

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2016

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 150 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 650 public pension funds; and

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

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

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

Year Ended December 31, 2016



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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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PIPESTONE, MINNESOTA**

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PIPESTONE, MINNESOTA**

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2016

Office	Name	Term Expires
Commissioners		
1st District	Luke Johnson ¹	January 2021
2nd District	Les Nath ²	January 2019
3rd District	Bruce Kooiman	January 2021
4th District	Dan Wildermuth	January 2019
5th District	Christopher Hollingsworth	January 2021
Officers		
Elected		
Attorney	Damain Sandy	January 2019
Auditor	Tyler Reisch	January 2019
Coroner	Dr. Larry Christensen	January 2019
County Recorder	Mary Ann DeGroot	January 2019
Sheriff	Keith Vreeman	January 2019
Treasurer	Steve Weets	January 2019
Appointed		
Assessor	Joyce Schmidt	Indefinite
County Administrator	Sharon Hanson	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Brian Douty	Indefinite

¹Chair 2016

²Chair 2017

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County
Pipestone, Minnesota

Report on the Financial Statements

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, 2016, including the Medical Center as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 represents the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Medical Center, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2016, including the Medical Center as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pipestone County's basic financial statements. The supplementary information as listed in the table of contents 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. Such 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2017, on our consideration of Pipestone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pipestone County's internal control over financial reporting and compliance. It does not include the Medical Center, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 21, 2017

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(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, 2016. 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 position is \$59,675,199, of which \$51,083,187 is the County's net investment in capital assets and \$3,412,670 is restricted for specific purposes. The unrestricted net position of \$5,179,342 may be used to meet the County's ongoing obligations to citizens and creditors.
- Governmental activities' net position decreased by \$176,804 for the year ended December 31, 2016.
- The net cost of governmental activities for the current fiscal year was \$6,736,326. The net cost was funded by general revenues totaling \$6,559,522.
- Fund balances of the governmental funds increased by \$244,997. Most of the increase can be attributed to an increase in the Road and Bridge Special Revenue Fund's assigned fund balance.
- For the year ended December 31, 2016, the assigned and unassigned balance of the General Fund was \$4,802,342, or 63.2 percent of the total General Fund expenditures for the year. This represents a decrease from 2015, which had 71.4 percent of the total General Fund expenditures.
- The Pipestone County Medical Center's total net position is \$26,744,956 at June 30, 2016. The Medical Center recorded an increase in net position of \$509,628 for the year ended June 30, 2016.

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

The 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 Position presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the full accrual basis of accounting, with the difference (assets plus deferred outflows of resources, less liabilities and deferred inflows of resources) being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. It is important 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 are Exhibits 1 and 2 of this report.

Fund Level Financial Statements

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

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

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

The County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Ditch Special Revenue Fund, and the Medical Facility Bonds Debt Service Fund. Budgetary comparison schedules have been provided as either required or other supplementary information for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements are Exhibits 3 through 6 of this report.

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

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

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 86 of this report.

Other Information

Other information is provided as supplementary information regarding Pipestone County's intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. The County's governmental activities net position was \$59,675,199 at the close of 2016. The largest portion of Pipestone County's governmental activities net position (85.6 percent) reflects the County's net 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 with 2015 is presented.

	Net Position			
	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Assets				
Current and other assets	\$ 13,713,186	\$ 12,630,249	\$ 31,916,953	\$ 45,577,394
Capital assets	<u>51,083,187</u>	<u>51,512,038</u>	<u>33,575,720</u>	<u>20,263,448</u>
Total Assets	<u>\$ 64,796,373</u>	<u>\$ 64,142,287</u>	<u>\$ 65,492,673</u>	<u>\$ 65,840,842</u>
Deferred Outflows of Resources				
Deferred pension outflows	<u>\$ 4,342,323</u>	<u>\$ 585,539</u>	<u>\$ 1,930,798</u>	<u>\$ 1,458,767</u>
Liabilities				
Long-term liabilities	\$ 7,787,378	\$ 3,533,934	\$ 34,600,805	\$ 34,634,989
Other liabilities	<u>968,141</u>	<u>1,012,124</u>	<u>4,031,864</u>	<u>4,458,131</u>
Total Liabilities	<u>\$ 8,755,519</u>	<u>\$ 4,546,058</u>	<u>\$ 38,632,669</u>	<u>\$ 39,093,120</u>
Deferred Inflows of Resources				
Deferred pension inflows	<u>\$ 707,978</u>	<u>\$ 329,765</u>	<u>\$ 2,045,846</u>	<u>\$ 1,971,161</u>
Net Position				
Net investment in capital assets	\$ 51,083,187	\$ 51,512,038	\$ 14,902,083	\$ 15,369,290
Restricted	3,412,670	2,384,893	-	-
Unrestricted	<u>5,179,342</u>	<u>5,955,072</u>	<u>11,842,873</u>	<u>10,866,038</u>
Total Net Position, as reported	<u>\$ 59,675,199</u>	<u>\$ 59,852,003</u>	<u>\$ 26,744,956</u>	<u>\$ 26,235,328</u>

Unrestricted net position (in the amount of \$5,179,342)--the part of net position 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--is 8.7 percent of net position. The County's governmental activities net position decreased by 0.3 percent (\$59,675,199 for 2016 compared to \$59,852,003 for 2015). Key elements in this increase in net position are as follows for 2016, with comparative data for 2015.

	Changes in Net Position			
	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Revenues				
Program revenues				
Fees, charges, fines, and other	\$ 2,857,281	\$ 2,337,142	\$ 26,584,743	\$ 26,122,713
Operating grants and contributions	4,183,366	4,520,795	-	-
Capital grants and contributions	621,186	1,121,233	-	-
General revenues				
Property taxes	5,487,650	5,110,167	-	-
Other	1,283,844	1,258,011	938,566	1,035,032
Total Revenues	\$ 14,433,327	\$ 14,347,348	\$ 27,523,309	\$ 27,157,745
Expenses				
General government	\$ 3,653,953	\$ 3,369,231	\$ -	\$ -
Public safety	3,553,327	2,887,185	-	-
Highways and streets	5,084,535	4,140,330	-	-
Sanitation	254,045	225,530	-	-
Human services	1,129,485	1,169,876	-	-
Health	81,566	69,571	-	-
Culture and recreation	129,482	129,805	-	-
Conservation of natural resources	504,727	466,821	-	-
Economic development	6,775	6,775	-	-
Interest	264	379	-	-
Medical Center	-	-	27,239,849	27,051,254
Total Expenses	\$ 14,398,159	\$ 12,465,503	\$ 27,239,849	\$ 27,051,254
Change in Net Position Before Transfers	\$ 35,168	\$ 1,881,845	\$ 283,460	\$ 106,491
Transfers	(211,972)	(200,596)	226,168	231,577
Change in Net Position	\$ (176,804)	\$ 1,681,249	\$ 509,628	\$ 338,068
Net Position - January 1	59,852,003	58,170,754	26,235,328	25,897,260
Net Position - December 31	\$ 59,675,199	\$ 59,852,003	\$ 26,744,956	\$ 26,235,328

Total governmental activities revenues for the County were \$14,433,327, total expenses were \$14,398,159, and total transfers out were \$211,972. This reflects a \$176,804 decrease in net position for the year ended December 31, 2016.

The cost of all governmental activities for the year was \$14,398,159. However, as shown on the Statement of Activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities was only \$6,736,326 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--\$2,857,281; or by other governments and organizations that subsidized certain programs with grants and contributions--\$4,804,552. The County paid for the remaining “public benefit” portion of governmental activities with general revenues, primarily taxes--\$5,487,650 (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and investment income.

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	
	2016	2015	2016	2015
Highways and streets	\$ 5,084,535	\$ 4,140,330	\$ 551,189	\$ (864,361)
General government	3,653,953	3,369,231	2,896,587	2,667,536
Public safety	3,553,327	2,887,185	1,761,209	1,113,270
Human services	1,129,485	1,169,876	1,129,485	1,169,876
All others	976,859	898,881	397,856	400,012
Totals	<u>\$ 14,398,159</u>	<u>\$ 12,465,503</u>	<u>\$ 6,736,326</u>	<u>\$ 4,486,333</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental Funds

The focus of the County’s governmental funds is to provide information on short-term inflows, outflows, and the balances left at year-end available for spending. Such information is useful in assessing the County’s financing requirements. In particular, unrestricted 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 \$9,479,550, an increase of \$244,997 in comparison with the prior year. Of the combined ending fund balances, \$8,207,025 represents unrestricted (assigned and unassigned) fund balance, which is available for spending at the County’s discretion. The remainder of the fund balance is

nonspendable or restricted to indicate that it is not available for new spending because it has already been restricted for various reasons either by state law, grant agreements, or bond covenants, or is nonspendable.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$4,802,342. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 63.2 percent of total General Fund expenditures of \$7,599,670. During 2016, the ending fund balance decreased by \$271,685.

The Road and Bridge Special Revenue Fund had assigned fund balances of \$2,650,414 at fiscal year-end, representing 60.5 percent of its 2016 expenditures. The ending fund balance increased \$496,546 during 2016.

The Family Services Special Revenue Fund had an assigned fund balance of \$754,269 at fiscal year-end, representing 66.8 percent of its 2016 expenditures. The ending fund balance increased \$7,216 during 2016.

The Ditch Special Revenue Fund had a restricted fund balance of \$20,686. The ending fund balance increased \$4,497 during 2016.

The Medical Facility Bonds Debt Service Fund had a restricted fund balance of \$249,448. The ending fund balance increased \$8,423 during 2016.

