453	1,049,015
Construction in progress	1,304,484	1,476,931	1,304,484	1,476,931
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	$ 3,521,355	$ 1,476,931	$ 1,311,937	$ 3,686,349
Capital assets depreciated				
Buildings	$ 7,239,165	$ -	$ -	$ 7,239,165
Land improvements	354,451	-	-	354,451
Machinery and equipment	4,221,800	373,865	140,110	4,455,555
Infrastructure	40,749,715	2,881,686	-	43,631,401
Total capital assets depreciated	$ 52,565,131	$ 3,255,551	$ 140,110	$ 55,680,572
Less: accumulated depreciation for				
Buildings	$ 2,489,977	$ 136,205	$ -	$ 2,626,182
Land improvements	93,314	11,984	-	105,298
Machinery and equipment	2,443,851	284,664	140,110	2,588,405
Infrastructure	10,349,821	876,400	-	11,226,221
Total accumulated depreciation	$ 15,376,963	$ 1,309,253	$ 140,110	$ 16,546,106
Total capital assets depreciated, net	$ 37,188,168	$ 1,946,298	$ -	$ 39,134,466
Governmental Activities Capital Assets, Net	$ 40,709,523	$ 3,423,229	$ 1,311,937	$ 42,820,815

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	$ 634,038	$ 150,517	$ -	$ 784,555
Construction in progress	61,885	456,826	454,543	64,168
Total capital assets not depreciated	$ 695,923	$ 607,343	$ 454,543	$ 848,723
Capital assets depreciated				
Buildings	$ 13,007,660	$ 644	$ -	$ 13,008,304
Land improvements	566,147	143,458	-	709,605
Fixed equipment	3,091,708	298,606	2,894	3,387,420
Major movable equipment	7,039,355	559,413	238,391	7,360,377
Total capital assets depreciated	$ 23,704,870	$ 1,002,121	$ 241,285	$ 24,465,706
Less: accumulated depreciation for				
Buildings	$ 4,951,968	$ 424,517	$ -	$ 5,376,485
Land improvements	333,535	23,401	-	356,936
Fixed equipment	2,081,741	123,439	2,894	2,202,286
Major movable equipment	4,788,597	766,993	228,731	5,326,859
Total accumulated depreciation	$ 12,155,841	$ 1,338,350	$ 231,625	$ 13,262,566
Total capital assets depreciated, net	$ 11,549,029	$ (336,229)	$ 9,660	$ 11,203,140
Business-Type Activities Capital Assets, Net	$ 12,244,952	$ 271,114	$ 464,203	$ 12,051,863

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

Governmental Activities	
General government	$ 187,609
Public safety	68,314
Highways and streets, including depreciation of infrastructure assets	1,052,825
Sanitation	505
Total Depreciation Expense - Governmental Activities	$ 1,309,253
Business-Type Activities	
Medical Center	$ 1,338,350

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	$ 6,461
Road and Bridge	General	7,508
Road and Bridge	Family Services	49
Medical Center	Nonmajor Debt Service	167,047
Total Due To/From Other Funds		$ 181,065

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

2. Interfund Transfers

There were two interfund transfers for the year ended December 31, 2010. One was a $239,152 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, to provide funds for debt service. The other was a $115,000 transfer to the Family Services Fund from the General Fund for appropriations.

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 427,442	$ 1,143,982
Salaries	446,590	166,556
Payroll taxes and other	-	226,609
Contracts	355,009	-
Due to other governments	50,719	-
Paid time off	-	502,401
Total Payables	$ 1,279,760	$ 2,039,548

2. Construction Commitments

The County has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	$ 4,640,766	$ 633,845

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, 2010, for all operating leases was $145,427. Minimum future lease payments for the operating leases are as follows:

Year Ending December 31	Principal
2011	$ 112,776
2012	112,776
2013	56,388
Total	$ 281,940

4. Long-Term Debt

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.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
2005 Redwood River CWP Project	2017	$2,668.17	2.00	$ 48,149	$ 34,696
2009 Redwood River CWP Project	2021	$3,892.39	2.00	6,329	6,329
Total Loans Payable				$ 54,478	$ 41,025

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Bonds and Notes Payable

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
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	$200,000 - $275,000	variable	3,075,000	1,895,910
Total G.O. Bonds and Revenue Notes				$ 5,215,000	$ 4,035,910

5. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Governmental Activities

Year Ending December 31	Principal	Interest
2011	$ 4,666	$ 671
2012	4,759	577
2013	4,855	481
2014	4,953	384
2015	5,052	284
2016 - 2017	10,411	261
Totals	$ 34,696	$ 2,658

The debt service requirements for the loan of $6,329 from the Minnesota Pollution Control Agency are not known as of December 31, 2010.