Proprietary Fund

The Statement of Net Position at June 30, 2016, for the Pipestone County Medical Center indicates total assets and deferred outflows of resources of \$67,452,975, total liabilities and deferred inflows of resources of \$40,708,019, and net position of \$26,744,956. Total current assets were \$23,361,912, and total current liabilities were \$4,511,034, for a current ratio of 5.18, up from 2.42 at June 30, 2015. The Statement of Revenues, Expenses, and Changes in Net Position indicates total operating revenues of \$26,584,743 and total operating expenses of \$26,747,255, for an operating loss of \$162,512, nonoperating revenues of \$938,566, nonoperating expenses of \$492,594, and transfers in of \$226,168, which contributed to the increase in net position from \$26,235,328 to \$26,744,956.

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 \$23,011 over budgeted amounts.

Resources available for appropriation were \$70,250 over the budgeted amount. Intergovernmental revenue and miscellaneous revenue were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2016, totaled \$51,083,187 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets decreased \$428,851, or 0.8 percent compared to the previous year. The major change in the capital assets figure is attributable to the addition of machinery and equipment and infrastructure, offset by a decrease in buildings and machinery and equipment.

	Capital Assets at Year-End (Net of Depreciation)	
	2016	2015
Land and other nondepreciated assets	\$ 2,451,028	\$ 2,332,028
Land improvements	149,156	159,202
Infrastructure	41,100,552	41,977,251
Buildings	4,578,080	4,662,682
Machinery and equipment	2,804,371	2,380,875
Total	<u>\$ 51,083,187</u>	<u>\$ 51,512,038</u>

Additional information about the County's capital assets can be found in Note 2.A.3. to the financial statements.

The Pipestone County Medical Center's capital assets at June 30, 2016, amounted to \$33,575,720 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2016, the County had no outstanding bonded debt.

Business-Type Activities

At June 30, 2016, the Pipestone County Medical Center had total long-term debt outstanding of \$26,915,129, which is for a portion of the hospital expansion and remodeling project. The project is projected to be completed in 2017 and will allow 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 2017 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2016 was 2.9 percent. This compares favorably with the average annual state unemployment rate of 3.7 percent at the end of 2016. The 2016 estimated County population is 9,211, a decrease of 385, or 4.0 percent, from the 2010 census of 9,596.
- Among Pipestone County residents, the overall poverty rate was estimated to be 10.9 percent in 2016, compared to 10.2 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 Tyler Reisch, County Auditor, 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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and pooled investments	\$ 8,439,990	\$ 4,578,688	\$ 13,018,678
Investments	1,219,000	-	1,219,000
Short-term investments	-	10,633,304	10,633,304
Investments restricted under indenture agreement	-	2,170,809	2,170,809
Receivables - net	3,546,125	4,540,079	8,086,204
Loans receivable	179,282	-	179,282
Inventories	325,168	915,831	1,240,999
Prepaid items	3,621	493,697	497,318
Assets restricted for indenture agreements	-	8,162,537	8,162,537
Investment in joint venture	-	329,716	329,716
Capital assets			
Nondepreciable capital assets	2,451,028	7,362,591	9,813,619
Depreciable capital assets - net of accumulated depreciation	48,632,159	26,213,129	74,845,288
Other assets	-	92,292	92,292
	\$ 64,796,373	\$ 65,492,673	\$ 130,289,046
<u>Deferred Outflows of Resources</u>			
Deferred pension outflows	\$ 4,342,323	\$ 1,930,798	\$ 6,273,121
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 942,657	\$ 3,971,251	\$ 4,913,908
Accrued interest payable	-	90,117	90,117
Internal balances	25,484	(29,504)	(4,020)
Long-term liabilities			
Due within one year	54,863	449,666	504,529
Due in more than one year	386,506	26,465,463	26,851,969
Net pension liability	7,346,009	7,685,676	15,031,685
	\$ 8,755,519	\$ 38,632,669	\$ 47,388,188
<u>Deferred Inflows of Resources</u>			
Deferred pension inflows	\$ 707,978	\$ 2,045,846	\$ 2,753,824

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Governmental Activities	Business-Type Activities	Total
<u>Net Position</u>			
Net investment in capital assets	\$ 51,083,187	\$ 14,902,083	\$ 65,985,270
Restricted for			
General government	178,248	-	178,248
Public safety	71,549	-	71,549
Highways and streets	2,847,463	-	2,847,463
Debt service	251,508	-	251,508
Conservation of natural resources	63,902	-	63,902
Unrestricted	5,179,342	11,842,873	17,022,215
Total Net Position	\$ 59,675,199	\$ 26,744,956	\$ 86,420,155

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Governmental activities		
General government	\$ 3,653,953	\$ 642,427
Public safety	3,553,327	1,456,428
Highways and streets	5,084,535	379,229
Sanitation	254,045	232,518
Human services	1,129,485	-
Health	81,566	-
Culture and recreation	129,482	-
Conservation of natural resources	504,727	146,679
Economic development	6,775	-
Interest	264	-
	\$ 14,398,159	\$ 2,857,281
Business-type activities		
Medical Center	27,239,849	26,584,743
	\$ 41,638,008	\$ 29,442,024

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 position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 54,242	\$ 60,697	\$ (2,896,587)	\$ -	\$ (2,896,587)
297,043	38,647	(1,761,209)	-	(1,761,209)
3,632,275	521,842	(551,189)	-	(551,189)
68,710	-	47,183	-	47,183
-	-	(1,129,485)	-	(1,129,485)
-	-	(81,566)	-	(81,566)
29,845	-	(99,637)	-	(99,637)
101,251	-	(256,797)	-	(256,797)
-	-	(6,775)	-	(6,775)
-	-	(264)	-	(264)
\$ 4,183,366	\$ 621,186	\$ (6,736,326)	\$ -	\$ (6,736,326)
-	-	-	(655,106)	(655,106)
\$ 4,183,366	\$ 621,186	\$ (6,736,326)	\$ (655,106)	\$ (7,391,432)
		\$ 5,487,650	\$ -	\$ 5,487,650
		11,780	-	11,780
		456,997	-	456,997
		64,319	-	64,319
		489,137	44,333	533,470
		122,890	74,830	197,720
		138,721	-	138,721
		-	819,403	819,403
		(211,972)	226,168	14,196
		\$ 6,559,522	\$ 1,164,734	\$ 7,724,256
		\$ (176,804)	\$ 509,628	\$ 332,824
		59,852,003	26,235,328	86,087,331
		\$ 59,675,199	\$ 26,744,956	\$ 86,420,155

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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, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 4,995,377	\$ 2,117,347	\$ 740,373	\$ 290,084	\$ 8,143,181
Undistributed cash in agency funds	178,860	51,112	58,178	5,534	293,684
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,175,000	-	-	1,219,000
Taxes receivable					
Delinquent	41,116	13,220	15,237	7,349	76,922
Special assessments receivable					
Delinquent	15,322	-	-	301	15,623
Noncurrent	338,384	-	-	-	338,384
Accounts receivable	123,971	31,473	-	-	155,444
Loans receivable	-	-	179,282	-	179,282
Accrued interest receivable	30,778	2,361	-	-	33,139
Due from other funds	-	13,689	-	-	13,689
Due from other governments	103,342	2,823,271	-	-	2,926,613
Inventories	-	325,168	-	-	325,168
Prepaid items	3,621	-	-	-	3,621
Total Assets	\$ 5,877,796	\$ 6,552,741	\$ 993,070	\$ 303,268	\$ 13,726,875
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 161,593	\$ 247,597	\$ 44,282	\$ -	\$ 453,472
Salaries payable	192,675	60,322	-	-	252,997
Contracts payable	-	235,581	-	-	235,581
Due to proprietary fund	-	-	-	25,484	25,484
Due to other funds	13,689	-	-	-	13,689
Due to other governments	6	601	-	-	607
Total Liabilities	\$ 367,963	\$ 544,101	\$ 44,282	\$ 25,484	\$ 981,830
Deferred Inflows of Resources					
Unavailable revenue	\$ 404,334	\$ 2,838,274	\$ 15,237	\$ 7,650	\$ 3,265,495

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 325,168	\$ -	\$ -	\$ 325,168
Missing heirs	6,523	-	-	-	6,523
Prepaid items	3,621	-	-	-	3,621
Noncurrent loans receivable	-	-	179,282	-	179,282
Restricted for					
Beef barn donations	16,000	-	-	-	16,000
Health cost management program	923	-	-	-	923
Law library	29,247	-	-	-	29,247
Recorder's technology fund	47,224	-	-	-	47,224
Recorder's compliance fund	84,854	-	-	-	84,854
Enhanced 911	16,041	-	-	-	16,041
Sheriff's contingency	5,000	-	-	-	5,000
K9 Sassy medical expenses	1,022	-	-	-	1,022
Gravel pit restoration	1,289	-	-	-	1,289
Probation supervision	13,977	-	-	-	13,977
DUI fees	801	-	-	-	801
Motor vehicle forfeitures	3,510	-	-	-	3,510
Drug forfeitures	2,632	-	-	-	2,632
Jail canteen fund	3,616	-	-	-	3,616
Permit to carry	24,950	-	-	-	24,950
Highway allotments	-	194,784	-	-	194,784
Septic/sewer loans	41,927	-	-	-	41,927
Debt service	-	-	-	249,448	249,448
Ditches	-	-	-	20,686	20,686
Assigned for					
Elections	105,189	-	-	-	105,189
Buildings	107,657	-	-	-	107,657
Capital improvements	207,946	-	-	-	207,946
Capital equipment	-	198,700	-	-	198,700
Ambulance	22,088	-	-	-	22,088
Solid waste/recycling	675,272	-	-	-	675,272
County septic loan program	6,464	-	-	-	6,464
Radio communications system	45,000	-	-	-	45,000
Computer software	200,212	-	-	-	200,212
Prepaid court expense	576	-	-	-	576
Road and bridge	-	2,451,714	-	-	2,451,714
Family services	-	-	754,269	-	754,269
Unassigned	3,431,938	-	-	-	3,431,938
Total Fund Balances	\$ 5,105,499	\$ 3,170,366	\$ 933,551	\$ 270,134	\$ 9,479,550
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,877,796	\$ 6,552,741	\$ 993,070	\$ 303,268	\$ 13,726,875

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

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016**

Fund balance - total governmental funds (Exhibit 3)	\$	9,479,550
Amounts reported for governmental activities in the statement of net position 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.		51,083,187
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds.		4,342,323
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources--unavailable revenue in the governmental funds.		3,265,495
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	\$ (273,607)	
Loans payable	(167,762)	
Net pension liability	<u>(7,346,009)</u>	(7,787,378)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(707,978)</u>
Net Position of Governmental Activities (Exhibit 1)	\$	<u>59,675,199</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 3,588,102	\$ 991,080	\$ 1,121,018	\$ 220,395	\$ 5,920,595
Special assessments	270,179	-	-	9,920	280,099
Licenses and permits	17,900	-	-	-	17,900
Intergovernmental	1,091,104	3,426,138	11,184	-	4,528,426
Charges for services	1,593,816	147,707	-	-	1,741,523
Fines and forfeits	11,871	-	-	-	11,871
Gifts and contributions	17,022	-	-	-	17,022
Investment earnings	110,673	11,134	4,499	-	126,306
Miscellaneous	627,318	260,078	-	-	887,396
Total Revenues	\$ 7,327,985	\$ 4,836,137	\$ 1,136,701	\$ 230,315	\$ 13,531,138
Expenditures					
Current					
General government	\$ 3,464,558	\$ -	\$ -	\$ -	\$ 3,464,558
Public safety	3,155,008	-	-	-	3,155,008
Highways and streets	-	4,055,823	-	-	4,055,823
Sanitation	244,275	-	-	-	244,275
Culture and recreation	76,576	-	-	-	76,576
Conservation of natural resources	488,818	-	-	5,423	494,241
Economic development	6,775	-	-	-	6,775
Intergovernmental	134,472	328,033	1,129,485	-	1,591,990
Debt service					
Principal	27,317	-	-	-	27,317
Interest	1,871	-	-	-	1,871
Total Expenditures	\$ 7,599,670	\$ 4,383,856	\$ 1,129,485	\$ 5,423	\$ 13,118,434

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess of Revenues Over (Under) Expenditures	\$ (271,685)	\$ 452,281	\$ 7,216	\$ 224,892	\$ 412,704
Other Financing Sources (Uses)					
Transfers out	-	-	-	(211,972)	(211,972)
Net Change in Fund Balance	\$ (271,685)	\$ 452,281	\$ 7,216	\$ 12,920	\$ 200,732
Fund Balance - January 1	5,377,184	2,673,820	926,335	257,214	9,234,553
Increase (decrease) in inventories	-	44,265	-	-	44,265
Fund Balance - December 31	<u>\$ 5,105,499</u>	<u>\$ 3,170,366</u>	<u>\$ 933,551</u>	<u>\$ 270,134</u>	<u>\$ 9,479,550</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balance - total governmental funds (Exhibit 5) \$ 200,732

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.

Unavailable revenue - December 31	\$ 3,265,495	
Unavailable revenue - January 1	<u>(2,383,572)</u>	881,923

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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 1,675,037	
Net book value of assets disposed of	(318,602)	
Current year depreciation	<u>(1,785,286)</u>	(428,851)

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

Principal repayments		
Loans payable		27,317

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 inventories	\$ 44,265	
Change in compensated absences	(33,779)	
Change in net pension liability	(4,246,982)	
Change in deferred pension outflows	3,756,784	
Change in deferred pension inflows	<u>(378,213)</u>	<u>(857,925)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ (176,804)

PROPRIETARY FUND

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2016**

Assets

Current assets	
Cash and pooled investments	\$ 4,578,688
Investments restricted under indenture agreement	2,170,809
Short-term investments	10,633,304
Accounts receivable - net	161,588
Patient and resident service receivables - net	3,504,110
Due from joint operating agreement partner	859,381
Due from other funds	29,504
Estimated third-party payor settlements	15,000
Inventories	915,831
Prepaid items	493,697
	<hr/>
Total current assets	\$ 23,361,912
Noncurrent assets	
Restricted by indenture agreements	\$ 8,162,537
Investment in joint venture	329,716
	<hr/>
Total noncurrent assets	\$ 8,492,253
Capital assets - net	\$ 33,575,720
Other assets	\$ 92,292
Total Assets	\$ 65,522,177
<u>Deferred Outflows of Resources</u>	
Deferred pension outflows	\$ 1,930,798

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 7
(Continued)***

**STATEMENT OF NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
JUNE 30, 2016**

Liabilities

Current liabilities	
Accounts payable	\$ 3,011,527
Salaries payable	335,080
Compensated absences	573,042
Payroll taxes and other	51,602
Accrued interest payable	90,117
Current maturities of long-term debt	<u>449,666</u>
Total current liabilities	<u>\$ 4,511,034</u>
Noncurrent liabilities	
Net pension liability	\$ 7,685,676
Long-term debt, less current maturities	<u>26,465,463</u>
Total noncurrent liabilities	<u>\$ 34,151,139</u>
Total Liabilities	<u>\$ 38,662,173</u>
<u>Deferred Inflows of Resources</u>	
Deferred pension inflows	<u>\$ 2,045,846</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 14,902,083
Unrestricted	<u>11,842,873</u>
Total Net Position	<u>\$ 26,744,956</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016**

Operating Revenues	
Net patient and resident service revenue - net of provisions for bad debts	\$ 25,781,014
Miscellaneous	803,729
	<hr/>
Total Operating Revenues	\$ 26,584,743
Operating Expenses	
Salaries and wages	\$ 9,163,411
Employee benefits	2,956,035
Purchased services	6,683,565
Supplies and other expenses	6,567,981
Depreciation and amortization	1,376,263
	<hr/>
Total Operating Expenses	\$ 26,747,255
Operating Income (Loss)	\$ (162,512)
Nonoperating Revenues (Expenses)	
Investment income	\$ 74,830
Noncapital grants and contributions	44,333
Joint operating agreement partner's share of losses	819,403
Interest expense	(123,907)
Loss on demolition of building	(368,687)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 445,972
Income (Loss) Before Transfers	\$ 283,460
Transfers in	226,168
	<hr/>
Change in net position	\$ 509,628
Net Position - July 1	26,235,328
	<hr/>
Net Position - June 30	\$ 26,744,956
	<hr/> <hr/>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from patient and resident services	\$ 25,357,829
Other receipts	795,461
Cash payments to employees for services	(12,024,997)
Cash payments to suppliers for goods and services	<u>(14,004,325)</u>
Net cash provided by (used in) operating activities	<u>\$ 123,968</u>
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	\$ (14,627,506)
Principal paid on long-term debt	(427,869)
Transfer from County	270,501
Proceeds from sale of capital assets	3,169
Interest paid on long-term debt	<u>(125,670)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (14,907,375)</u>
Cash Flows from Investing Activities	
Sales and maturities of investments	\$ 12,228,055
Interest income and other nonoperating cash flows	74,830
Capital contributed by joint venture partner	1,344,604
Distribution from joint venture	<u>107,294</u>
Net cash provided by (used in) investing activities	<u>\$ 13,754,783</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,028,624)
Cash and Cash Equivalents - July 1	<u>10,422,277</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 9,393,653</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	\$ 4,578,688
Noncurrent cash	<u>4,814,965</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 9,393,653</u></u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT 9
(Continued)***

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016
Increase (Decrease) in Cash and Cash Equivalents**

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (162,512)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation and amortization	\$ 1,376,263
Provision for bad debts	386,627
Noncash patronage allocation	(120,529)
(Increase) decrease in receivables	(350,350)
(Increase) decrease in inventories	(135,726)
Increase (decrease) in prepaid items	(15,465)
Increase (decrease) in accounts payable	(911,059)
Increase (decrease) in accrued expenses	98,110
Increase (decrease) in unearned revenue	(37,730)
Increase (decrease) in net pension liability	393,685
(Increase) decrease in deferred pension outflows	(472,031)
Increase (decrease) in deferred pension inflows	<u>74,685</u>
Total adjustments	<u>\$ 286,480</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 123,968</u>
Supplemental Disclosure of Noncash Investing and Financing Activities	
Accounts payable - construction in progress	<u>\$ 2,091,854</u>

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FIDUCIARY FUNDS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2016

Assets

Cash and pooled investments	<u>\$ 261,849</u>
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Liabilities

Due to other governments	<u>\$ 261,849</u>
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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as of and for the year ended December 31, 2016. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Pipestone County Medical Center provides acute inpatient and outpatient care to the County area.	County Commissioners are the members of the Pipestone County Medical Center Board, and a financial benefit/burden relationship exists.	Separate financial statements can be obtained at: 916 Fourth Avenue S.W. P. O. Box 370 Pipestone, Minnesota 56164

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Unit (Continued)

The Medical Center adopted a new fiscal year-end of June 30, effective June 30, 2012. The fiscal year of July 1, 2015, to June 30, 2016, is presented in these financial statements.

Joint Ventures and Jointly-Governed Organizations

The County participates in several joint ventures described in Note 5.B. The County also participates in a jointly-governed organization described in Note 5.C.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position 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 revenue, 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 position, both the governmental and business-type activities columns are presented on a consolidated basis by column and 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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 funds 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 accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Family Services Special Revenue Fund accounts for assigned property tax revenues used for economic assistance and community social services programs.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 Pipestone County Medical Center operates a 25-bed acute care hospital located in Pipestone, Minnesota, and medical clinics located in Pipestone, Minnesota, and other area communities.

Additionally, the County reports the following fund types:

- The Ditch Special Revenue Fund accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- The Medical Facility Bonds Debt Service Fund is used to account for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.
- 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 full 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.

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 taxes are recognized as revenues in the year for which they are

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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 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.

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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary fund. The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

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, 2016. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value. 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 2016 were \$110,500.