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	Principal	Interest
2011	$ 346,148	$ 170,211
2012	361,439	155,052
2013	377,257	139,009
2014	393,627	122,045
2015	415,580	104,068
2016 - 2020	1,711,859	245,457
2021 - 2022	430,000	18,000
Totals	$ 4,035,910	$ 953,842

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	$ 45,599	$ -	$ 4,574	$ 41,025	$ 4,666
Compensated absences	266,532	10,047	-	276,579	17,299
Governmental Activities Long-Term Liabilities	$ 312,131	$ 10,047	$ 4,574	$ 317,604	$ 21,965

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 4,340,000	$ -	$ 2,200,000	$ 2,140,000	$ 145,000
Health Facilities Revenue Note, Series 2001	2,095,816	-	199,906	1,895,910	201,148
Business-Type Activities Long-Term Liabilities	$ 6,435,816	$ -	$ 2,399,906	$ 4,035,910	$ 346,148

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. 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 to advance crossover refund the General Obligation Hospital Bonds of 2000. The proceeds from the refunding bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The County was responsible for the principal and interest on the original issue through February 1, 2010. The 2000 Series bond issue was called on February 1, 2010.

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.

D. Net Assets

Of the $18,715,457 of unrestricted net assets in the Medical Center Enterprise Fund, $12,364,965 have been designated by the Board for capital acquisitions and insurance. Designated funds remain under the control of the Board, which may at its discretion use for other purposes.

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 General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited services (five years for those first eligible for membership after June 30, 2010).

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. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member’s average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General 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 General 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. General 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

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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.

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2010	2009	2008
General Employees Retirement Fund	$ 780,390	$ 781,067	$ 746,046
Public Employees Police and Fire Fund	92,148	94,483	78,756
Public Employees Correctional Fund	33,741	29,265	30,870

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.

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, 2010, were:

	Employee	Employer
Contribution amount	$ 2,226	$ 2,226
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). 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.

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 $450,000 per claim in 2010 and 2011. 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 subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

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.

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

Lincoln-Pipestone Rural Water System

At December 31, 2010, the Lincoln-Pipestone Rural Water System had $36,859,000 of general obligation bonds outstanding through 2050. 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 (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 nine participating counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

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 2010 was $55,833.

The Lincoln, Lyon, Murray, and Pipestone Public Health Services' 2010 financial report shows total net assets of $1,278,512 and an increase in net assets of $172,024.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

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

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

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

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)

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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 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, 2010, are $36,859,000.

The Lincoln-Pipestone Rural Water System's 2010 financial report shows total net assets of $42,424,191, including unrestricted net assets of $18,949,248. The increase in net assets for the year ended December 31, 2010, is $5,340,636.

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.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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.

Primewest Central County-Based Purchasing Initiative

The Primewest Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Pipestone County and 12 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.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Primewest Central County-Based Purchasing Initiative (Continued)

Control of the Primewest 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 Primewest Central County-Based Purchasing Initiative.

Douglas County acts as fiscal agent for the Primewest 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 Primewest Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

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 2010, the County's contribution was $9,900.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership (Continued)

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 Auditor-Treasurer's Office, 2391 Hennepin Avenue N., Glencoe, Minnesota 55336.

Central Minnesota Diagnostics, Inc

The Medical Center and other hospitals (all unrelated parties to the Medical Center) formed a non-profit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed upon shared services to those hospitals who are members of this corporation. CMDI operates as a non-profit cooperative and allocates income to its member hospitals based on the services the member hospitals purchase from CMDI. The Medical Center records its investment in CMDI on the equity method of accounting, which approximates the Medical Center's equity in the underlying book value of CMDI.

CMDI provides the equipment for computer tomography scans. The Medical Center billed and collected the revenue for these services to patients and paid CMDI $399,000 for the use of equipment during the year ended December 31, 2010. At December 31, 2010, the Organization owned 1.2 percent of CMDI.