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 investment in the pool is measured at the net asset value per share provided by the pool.

The Medical Center Enterprise Fund's investment income for the year ended June 30, 2016, was \$74,830 and is included in nonoperating revenues (expenses).

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

3. Receivables and Payables (Continued)

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 or November 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2011 through 2016 and noncurrent special assessments payable in 2017 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material. All enterprise fund receivables are shown net of an allowance for uncollectibles.

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

3. Receivables and Payables (Continued)

portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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

Certain funds of the County are classified as restricted assets on the statement of net position 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.

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 activities 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 acquisition value (entry price) on the date of donation.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

6. Capital Assets (Continued)

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. For the year ended June 30, 2016, the Medical Center had capitalized interest of \$462,373.

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

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 35
Buildings and building improvements	25 - 60
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

All capital assets, other than land and construction in progress, of business-type activities are depreciated or amortized (in the case of capital leases) using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5 - 30
Buildings and fixed equipment	5 - 40
Major movable equipment	5 - 20

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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. A liability for compensated absences is reported in the governmental funds only if they have matured, for example as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based on a trend analysis of current usage of vacation. The noncurrent portion consists of the remaining amount of vacation. Per County policy, employees are not paid an equivalent cash value of accumulated sick leave upon termination. For the governmental activities, compensated absences are liquidated by the General Fund and the Road and Bridge Special Revenue Fund.

8. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity
(Continued)

9. Pension Plan

For the County's governmental activities, for purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. The Medical Center has the same June 30 fiscal year-end as PERA. For both the governmental activities and the business-type activities, for this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. For the governmental activities, the pension liability is liquidated through the General Fund and other governmental funds that have personal services. For the business-type activities, the pension liability is liquidated by the Medical Center Enterprise Fund.

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the full accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, pension plan changes in proportionate share, and also the difference between projected and actual earnings on plan investments and, accordingly, are reported only in the statement of net position.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of deferred inflows. The governmental funds report unavailable revenue from delinquent taxes receivable, delinquent and noncurrent special assessments receivable, interest receivable, and grant monies receivable, for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental funds balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The County also has deferred pension inflows. These inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience, the difference between projected and actual earnings on plan investments, and also pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

11. Unearned Revenue

Proprietary funds, governmental funds, and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

12. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

- Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classification of Net Position (Continued)

- Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - the portion of net position that does not meet the definition of restricted or net investment in capital assets.

13. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Pipestone County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

13. Classification of Fund Balances (Continued)

- Unassigned - the residual classification for the General Fund, and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

Pipestone County's fund balance policy does not address the order of resource use or any stabilization arrangements for emergency situations.

14. Minimum Fund Balance

Pipestone County has adopted a minimum fund balance policy for the General Fund. The General Fund is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unassigned fund balance at least equal to 35 to 50 percent of total General Fund operating expenditures. At December 31, 2016, unassigned fund balance for the General Fund was at or above the minimum fund balance level.

15. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Medical Center - Net Patient Service Revenue

The Medical Center has 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 service revenue is reported at the estimated net realizable amounts from patients, 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.

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Medical Center's uninsured, self-pay patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured, self-pay patients in the period the services are provided.

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 acute care services at cost with financial settlement determined after submission of annual cost reports by the Medical Center and are 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 June 30, 2013. Clinical services are paid on a cost basis or a fixed fee schedule.
- Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are paid based on a fee screen basis.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

- Blue Cross - Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. 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.

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. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 8,439,990
Investments	1,219,000
Business-type activities	
Cash and pooled investments	4,578,688
Investments restricted under indenture agreement	2,170,809
Short-term investments	10,633,304
Assets restricted for indenture agreements	8,162,537
Statement of fiduciary net position	
Cash and pooled investments	261,849
Total Cash and Investments	\$ 35,466,177

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 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. As of December 31, 2016, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

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 has adopted a policy to minimize investment custodial credit risk by permitting brokers that obtain investments for the County to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available, and that they qualify under Minn. Stat. § 118A.06 to hold investments. Securities purchased that exceed available SIPC coverage, or are purchased by a broker that does not qualify under Minn. Stat. § 118A.06 to hold investments, shall be transferred to the County's custodian. At December 31, 2016, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify their investment portfolio so that the impact of potential losses from any one type of security or issuer is minimized.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2016, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
U.S. Treasury Notes held for Medical Center	N/R	N/A	>5%	N/A	\$ 5,518,381
Federal Home Loan Bank	AA+	S&P	<5%	12/14/2021	\$ 150,000
Negotiable certificates of deposit with brokers					
Discover Bank	N/R	N/A		07/03/2017	\$ 240,000
Boston Private Bank	N/R	N/A		08/29/2017	180,000
Safria National Bank	N/R	N/A		12/13/2017	90,000
Wells Fargo Bank	N/R	N/A		02/26/2018	245,000
Mercantile Commerce Bank	N/R	N/A		05/14/2018	245,000
Merrick Bank	N/R	N/A		05/21/2018	205,000
GE Capital Retail	N/R	N/A		07/06/2018	135,000
GE Capital Bank	N/R	N/A		07/06/2018	245,000
Ally Bank	N/R	N/A		09/17/2018	199,875
BMW Bank North America Salt Lake, UT	N/R	N/A		10/01/2018	180,000
Goldman Sachs	N/R	N/A		12/31/2018	245,000
GE Capital	N/R	N/A		12/31/2018	110,000
CIT Bank	N/R	N/A		06/27/2019	240,000
Sallie Mae Bank	N/R	N/A		09/03/2019	50,000
Comenity Bank	N/R	N/A		09/04/2019	200,000
State Bank of India	N/R	N/A		09/26/2019	245,000
Capital One Bank	N/R	N/A		10/01/2019	200,000
American Express Bank	N/R	N/A		10/02/2019	245,000
Washington Trust Company	N/R	N/A		10/08/2019	210,000
Worlds Foremost Bank	N/R	N/A		04/15/2020	200,000
American Express Centurion Bank	N/R	N/A		05/28/2020	245,000
Webster Five Cents Savings Bank	N/R	N/A		06/16/2020	180,000
Capital One National Association	N/R	N/A		07/29/2020	245,000
Everbank, Jacksonville, FL	N/R	N/A		08/14/2020	200,000
Barclays Bank Delaware	N/R	N/A		09/16/2020	245,000
Bangor Savings Bank	N/R	N/A		12/14/2020	90,000
J P Morgan Chase	N/R	N/A		05/20/2021	245,000
First Merchants Bank	N/R	N/A		11/01/2021	245,000
Toyota Financial	N/R	N/A		06/15/2023	55,000
Total negotiable certificates of deposit with brokers			>5%		\$ 5,659,875

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	<5%	N/A	\$ 39,000
Total investments					\$ 11,367,256
Checking					6,652,487
Savings					6,052,505
Petty cash and change funds					3,125
Non-negotiable certificates of deposit					11,388,304
Raymond James Inc., Money Market Account					2,500
Total Cash and Investments					\$ 35,466,177

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

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Deposits and Investments (Continued)

At December 31, 2016, the County had the following recurring fair value measurements:

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Treasury securities	\$ 5,518,381	\$ -	\$ 5,518,381	\$ -
U.S. agencies	150,000	-	150,000	-
Negotiable certificates of deposit	5,659,875	-	5,659,875	-
 Total Investments Included in the Fair Value Hierarchy	 \$ 11,328,256	 \$ -	 \$ 11,328,256	 \$ -
 Investments measured at the net asset value (NAV)				
MAGIC Portfolio	\$ 39,000			

All level 2 debt securities are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

2. Receivables

Receivables as of December 31, 2016, 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	\$ 76,922	\$ -
Special assessments	354,007	274,672
Due from other governments	2,926,613	-
Accounts	155,444	-
Loans	179,282	174,216
Accrued interest	33,139	-
Total Governmental Activities	\$ 3,725,407	\$ 448,888

In 2013, Pipestone County executed two promissory notes totaling \$197,000 in order for Southwestern Mental Health Center, Inc., to complete a building project. The notes have a payback of 30 years at two and three percent interest. Principal balances owed the County as of December 31, 2016, under these promissory notes total \$179,282.

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts - net	\$ 161,588	\$ -
Due from joint operating agreement partner	859,381	-
Estimated third-party payor settlements	15,000	-
Patient and resident service - net	3,504,110	-
Total Business-Type Activities	\$ 4,540,079	\$ -

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

2. Receivables (Continued)

A summary of patient service receivables and the provision for bad debts for the year ended June 30, 2016, is as follows:

Business-Type Activities		
Patient and resident service	\$	4,494,110
Less: provision for bad debts		<u>(990,000)</u>
Net Patient and Resident Service Revenue	\$	<u>3,504,110</u>

3. Capital Assets

Governmental Activities

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,138,971	\$ -	\$ -	\$ 1,138,971
Right-of-way	1,157,133	110,150	-	1,267,283
Construction in progress	-	8,850	-	8,850
Historical treasures	35,924	-	-	35,924
	<u>\$ 2,332,028</u>	<u>\$ 119,000</u>	<u>\$ -</u>	<u>\$ 2,451,028</u>
Total capital assets not depreciated				
Capital assets depreciated				
Buildings and building improvements	\$ 7,889,174	\$ 104,202	\$ 47,906	\$ 7,945,470
Land improvements	296,319	-	-	296,319
Machinery and equipment	6,054,012	1,154,166	972,390	6,235,788
Infrastructure	58,406,172	297,669	-	58,703,841
	<u>\$ 72,645,677</u>	<u>\$ 1,556,037</u>	<u>\$ 1,020,296</u>	<u>\$ 73,181,418</u>
Total capital assets depreciated				
Less: accumulated depreciation for				
Buildings and building improvements	\$ 3,226,492	\$ 141,297	\$ 399	\$ 3,367,390
Land improvements	137,117	10,046	-	147,163
Machinery and equipment	3,673,137	459,575	701,295	3,431,417
Infrastructure	16,428,921	1,174,368	-	17,603,289
	<u>\$ 23,465,667</u>	<u>\$ 1,785,286</u>	<u>\$ 701,694</u>	<u>\$ 24,549,259</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 49,180,010</u>	<u>\$ (229,249)</u>	<u>\$ 318,602</u>	<u>\$ 48,632,159</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 51,512,038</u>	<u>\$ (110,249)</u>	<u>\$ 318,602</u>	<u>\$ 51,083,187</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Business-Type Activities