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $2,470 of the County levy to the Project.

6. Summary of Significant Contingencies and Other Items

   C. Jointly-Governed Organizations (Continued)

      Rural Minnesota Energy Board

      The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use. During 2010, Pipestone County paid $2,500 to the Board.

      Redwood-Cottonwood Rivers Control Area

      The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $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 appropriated no portion of the County levy to the Authority.

      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). During 2010, Pipestone County did not contribute to the Joint Powers Board.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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.

Minnesota River Board

The Minnesota River Board is a joint powers board comprised of counties within the Minnesota River Basin. Its mission is to provide leadership, build partnerships, and support efforts to improve and protect water quality in the Minnesota River Basin. During the year, the County did not contribute to the Board.

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

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,205,861	$ 2,205,861	$ 2,190,268	$ (15,593)
Special assessments	213,500	213,500	236,896	23,396
Licenses and permits	8,380	8,380	13,500	5,120
Intergovernmental	2,023,037	2,023,037	2,130,425	107,388
Charges for services	1,286,593	1,286,593	1,310,182	23,589
Fines and forfeits	9,500	9,500	9,791	291
Gifts and contributions	-	-	2,507	2,507
Investment earnings	200,100	200,100	146,393	(53,707)
Miscellaneous	418,214	418,214	515,896	97,682
Total Revenues	**$ 6,365,185**	**$ 6,365,185**	**$ 6,555,858**	**$ 190,673**
Expenditures				
Current				
General government				
Commissioners	$ 174,342	$ 174,342	$ 164,862	$ 9,480
Travel management	8,500	8,500	2,558	5,942
Courts	31,500	31,500	29,106	2,394
Law library	13,000	13,000	13,877	(877)
Administrator	109,019	109,019	107,182	1,837
Auditor	212,351	212,351	206,677	5,674
Treasurer	178,731	178,731	175,768	2,963
Accounting and auditing	50,000	50,000	62,486	(12,486)
Personnel	60,054	60,054	58,548	1,506
Data processing	129,538	129,538	93,354	36,184
Elections	43,127	43,127	40,123	3,004
Information technology	132,245	132,245	125,209	7,036
Attorney	192,051	192,051	182,478	9,573
Recorder	176,456	176,456	151,047	25,409
Assessor	196,124	196,124	183,998	12,126
Planning and zoning	38,182	38,182	36,247	1,935
Geographic information system	21,000	21,000	1,140	19,860
Buildings and plant	248,108	248,108	253,769	(5,661)
Fairgrounds	34,000	34,000	31,423	2,577
Veterans service officer	49,887	49,887	47,500	2,387
County-wide transportation	404,303	404,303	381,870	22,433
Other general government	467,760	467,760	284,734	183,026
Total general government	**$ 2,970,278**	**$ 2,970,278**	**$ 2,633,956**	**$ 336,322**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,169,220	$ 1,169,220	$ 1,155,832	$ 13,388
Dispatch	228,583	228,583	223,873	4,710
Coroner	3,000	3,000	-	3,000
County jail	390,361	390,361	356,710	33,651
Probation and parole	78,922	78,922	81,048	(2,126)
Emergency management	78,376	78,376	74,835	3,541
E-911 system	80,600	80,600	40,274	40,326
County ambulance	289,869	289,869	243,816	46,053
Total public safety	**$ 2,318,931**	**$ 2,318,931**	**$ 2,176,388**	**$ 142,543**
Sanitation				
Recycling	**$ 184,402**	**$ 184,402**	**$ 194,961**	**$ (10,559)**
Health				
Nursing services	**$ 530**	**$ 530**	**$ 528**	**$ 2**
Culture and recreation				
Senior citizens	$ 28,242	$ 28,242	$ 29,439	$ (1,197)
Parks	2,000	2,000	3,697	(1,697)
Hiawatha trails	30,000	30,000	61,666	(31,666)
Other	1,250	1,250	1,732	(482)
Total culture and recreation	**$ 61,492**	**$ 61,492**	**$ 96,534**	**$ (35,042)**