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,191,416	\$ 86,029	\$ -	\$ 1,277,445
Construction in progress	9,240,135	15,613,227	18,768,216	6,085,146
Total capital assets not depreciated	<u>\$ 10,431,551</u>	<u>\$ 15,699,256</u>	<u>\$ 18,768,216</u>	<u>\$ 7,362,591</u>
Capital assets depreciated				
Buildings	\$ 13,472,256	\$ 17,000,671	\$ 1,639,028	\$ 28,833,899
Land improvements	695,424	279,524	207,728	767,220
Fixed equipment	3,925,917	-	1,094,284	2,831,633
Major movable equipment	8,555,133	848,134	936,349	8,466,918
Total capital assets depreciated	<u>\$ 26,648,730</u>	<u>\$ 18,128,329</u>	<u>\$ 3,877,389</u>	<u>\$ 40,899,670</u>
Less: accumulated depreciation for				
Buildings	\$ 6,841,444	\$ 652,514	\$ 1,580,125	\$ 5,913,833
Land improvements	464,337	34,063	205,167	293,233
Fixed equipment	2,717,287	139,913	805,533	2,051,667
Major movable equipment	6,793,765	549,773	915,730	6,427,808
Total accumulated depreciation	<u>\$ 16,816,833</u>	<u>\$ 1,376,263</u>	<u>\$ 3,506,555</u>	<u>\$ 14,686,541</u>
Total capital assets depreciated, net	<u>\$ 9,831,897</u>	<u>\$ 16,752,066</u>	<u>\$ 370,834</u>	<u>\$ 26,213,129</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 20,263,448</u>	<u>\$ 32,451,322</u>	<u>\$ 19,139,050</u>	<u>\$ 33,575,720</u>

Construction in progress at June 30, 2016, consists of expenditures for a hospital renovation and expansion project.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	198,350
Public safety		199,570
Highways and streets, including depreciation of infrastructure assets		1,380,811
Sanitation		6,555
		1,785,286
Total Depreciation Expense - Governmental Activities	\$	1,785,286
Business-Type Activities		
Medical Center	\$	1,376,263

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2016, is as follows:

1. Due To/From Other Funds

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 13,689
Road and Bridge Special Revenue Fund	13,689	-
Medical Facility Bonds Debt Service Fund	-	25,484
	13,689	39,173
Total governmental funds	\$ 13,689	\$ 39,173
Medical Center Enterprise Fund	29,504	-
	43,193	39,173
Total	\$ 43,193	\$ 39,173
Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2016	(4,020)	-
	39,173	39,173
Total	\$ 39,173	\$ 39,173

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

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

	Interfund Transfer In	Interfund Transfer Out
Medical Facility Bonds Debt Service Fund	\$ -	\$ 211,972
Medical Center Enterprise Fund	226,168	-
Total	\$ 226,168	\$ 211,972
Change in Medical Center Enterprise Fund amounts from June 30 to December 31, 2016	(14,196)	-
Total	\$ 211,972	\$ 211,972

The transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund was to provide funds for debt service requirements.

C. Liabilities and Deferred Inflows of Resources

1. Payables

Payables at December 31, 2016, were as follows:

	Governmental Activities	Business-Type Activities
Accounts payable	\$ 453,472	\$ 3,011,527
Salaries payable	252,997	335,080
Payroll taxes and other	-	51,602
Contracts payable	235,581	-
Due to other governments	607	-
Compensated absences	-	573,042
Total Payables	\$ 942,657	\$ 3,971,251

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources in the governmental funds consist of special assessments, taxes, state grants, and interest not collected soon enough after year-end to pay liabilities of the current period. The County reported no unearned revenues at December 31, 2016. Deferred inflows of resources at December 31, 2016, are summarized below by fund:

	<u>Special Assessments</u>	<u>Taxes</u>	<u>Grants</u>	<u>Interest</u>	<u>Total</u>
Governmental funds					
General Fund	\$ 353,706	\$ 41,116	\$ -	\$ 9,512	\$ 404,334
Special Revenue Funds					
Road and Bridge	-	13,220	2,823,271	1,783	2,838,274
Family Services	-	15,237	-	-	15,237
Ditch	301	-	-	-	301
Medical Facility Bonds					
Debt Service Fund	-	7,349	-	-	7,349
Total	<u>\$ 354,007</u>	<u>\$ 76,922</u>	<u>\$ 2,823,271</u>	<u>\$ 11,295</u>	<u>\$ 3,265,495</u>
Deferred inflows of resources					
Unavailable revenue	<u>\$ 354,007</u>	<u>\$ 76,922</u>	<u>\$ 2,823,271</u>	<u>\$ 11,295</u>	<u>\$ 3,265,495</u>

3. Internal Balances

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Internal balances	<u>\$ 25,484</u>	<u>\$ (29,504)</u>

The difference in internal balances between the governmental activities and business-type activities is due to a timing difference in transactions between the County's governmental activities, reported as of December 31, 2016, and business-type activities, reported as of June 30, 2016.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Construction Commitments

The County has active construction projects as of December 31, 2016. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Business-Type Activities		
Medical Center Enterprise Fund		
Hospital renovation and expansion project	\$ 6,085,146	\$ 7,900,000

5. Leases

Operating Leases

The Medical Center leases certain equipment under various operating leases with terms of less than one year or cancelable upon written notice. Total lease expense for the year ended June 30, 2016, for all operating leases was \$355,840.

6. Long-Term Debt

Loans Payable

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Long-Term Debt

Loans Payable (Continued)

Governmental Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Semi-Annual Installment Amounts</u>	<u>Average Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2016</u>
2005 Redwood River CWP Project	2017	\$2,668	2.00	\$ 48,149	\$ 5,257
2009 Redwood River CWP Project	2021	\$376	2.00	6,783	3,560
2011 Rock River Septic Loan Program	2022	\$5,980	2.00	105,501	72,562
2011 Pipestone County Ag Best Management Loan Program	2020	\$1,324 - \$9,491	N/A	80,683	49,077
2013 Rock River Septic Loan Program	2026	\$5,763	2.00	37,306	37,306
Total Loans Payable				<u>\$ 278,422</u>	<u>\$ 167,762</u>

N/A - Not Applicable

Bonds and Notes Payable

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Annual Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance June 30, 2016</u>
Medical Center Revenue Bond Anticipation Notes, Series 2014	2017	\$18,065,000	0.85	\$ 18,065,000	\$ 18,065,000
Medical Center Revenue Bonds, Series 2014A	2043	Variable	4.70	6,300,000	6,300,000
Medical Center Revenue Bonds, Series 2014B	2043	Variable	3.44	700,000	700,000

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

6. Long-Term Debt

Bonds and Notes Payable

Business-Type Activities (Continued)

Type of Indebtedness	Final Maturity	Annual Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance June 30, 2016
G.O. Hospital Refunding Bonds, Series 2013A	2022	\$170,000 - \$205,000	2.25	1,562,639	1,170,000
Health Facilities Revenue Note, Series 2001	2018	\$240,000 - \$290,000	Variable	3,075,000	637,491
Plus: unamortized premium					42,638
Total G.O. Bonds and Revenue Notes					<u>\$ 26,915,129</u>

7. Debt Service Requirements

Governmental Activities

Debt service requirements at December 31, 2016, were as follows:

Year Ending December 31	Principal	Interest
2017	\$ 27,975	\$ 1,545
2018	23,290	1,240
2019	23,883	1,010
2020	21,162	775
2021	16,559	535
2022	17,587	353
Totals	<u>\$ 130,456</u>	<u>\$ 5,458</u>

Loans of \$37,306 for the 2013 Rock River Septic Loan Program are not included in the debt service requirements because a fixed repayment schedule is not available.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

7. Debt Service Requirements (Continued)

Business-Type Activities

Debt service requirements at June 30, 2016, were as follows:

Year Ending June 30	Principal	Interest
2017	\$ 449,666	\$ 527,752
2018	690,424	1,169,307
2019	495,000	1,146,318
2020	505,000	1,127,912
2021	530,000	1,113,388
2022 - 2026	2,110,000	5,250,062
2027 - 2031	2,405,000	4,755,481
2032 - 2036	3,020,000	4,134,224
2037 - 2041	3,795,000	3,353,243
2042 - 2046	4,350,000	2,360,173
2047 - 2051	3,360,000	1,554,750
2052 - 2056	4,210,000	706,950
2057	952,401	21,600
Totals	<u>\$ 26,872,491</u>	<u>\$ 27,221,160</u>

8. Changes in Long-Term Liabilities

Governmental Activities

Activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans payable	\$ 195,079	\$ -	\$ 27,317	\$ 167,762	\$ 27,975
Compensated absences	239,828	229,974	196,195	273,607	26,888
Governmental Activities Long-Term Liabilities	<u>\$ 434,907</u>	<u>\$ 229,974</u>	<u>\$ 223,512</u>	<u>\$ 441,369</u>	<u>\$ 54,863</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

8. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

Activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Medical Center Revenue Bonds	\$ 25,065,000	\$ -	\$ -	\$ 25,065,000	\$ -
G.O. Refunding Bonds, Series 2013A	1,350,000	-	180,000	1,170,000	185,000
Plus: unamortized premium	<u>42,638</u>	<u>-</u>	<u>-</u>	<u>42,638</u>	<u>-</u>
Total bonds payable	\$ 26,457,638	\$ -	\$ 180,000	\$ 26,277,638	\$ 185,000
Health Facilities Revenue Note, Series 2001	<u>885,360</u>	<u>-</u>	<u>247,869</u>	<u>637,491</u>	<u>264,666</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 27,342,998</u>	<u>\$ -</u>	<u>\$ 427,869</u>	<u>\$ 26,915,129</u>	<u>\$ 449,666</u>

Pipestone County issued the Series 2014 and 2013A General Obligation Bonds for the purpose of providing funds for the Medical Center. The debt has been reflected in the Medical Center's financial statements in order to properly reflect the financial position of the Medical Center, although the County is responsible for all principal and interest payments.