Conservation of natural resources				
Extension	$ 174,377	$ 174,377	$ 172,184	$ 2,193
Agricultural inspection	25,802	25,802	25,067	735
Other	210,447	210,447	317,643	(107,196)
Total conservation of natural resources	**$ 410,626**	**$ 410,626**	**$ 514,894**	**$ (104,268)**
Economic development				
Community development	**$ 33,965**	**$ 33,965**	**$ 8,365**	**$ 25,600**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Intergovernmental				
Public safety	$ 17,500	$ 17,500	$ 17,500	$ -
Health	66,000	66,000	65,733	267
Culture and recreation	91,460	91,460	90,477	983
Conservation of natural resources	2,712	2,712	2,712	-
Total intergovernmental	**$ 177,672**	**$ 177,672**	**$ 176,422**	**$ 1,250**
Debt service				
Principal	$ 4,395	$ 4,395	$ 4,574	$ (179)
Interest	941	941	763	178
Total Expenditures	**$ 6,163,232**	**$ 6,163,232**	**$ 5,807,385**	**$ 355,847**
Excess of Revenues Over (Under) Expenditures	**$ 201,953**	**$ 201,953**	**$ 748,473**	**$ 546,520**
Other Financing Sources (Uses)				
Transfer out	$ (115,000)	$ (115,000)	$ (115,000)	$ -
Proceeds from sale of assets	-	-	500	500
Total Other Financing Sources (Uses)	**$ (115,000)**	**$ (115,000)**	**$ (114,500)**	**$ 500**
Net Change in Fund Balance	**$ 86,953**	**$ 86,953**	**$ 633,973**	**$ 547,020**
Fund Balance - January 1	**4,769,239**	**4,769,239**	**4,769,239**	**-**
Fund Balance - December 31	**$ 4,856,192**	**$ 4,856,192**	**$ 5,403,212**	**$ 547,020**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 796,890	$ 796,890	$ 706,316	$ (90,574)
Intergovernmental	6,203,628	6,203,628	4,929,848	(1,273,780)
Charges for services	150,000	150,000	91,943	(58,057)
Investment earnings	40,000	40,000	35,492	(4,508)
Miscellaneous	73,550	73,550	157,710	84,160
Total Revenues	**$ 7,264,068**	**$ 7,264,068**	**$ 5,921,309**	**$ (1,342,759)**
Expenditures				
Current				
Highways and streets				
Administration	$ 263,576	$ 263,576	$ 210,560	$ 53,016
Construction	5,171,040	5,171,040	3,859,701	1,311,339
Maintenance	1,205,066	1,205,066	1,306,958	(101,892)
Equipment and maintenance shops	394,386	394,386	334,457	59,929
Total highways and streets	**$ 7,034,068**	**$ 7,034,068**	**$ 5,711,676**	**$ 1,322,392**
Intergovernmental				
Highways and streets	230,000	230,000	246,902	(16,902)
Total Expenditures	**$ 7,264,068**	**$ 7,264,068**	**$ 5,958,578**	**$ 1,305,490**
Excess of Revenues Over (Under) Expenditures	**$ -**	**$ -**	**$ (37,269)**	**$ (37,269)**
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	7,453	(7,453)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (29,816)**	**$ (29,816)**
Fund Balance - January 1	**2,371,368**	**2,371,368**	**2,371,368**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**38,295**	**38,295**
Fund Balance - December 31	**$ 2,371,368**	**$ 2,371,368**	**$ 2,379,847**	**$ 8,479**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,163,155	$ 1,163,155	$ 1,030,529	$ (132,626)
Intergovernmental	1,234,462	1,234,462	1,390,961	156,499
Charges for services	14,500	14,500	18,705	4,205
Miscellaneous	163,000	163,000	254,140	91,140
Total Revenues	**$ 2,575,117**	**$ 2,575,117**	**$ 2,694,335**	**$ 119,218**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,074,055	$ 1,074,055	$ 1,022,848	$ 51,207
Social services	1,652,975	1,652,975	1,646,050	6,925
Total Expenditures	**$ 2,727,030**	**$ 2,727,030**	**$ 2,668,898**	**$ 58,132**
Excess of Revenues Over (Under) Expenditures	**$ (151,913)**	**$ (151,913)**	**$ 25,437**	**$ 177,350**
Other Financing Sources (Uses)				
Transfer in	115,000	115,000	115,000	-
Net Change in Fund Balance	**$ (36,913)**	**$ (36,913)**	**$ 140,437**	**$ 177,350**
Fund Balance - January 1	**1,110,547**	**1,110,547**	**1,110,547**	**-**
Fund Balance - December 31	**$ 1,073,634**	**$ 1,073,634**	**$ 1,250,984**	**$ 177,350**