Under the terms of the general obligation indenture, certain limitations have been placed on the Medical Center related to the incurrence of additional borrowings. In addition, the bond indenture requires the Medical Center to satisfy certain measures as long as the bonds are outstanding.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

8. Changes in Long-Term Liabilities

Business-Type Activities (Continued)

The 2014 bonds are made up of three different series as indicated below:

Series 2014	\$ 18,065,000
Series 2014A	6,300,000
Series 2014B	<u>700,000</u>
Total	<u>\$ 25,065,000</u>

The bonds were issued to provide funding for the Medical Center's current construction project. The Series 2014 bonds, in the amount of \$18,065,000, have an interest rate of 0.85 percent and mature on May 1, 2017. The Medical Center has obtained a loan commitment from the U.S. Department of Agriculture (USDA) for purposes of refinancing the Series 2014 bonds. The USDA loan will have an interest rate of 4.125 percent and will be repaid over 40 years.

During 2016, the USDA determined the project was substantially complete. On December 22, 2016, the Medical Center received \$18,065,000 in General Obligation Direct Loan proceeds from the USDA as part of the Rural Development Program Community Facilities Loans and Grants, and redeemed the \$18,065,000 Bond Anticipation Notes, Series 2014. The term of the \$18,065,000 General Obligation Direct loan is 40 years, with an interest rate of 2.375 percent, and principal payments of \$578,978 beginning on January 22, 2018.

3. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description

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

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

1. Plan Description (Continued)

General Employees Retirement Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No County or Medical Center employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2016. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2016.

In 2016, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Coordinated Plan members	7.50%
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

The County's contributions for the year ended December 31, 2016, and the Medical Center's contributions for the year ended June 30, 2016, to the pension plans were:

General Employees Retirement Plan	\$ 863,710
Public Employees Police and Fire Plan	125,705
Public Employees Correctional Plan	41,339

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2016, the County reported a liability of \$3,499,506 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.0431 percent. It was 0.0422 percent measured as of June 30, 2015. The County recognized pension expense of \$490,241 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized \$13,608 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

County's proportionate share of the net pension liability	\$ 3,499,506
State of Minnesota's proportionate share of the net pension liability associated with the County	<u>45,639</u>
Total	<u>\$ 3,545,145</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

At June 30, 2016, the Medical Center reported a liability of \$7,685,676 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the net pension liability was based on the Medical Center's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Medical Center's proportion was 0.1483 percent. It was 0.1553 percent measured as of June 30, 2014.

For the year ended June 30, 2016, the Medical Center recognized pension expense of \$649,657 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County and the Medical Center reported their proportionate shares of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 278,310	\$ 670,205
Changes in actuarial assumptions	1,163,844	-
Difference between projected and actual investment earnings	1,181,445	1,411,735
Changes in proportion	34,982	288,899
Contributions paid to PERA subsequent to the measurement date	<u>758,411</u>	<u>-</u>
Total	<u>\$ 3,416,992</u>	<u>\$ 2,370,839</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

Of the \$758,411 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, \$653,318 will be recognized by the Medical Center as a reduction of the net pension liability in the year ended June 30, 2017, and \$105,093 will be recognized by the County as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30 and December 31	Pension Expense Amount
2017	\$ 50,537
2018	50,537
2019	(166,525)
2020	353,193

Public Employees Police and Fire Plan

At December 31, 2016, the County reported a liability of \$2,969,749 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.074 percent. It was 0.077 percent measured as of June 30, 2015. The County recognized pension expense of \$514,368 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County also recognized \$6,660 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 152,437	\$ 345,108
Changes in actuarial assumptions	1,634,383	-
Difference between projected and actual investment earnings	305,222	-
Changes in proportion	21,601	28,406
Contributions paid to PERA subsequent to the measurement date	65,016	-
Total	\$ 2,178,659	\$ 373,514

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The \$65,016 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2017	\$ 440,393
2018	440,393
2019	440,393
2020	402,285
2021	16,665

Public Employees Correctional Plan

At December 31, 2016, the County reported a liability of \$876,754 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the County's proportion was 0.24 percent. It was 0.24 percent measured as of June 30, 2015. The County recognized pension expense of \$247,957 for its proportionate share of the Public Employees Correctional Plan's pension expense.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 31,612	\$ 9,471
Changes in actuarial assumptions	558,598	-
Difference between projected and actual investment earnings	67,578	-
Contributions paid to PERA subsequent to the measurement date	19,682	-
Total	\$ 677,470	\$ 9,471

The \$19,682 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 167,978
2018	167,978
2019	172,714
2020	139,647

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2016, was \$1,252,566.

5. Actuarial Assumptions

The total pension liabilities in the June 30, 2015, and June 30, 2016, actuarial valuations were determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Inflation	2.75 percent per year	2.50 percent per year
Active member payroll growth	3.50 percent per year	3.25 percent per year
Investment rate of return	7.90 percent	7.50 percent

Salary increases were based on service-related tables. For the June 30, 2015, valuation, mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the June 30, 2016, valuation, mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while mortality rates for the Public Employees Police and Fire Plan and the Public Employees Correctional Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

Actuarial assumptions used in the June 30, 2015, and the June 30, 2016, valuations were based on the results of actuarial experience studies. For the June 30, 2015, valuation, the experience study in the General Employees Retirement Plan was for the period 2004 through 2008, with an update of economic assumptions in 2014.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability for the Medical Center, as PERA did not implement the changes in assumptions until its June 30, 2016, estimate of pension liability. For the June 30, 2016, valuation, the experience study in the General Employees Retirement Plan was for the period 2008 through 2015. For the June 30, 2016, valuations, the experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009, and the experience study for the Public Employees Correctional Plan was for the period 2006 through 2011.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.5 percent and 7.9 percent, respectively, for the June 30, 2015, and the June 30, 2016, valuations. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2016, a reduction of the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan and the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056, and June 30, 2058, respectively. Beginning in fiscal years ended June 30, 2057, for the Public Employees Police and Fire Plan and June 30, 2059, for the Public Employees Correctional Plan, when projected benefit payments exceed the Plans' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60 percent for the Public Employees Police and Fire Plan and 5.31 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits through the point of asset depletion and 2.85 percent thereafter.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Changes in Actuarial Assumptions

There were no changes in actuarial assumptions for the Medical Center in 2015. The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions (Continued)

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

8. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph for the County and 6.9 percent, 7.9 percent, and 8.9 percent for the Medical Center at the June 30, 2015, measurement date, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	(1) 6.50%	\$ 17,054,950 (4)	4.60%	\$ 4,157,254	4.31%	\$ 1,320,120
Current	(2) 7.50	11,185,182 (5)	5.60	2,969,749	5.31	876,754
1% Increase	(3) 8.50	6,340,771 (6)	6.60	1,999,467	6.31	530,621

(1), (2), and (3) calculated at 6.90 percent, 7.90 percent, and 8.90 percent, respectively, for the Medical Center.
(4), (5), and (6) includes \$12,084,614; \$7,685,676; and \$4,052,828; respectively, for the Medical Center.

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

3. Pension Plans (Continued)

B. Defined Contribution Plan

Two County Commissioners and the Sheriff 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.

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. 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, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,343	\$ 7,343
Percentage of covered payroll	5%	5%

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

4. Risk Management (Continued)

For group employee health benefits, the County has entered into a joint powers agreement, the Southwest/West Central Service Cooperative. For all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2016 and 2017. 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 Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

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. The Medical Center is also insured under an excess umbrella liability policy with a limit of \$10 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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

Lincoln-Pipestone Rural Water System

At December 31, 2016, the Lincoln-Pipestone Rural Water System had \$48,946,000 of general obligation bonds and other loans outstanding through 2052. 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 specifically 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 taxing powers are pledged. The participating counties (Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, and Yellow Medicine) have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties be required to 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 participating ten counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

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

B. Joint Ventures

Pipestone County has an ongoing financial interest or responsibility in the following joint ventures:

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed pursuant to Minn. Stat. ch. 145A and §§ 471.59 and 393.01, subd. 7, by Lincoln, Lyon, Murray, and Pipestone Counties. SWHHS began official operation on January 1, 2011, and performs human service and public health functions. Funding is provided by the member counties based upon consideration of: (1) population based on the most recent national census; (2) tax capacity; and (3) the most recent three-year average Social Services Expenditure and Grant Reconciliation Report (SEAGR), each factor to be weighted equally.

Rock County's health and human service functions were assumed by SWHHS as of January 1, 2012. Redwood County's health and human services functions and Pipestone County's human services function joined SWHHS as of January 1, 2013.

SWHHS is governed by the:

- Joint Health and Human Services Board - responsible for financial, personnel, budget, and general administration of the agency and is made up of one County Commissioner (or alternate) from each county serving on the Community Health Board; and one County Commissioner (or alternate) serving on the Human Services Board.
- Human Services Board - responsible for duties set forth in Minn. Stat. ch. 393 and made up of two County Commissioners appointed annually and one layperson to be appointed consistent with the requirement of the Commissioner of Human Services.
- Community Health Board - responsible for all duties as set forth in Minn. Stat. ch. 145A and made up of one County Commissioner and one alternate from each member county unless such county shall have a population in excess of twice that of any other member county, in which case, it shall have two Commissioners and two alternates.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Health and Human Services (Continued)

Financing is provided by state and federal grants and appropriations from member counties. Pipestone County's contribution in 2016 for the human services function was \$1,085,202, and its contribution to the health services function was \$81,506.

Complete financial statements of Southwest Health and Human Services can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

Pipestone County, along with Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Redwood, Rock, and Yellow Medicine Counties, jointly established the Lincoln-Pipestone Rural Water System pursuant to Minn. Stat. ch. 116A. The Rural Water 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 a Board appointed 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, 2016, were \$48,946,000.

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.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

PrimeWest Rural Minnesota Health Care Access Initiative

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Rural Minnesota Health Care Access Initiative) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to the PrimeWest Rural Minnesota Health Care Access Initiative. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

Control of the PrimeWest Rural Minnesota Health Care Access Initiative is vested in a Joint Powers Board, composed of two Commissioners from each member county (one active and one alternate). Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

In the event of termination of the joint powers agreement, all assets 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 of each member's county-based purchasing eligible population.

Douglas County acts as fiscal agent for the PrimeWest Rural Minnesota Health Care Access Initiative and reports the cash transactions as an investment trust fund on its financial statements. Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services.

Complete financial information can be obtained from its administrative office at PrimeWest Rural Minnesota Health Care Access Initiative, 2209 Jefferson Street, Suite 101, Alexandria, Minnesota 56308.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 based on the allocations it receives.

CMDI provides the equipment for computer tomography (CT) scans for the Medical Center's patients. The Medical Center billed and collected the revenue for these services to patients and paid CMDI \$316,992 in the year ended June 30, 2016, for the use of the equipment. The Medical Center also received distributions of \$107,294 from CMDI for the year ended June 30, 2016. At June 30, 2016, the Medical Center owned 1.0 percent of CMDI.

Southwestern Mental Health Center, Inc.

The Southwestern Mental Health Center, Inc., is a private, non-profit agency established in 1959 by Cottonwood, Jackson, Nobles, Pipestone, and Rock Counties in southwest Minnesota. It was formed for the purpose of providing mental health services and programs to the residents of these counties.

In 2016, Pipestone County did not contribute to the Southwestern Mental Health Center, Inc., for mental health services. Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 East Luverne Street, Luverne, Minnesota 56156.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force was established under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Murray, Nobles, Pipestone, and Rock Counties, and the Cities of Adrian, Fulda, Slayton, and Worthington. The Drug Task Force provides drug enforcement services for member organizations.

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of the Chief of Police and the Sheriff from each party.

Fiscal agent responsibilities for the Task Force are with the City of Worthington. During the year, Pipestone County provided \$28,788 to the Task Force.

Plum Creek Library System

Pipestone County, along with 19 cities and 8 other counties, participates in the Plum Creek Library System. The Plum Creek Library System was created as a public library service on May 29, 1974, by the act of contracting with various public libraries in its region to provide expanded library service, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without such services. The Plum Creek Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners, the second from the board of the participating libraries. During 2016, Pipestone County provided \$52,906 to the Plum Creek Library System.

Complete financial statements of the Plum Creek Library System can be obtained at 290 South Lake Street, P. O. Box 697, Worthington, Minnesota 56187.

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

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

C. Jointly-Governed Organization

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

Minnesota Counties Computer Cooperative

Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Pipestone County paid \$58,480 to the MCCC.

D. Agricultural Best Management Loan Program

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,806,116	\$ 3,806,116	\$ 3,588,102	\$ (218,014)
Special assessments	248,500	248,500	270,179	21,679
Licenses and permits	12,775	12,775	17,900	5,125
Intergovernmental	810,943	810,943	1,091,104	280,161
Charges for services	1,777,637	1,777,637	1,593,816	(183,821)
Fines and forfeits	4,500	4,500	11,871	7,371
Gifts and contributions	1,200	1,200	17,022	15,822
Investment earnings	100,000	100,000	110,673	10,673
Miscellaneous	496,064	496,064	627,318	131,254
Total Revenues	\$ 7,257,735	\$ 7,257,735	\$ 7,327,985	\$ 70,250
Expenditures				
Current				
General government				
Commissioners	\$ 196,794	\$ 196,794	\$ 183,047	\$ 13,747
Travel management	28,050	28,050	18,288	9,762
Court administration	78,000	78,000	67,384	10,616
Law library	4,900	4,900	3,407	1,493
County administrator	132,045	132,045	133,326	(1,281)
Auditor	242,100	242,100	269,801	(27,701)
Treasurer	206,663	206,663	205,674	989
Independent audit	46,000	46,000	47,757	(1,757)
Human resources	78,359	78,359	86,549	(8,190)
Data processing	139,604	139,604	142,521	(2,917)
Elections	45,900	45,900	44,881	1,019
Information technology	309,547	309,547	305,957	3,590
Attorney	230,507	230,507	202,779	27,728
Recorder	137,856	137,856	140,269	(2,413)
Assessor	277,062	277,062	275,149	1,913
Planning and zoning	44,817	44,817	47,008	(2,191)
Geographic information system	2,100	2,100	1,300	800
County recorder	70,550	70,550	38,751	31,799
Building and plant	420,779	420,779	445,191	(24,412)
Fairgrounds	104,800	104,800	61,221	43,579
Public service building	21,100	21,100	42,319	(21,219)
Veterans service	57,248	57,248	69,887	(12,639)
County-wide transportation	426,934	426,934	370,174	56,760
Other general government	318,200	318,200	261,918	56,282
Total general government	\$ 3,619,915	\$ 3,619,915	\$ 3,464,558	\$ 155,357

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,317,352	\$ 1,317,352	\$ 1,557,915	\$ (240,563)
Dispatch	306,870	306,870	279,472	27,398
Coroner	3,500	3,500	4,451	(951)
County jail	458,064	458,064	463,106	(5,042)
Probation	96,943	96,943	99,705	(2,762)
Emergency management	125,071	125,071	120,985	4,086
E-911 system	124,200	124,200	110,618	13,582
County ambulance	538,373	538,373	518,756	19,617
Total public safety	\$ 2,970,373	\$ 2,970,373	\$ 3,155,008	\$ (184,635)
Sanitation				
SCORE/recycling/solid waste	\$ 259,994	\$ 259,994	\$ 244,275	\$ 15,719
Culture and recreation				
Senior citizen service	\$ 3,000	\$ 3,000	\$ 3,000	\$ -
Hiawatha trails	30,000	30,000	29,845	155
Parks	4,200	4,200	4,298	(98)
Other	39,710	39,710	39,433	277
Total culture and recreation	\$ 76,910	\$ 76,910	\$ 76,576	\$ 334
Conservation of natural resources				
Agricultural inspection	\$ 30,934	\$ 30,934	\$ 33,286	\$ (2,352)
County extension	192,994	192,994	163,098	29,896
Other	261,647	261,647	292,434	(30,787)
Total conservation of natural resources	\$ 485,575	\$ 485,575	\$ 488,818	\$ (3,243)
Economic development				
Economic development	\$ 6,775	\$ 6,775	\$ 6,775	\$ -
Intergovernmental				
Health	\$ 81,566	\$ 81,566	\$ 81,566	\$ -
Culture and recreation	51,651	51,651	52,906	(1,255)
Total intergovernmental	\$ 133,217	\$ 133,217	\$ 134,472	\$ (1,255)

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ 23,000	\$ 23,000	\$ 27,317	\$ (4,317)
Interest	900	900	1,871	(971)
Total debt service	<u>\$ 23,900</u>	<u>\$ 23,900</u>	<u>\$ 29,188</u>	<u>\$ (5,288)</u>
Total Expenditures	<u>\$ 7,576,659</u>	<u>\$ 7,576,659</u>	<u>\$ 7,599,670</u>	<u>\$ (23,011)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (318,924)	\$ (318,924)	\$ (271,685)	\$ 47,239
Other Financing Sources (Uses)				
Loans issued	30,000	30,000	-	(30,000)
Net Change in Fund Balance	\$ (288,924)	\$ (288,924)	\$ (271,685)	\$ 17,239
Fund Balance - January 1	<u>5,377,184</u>	<u>5,377,184</u>	<u>5,377,184</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 5,088,260</u>	<u>\$ 5,088,260</u>	<u>\$ 5,105,499</u>	<u>\$ 17,239</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,043,509	\$ 1,043,509	\$ 991,080	\$ (52,429)
Intergovernmental	2,688,821	2,688,821	3,426,138	737,317
Charges for services	285,000	285,000	147,707	(137,293)
Investment earnings	10,000	10,000	11,134	1,134
Miscellaneous	154,331	154,331	260,078	105,747
Total Revenues	\$ 4,181,661	\$ 4,181,661	\$ 4,836,137	\$ 654,476
Expenditures				
Current				
Highways and streets				
Administration	\$ 267,319	\$ 267,319	\$ 276,155	\$ (8,836)
Maintenance	1,556,811	1,556,811	1,574,576	(17,765)
Construction	1,511,020	1,511,020	1,804,790	(293,770)
Equipment maintenance and shops	526,511	526,511	400,302	126,209
Total highways and streets	\$ 3,861,661	\$ 3,861,661	\$ 4,055,823	\$ (194,162)
Intergovernmental				
Highways and streets	320,000	320,000	328,033	(8,033)
Total Expenditures	\$ 4,181,661	\$ 4,181,661	\$ 4,383,856	\$ (202,195)
Net Change in Fund Balance	\$ -	\$ -	\$ 452,281	\$ 452,281
Fund Balance - January 1	2,673,820	2,673,820	2,673,820	-
Increase (decrease) in inventories	-	-	44,265	44,265
Fund Balance - December 31	\$ 2,673,820	\$ 2,673,820	\$ 3,170,366	\$ 496,546