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

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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

EXHIBIT B-1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	Special Revenue	Debt Service	
	Ditch	Medical Facility Bonds	Total
Assets			
Cash and pooled investments	$ 27,517	$ 195,415	$ 222,932
Undistributed cash in agency funds	-	3,843	3,843
Taxes receivable			
Prior	-	7,053	7,053
Total Assets	**$ 27,517**	**$ 206,311**	**$ 233,828**
Liabilities and Fund Balances			
Liabilities			
Due to other funds	$ -	$ 167,047	$ 167,047
Deferred revenue - unavailable	-	7,053	7,053
Total Liabilities	**$ -**	**$ 174,100**	**$ 174,100**
Fund Balances			
Unreserved			
Undesignated	27,517	32,211	59,728
Total Liabilities and Fund Balances	**$ 27,517**	**$ 206,311**	**$ 233,828**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT B-2

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Special Revenue	Debt Service	
	Ditch	Medical Facility Bonds	Total
Revenues			
Taxes	$ -	$ 238,377	$ 238,377
Expenditures			
Current			
Conservation of natural resources	2,391	-	2,391
Excess of Revenues Over (Under) Expenditures	**$ (2,391)**	**$ 238,377**	**$ 235,986**
Other Financing Sources (Uses)			
Transfers out	-	(239,152)	(239,152)
Net Change in Fund Balance	**$ (2,391)**	**$ (775)**	**$ (3,166)**
Fund Balance - January 1	**29,908**	**32,986**	**62,894**
Fund Balance - December 31	**$ 27,517**	**$ 32,211**	**$ 59,728**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT B-3

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	$ 2,300	$ 2,300	$ 2,391	$ (91)
Net Change in Fund Balance	**$ (2,300)**	**$ (2,300)**	**$ (2,391)**	**$ (91)**
Fund Balance - January 1	**29,908**	**29,908**	**29,908**	**-**
Fund Balance - December 31	**$ 27,608**	**$ 27,608**	**$ 27,517**	**$ (91)**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT B-4

BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 238,759	$ 238,759	$ 238,377	$ (382)
Excess of Revenues Over (Under) Expenditures	**$ 238,759**	**$ 238,759**	**$ 238,377**	**$ (382)**
Other Financing Sources (Uses)				
Transfers out	(238,759)	(238,759)	(239,152)	(393)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (775)**	**$ (775)**
Fund Balance - January 1	**32,986**	**32,986**	**32,986**	**-**
Fund Balance - December 31	**$ 32,986**	**$ 32,986**	**$ 32,211**	**$ (775)**

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

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
LINCOLN-PIPESTONE RURAL WATER SYSTEM				
Assets				
Cash and pooled investments	$ 3,700	$ 132,735	$ 132,690	$ 3,745
Liabilities				
Due to other governments	$ 3,700	$ 132,735	$ 132,690	$ 3,745
STATE				
Assets				
Cash and pooled investments	$ 23,720	$ 1,109,925	$ 1,094,738	$ 38,907
Liabilities				
Due to other governments	$ 23,720	$ 1,109,925	$ 1,094,738	$ 38,907
FORFEITED TAX SALE				
Assets				
Cash and pooled investments	$ 14,731	$ 7,356	$ 22,087	$ -
Liabilities				
Due to other governments	$ 14,731	$ 7,356	$ 22,087	$ -

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 124,584	$ 10,843,166	$ 10,834,416	$ 133,334
Liabilities				
Due to other governments	$ 124,584	$ 10,843,166	$ 10,834,416	$ 133,334
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 166,735	$ 12,093,182	$ 12,083,931	$ 175,986
Liabilities				
Due to other governments	$ 166,735	$ 12,093,182	$ 12,083,931	$ 175,986

OTHER SCHEDULES

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EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Shared Revenue	
State	
Highway users tax	$ 4,305,340
County program aid	963,130
PERA rate reimbursement	14,804
Disparity reduction aid	71,320
Police aid	79,420
E-911	82,062
Market value credit	281,964
Total shared revenue	**$ 5,798,040**
Reimbursement for Services	
Minnesota Department of Public Safety	$ 23,070
Minnesota Department of Human Services	207,660
Total reimbursement for services	**$ 230,730**
Payments	
Local	
Payments in lieu of taxes	**$ 40,393**
Grants	
State	
Minnesota Department/Board of	
Corrections	$ 10,653
Human Services	368,457
Natural Resources	46,665
Public Safety	63,350
Transportation	181,634
Water and Soil Resources	181,391
Pollution Control Agency	55,950
Total state	**$ 908,100**
Federal	
Department of	
Agriculture	$ 90,582
Commerce	34,574
Transportation	687,557
Health and Human Services	640,829
Homeland Security	20,429
Total federal	**$ 1,473,971**
Total state and federal grants	**$ 2,382,071**
Total Intergovernmental Revenue	**$ 8,451,234**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 the SNAP	10.561	$ 88,651
State Administrative Matching Grants for the SNAP - ARRA	10.561	1,931
Total U.S. Department of Agriculture		**$ 90,582**
U.S. Department of Commerce		
Passed Through Lyon County		
Public Safety Interoperable Communications Grant Program	11.555	**$ 34,574**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	$ 544,102
Formula Grants for Other Than Urbanized Areas	20.509	89,476
Total U.S. Department of Transportation		**$ 633,578**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 12,224
Temporary Assistance for Needy Families	93.558	88,225
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	143,533
Child Support Enforcement - ARRA	93.563	19,674
Refugee and Entrant Assistance - State-Administered Programs	93.566	112
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	6,842
Foster Care - Title IV-E	93.658	24,508
Social Services Block Grant	93.667	78,532
Chafee Foster Care Independence Program	93.674	7,001
Children's Health Insurance Program	93.767	125
Medical Assistance Program	93.778	260,053
Total U.S. Department of Health and Human Services		**$ 640,829**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	$ 17,429
Homeland Security Grant Program	97.067	3,000
Total U.S. Department of Homeland Security		**$ 20,429**
Total Federal Awards		**$ 1,419,992**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. 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	$ 1,473,971
Deferred in 2009, recognized as revenue in 2010	
Formula Grants for Other Than Urbanized Areas - ARRA	(53,979)
Expenditures per Schedule of Expenditures of Federal Awards	$ 1,419,992

5. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

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.

Management and Compliance Section

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 That Could Have a Direct and Material Effect on Each Major Program and on 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
Highway Planning and Construction	CFDA #20.205
Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563

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.

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.

09-1 Credit Card Usage

During 2010, the County issued 33 credit cards. Every year in March, old credit cards are collected and new credit cards are re-issued. During 2009, the County issued 37 credit cards. 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 35 percent of its employees/officials to make purchases on behalf of the County.

We noted that although credit card statements may be reconciled by department heads (as 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 issues 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.

ITEM ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133**,** *Audits of States, Local Governments, and Non-Profit Organizations*, *Auditee responsibilities* subpart C.300(a) and (d) requires, "The auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C.310."

Pipestone County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Pipestone County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare in the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act (ARRA) funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

The County will seek out qualified individual(s) to review and prepare the SEFA and use Federal CFDA for guidance in developing written procedures related to the SEFA.

PREVIOUSLY REPORTED ITEM RESOLVED

Segregation of Duties - Payroll (07-4)

The County was lacking a segregation of duties between the payroll processing function and the ability to make payroll changes.

Resolution

The County has implemented procedures, which include independent review of payroll changes, to strengthen internal controls over the payroll processing function.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Pipestone County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and 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 are reserved, unreserved-designated, and unreserved - undesignated. Statement 54 replaces these components with 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.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;

- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;

- review/update/prepare a comprehensive fund balance policy;

- prepare appropriate board resolutions to commit fund balance; and

- if the County Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

<u>Governmental Fund Type Definitions</u>

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 the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
    - if yes, the fund may continue to be classified as a special revenue fund;
    - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 23, 2011. Our report includes 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, 09-1, and 10-1 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 Political Subdivisions*, 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 Political Subdivisions* 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 is a management practices comment and an other item for consideration. We believe these recommendations 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

September 23, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Pipestone County

Compliance

We have audited Pipestone County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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 of the County's compliance with those requirements.

In our opinion, Pipestone County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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 to determine the 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.

This report is intended solely for the information and use of the Board of 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

September 23, 2011