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,187,589	\$ 1,187,589	\$ 1,121,018	\$ (66,571)
Intergovernmental	-	-	11,184	11,184
Investment earnings	-	-	4,499	4,499
Total Revenues	\$ 1,187,589	\$ 1,187,589	\$ 1,136,701	\$ (50,888)
Expenditures				
Intergovernmental				
Social services	1,187,589	1,187,589	1,129,485	58,104
Net Change in Fund Balance	\$ -	\$ -	\$ 7,216	\$ 7,216
Fund Balance - January 1	926,335	926,335	926,335	-
Fund Balance - December 31	\$ 926,335	\$ 926,335	\$ 933,551	\$ 7,216

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN - PIPESTONE COUNTY
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Pipestone County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.0431%	\$ 3,499,506	\$ 45,639	\$ 3,545,145	\$ 2,662,941	131.42%	68.91%
2015	0.0422	2,187,023	N/A	2,187,023	2,482,283	88.11	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN - PIPESTONE COUNTY
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 210,392	\$ 210,392	\$ -	\$ 2,805,223	7.50%
2015	189,422	189,422	-	2,525,631	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN - MEDICAL CENTER
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Pipestone County Medical Center (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1483%	\$ 7,685,676	N/A	\$ 7,685,676	\$ 8,714,344	88.20%	68.91%
2014	0.1533	7,291,991	N/A	7,291,991	8,153,703	89.43	78.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

N/A - Not Applicable

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN - MEDICAL CENTER
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 653,318	\$ 653,318	\$ -	\$ 9,331,701	7.00%
2015	594,963	594,963	-	8,714,344	6.83

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-8

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.074%	\$ 2,969,749	\$ 712,533	416.79%	63.88%
2015	0.077	874,900	704,233	124.23	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-9

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 125,705	\$ 125,705	\$ -	\$ 775,956	16.20%
2015	108,158	108,158	-	667,643	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-10

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.24%	\$ 876,754	\$ 450,808	194.48%	58.16%
2015	0.24	37,104	426,512	8.70	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT A-11

**SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2016**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 41,399	\$ 41,399	\$ -	\$ 473,135	8.75%
2015	37,338	37,338	-	426,714	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The County's year-end is December 31.

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund, special revenue funds, and the Medical Facility Bonds 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.

4. Excess of Expenditures Over Appropriations

	Expenditures	Appropriation	Excess
General Fund	\$ 7,599,670	\$ 7,576,659	\$ 23,011
Road and Bridge Special Revenue Fund	4,383,856	4,181,661	202,195

5. Defined Benefit Pension Plans - Other Information, Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The County's Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions for the General Employees Retirement Plan are presented separately for the governmental activities and the business-type activities due to a difference in the measurement date.

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

5. Defined Benefit Pension Plans - Other Information, Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Correctional Plan

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.
- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

SUPPLEMENTARY INFORMATION

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Ditch</u>	<u>Medical</u>	
		<u>Facility Bonds</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 20,320	\$ 269,764	\$ 290,084
Undistributed cash in agency funds	366	5,168	5,534
Taxes receivable			
Delinquent	-	7,349	7,349
Special assessments receivable			
Delinquent	301	-	301
	\$ 20,987	\$ 282,281	\$ 303,268
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>			
Liabilities			
Due to proprietary fund	\$ -	\$ 25,484	\$ 25,484
Deferred Inflows of Resources			
Unavailable revenue	\$ 301	\$ 7,349	\$ 7,650
Fund Balances			
Restricted for			
Debt service	\$ -	\$ 249,448	\$ 249,448
Ditches	20,686	-	20,686
	\$ 20,686	\$ 249,448	\$ 270,134
Total Fund Balances	\$ 20,686	\$ 249,448	\$ 270,134
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 20,987	\$ 282,281	\$ 303,268

**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, 2016**

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Ditch</u>	<u>Medical</u>	
		<u>Facility Bonds</u>	<u>Total</u>
Revenues			
Taxes	\$ -	\$ 220,395	\$ 220,395
Special assessments	9,920	-	9,920
Total Revenues	\$ 9,920	\$ 220,395	\$ 230,315
Expenditures			
Current			
Conservation of natural resources	5,423	-	5,423
Excess of Revenues Over (Under)			
Expenditures	\$ 4,497	\$ 220,395	\$ 224,892
Other Financing Sources (Uses)			
Transfers out	-	(211,972)	(211,972)
Net Change in Fund Balance	\$ 4,497	\$ 8,423	\$ 12,920
Fund Balance - January 1	16,189	241,025	257,214
Fund Balance - December 31	\$ 20,686	\$ 249,448	\$ 270,134

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 10,200	\$ 10,200	\$ 9,920	\$ (280)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	10,200	10,200	5,423	4,777
Net Change in Fund Balance	\$ -	\$ -	\$ 4,497	\$ 4,497
Fund Balance - January 1	16,189	16,189	16,189	-
Fund Balance - December 31	<u>\$ 16,189</u>	<u>\$ 16,189</u>	<u>\$ 20,686</u>	<u>\$ 4,497</u>

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
MEDICAL FACILITY BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 221,892	\$ 221,892	\$ 220,395	\$ (1,497)
Expenditures				
Debt service				
Principal	\$ 194,250	\$ 194,250	\$ -	\$ 194,250
Interest	27,642	27,642	-	27,642
Total Expenditures	\$ 221,892	\$ 221,892	\$ -	\$ 221,892
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 220,395	\$ 220,395
Other Financing Sources (Uses)				
Transfers out	-	-	(211,972)	(211,972)
Net Change in Fund Balance	\$ -	\$ -	\$ 8,423	\$ 8,423
Fund Balance - January 1	241,025	241,025	241,025	-
Fund Balance - December 31	\$ 241,025	\$ 241,025	\$ 249,448	\$ 8,423

**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.

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, 2016**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>LINCOLN-PIPESTONE RURAL WATER SYSTEM</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,381	\$ 207,184	\$ 168,440	\$ 44,125
<u>Liabilities</u>				
Due to other governments	\$ 5,381	\$ 207,184	\$ 168,440	\$ 44,125
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,621	\$ 2,048,401	\$ 2,053,710	\$ 36,312
<u>Liabilities</u>				
Due to other governments	\$ 41,621	\$ 2,048,401	\$ 2,053,710	\$ 36,312
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 168,943	\$ 15,432,565	\$ 15,420,096	\$ 181,412
<u>Liabilities</u>				
Due to other governments	\$ 168,943	\$ 25,279,563	\$ 25,267,094	\$ 181,412

**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, 2016**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 215,945</u>	<u>\$ 17,688,150</u>	<u>\$ 17,642,246</u>	<u>\$ 261,849</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 215,945</u>	<u>\$ 27,535,148</u>	<u>\$ 27,489,244</u>	<u>\$ 261,849</u>

OTHER SCHEDULES

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Governmental Funds
Appropriations and Shared Revenue	
State	
Highway users tax	\$ 2,921,651
Market value credit	213,771
PERA rate reimbursement	14,804
Disparity reduction aid	69,076
Police aid	89,579
County program aid	171,218
Enhanced 911	80,681
Select Committee on Recycling and the Environment (SCORE)	68,710
	\$ 3,629,490
Total appropriations and shared revenue	
Reimbursement for Services	
State	
Minnesota Department of Corrections	\$ 26,499
Transportation	28,067
	\$ 54,566
Total reimbursement for services	
Payments	
Local	
Payments in lieu of taxes	\$ 64,319
Grants	
State	
Minnesota Department of Corrections	\$ 12,332
Natural Resources	37,492
Public Safety	86,123
Revenue	-
Transportation	386,697
Veterans Affairs	6,708
Board of Water and Soil Resources	47,751
Pollution Control Agency	53,500
Historical Society	60,697
	\$ 691,300
Total state	

**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Governmental Funds</u>
Grants (Continued)	
Federal	
Department of	
Homeland Security	\$ 27,251
Transportation	<u>61,500</u>
Total federal	<u>\$ 88,751</u>
Total state and federal grants	<u>\$ 780,051</u>
Total Intergovernmental Revenue	<u><u>\$ 4,528,426</u></u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

REPORT ON 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*

Independent Auditor's Report

Board of County Commissioners
Pipestone County
Pipestone, Minnesota

We have audited, 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, the 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, 2016, which include the Medical Center as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 21, 2017. Our report includes a reference to other auditors who audited the financial statements of the Pipestone County Medical Center, as described in our report on Pipestone County's financial statements. This report does not include the results of the other auditors' 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 of the financial statements, we considered Pipestone County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pipestone County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Pipestone County administers no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Pipestone County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 21, 2017

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**PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016**

PREVIOUSLY REPORTED ITEMS RESOLVED

- 1999-003 Segregation of Duties
- 2014-001 Audit Adjustment
- 2015-001 Prior Period Adjustment
- 2015-002 Subrecipient Monitoring (CFDA No. 20.205)
- 2007-007 Disaster Recovery Plan

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**REPRESENTATION OF PIPESTONE COUNTY
PIPESTONE, MINNESOTA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding Number: 1999-003

Finding Title: Segregation of Duties

Summary of Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Summary of Corrective Action Previously Reported: Pipestone County Commissioners are aware of our limited staffing and the internal control weaknesses it may create. Department heads utilize their staff to accommodate internal control as much as possible.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2014-001

Finding Title: Audit Adjustment

Summary of Condition: An adjustment was proposed and recorded to the government-wide governmental activities in the amount of \$3,094,210 that resulted in a reduction of revenue. This adjustment was individually material to this opinion unit and was necessary to fairly present deferred inflows of resources--unavailable revenue and related revenues in Pipestone County's financial statements.

Summary of Corrective Action Previously Reported: Pipestone County will review the financial statements' closing procedures closely, and any required changes will be implemented to ensure compliance with generally accepted accounting principles.

Status: Fully Corrected. Corrective action was taken.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2015-001
Finding Title: Prior Period Adjustment

Summary of Condition: A material prior period adjustment was made that resulted in significant changes to the County’s financial statements. The December 31, 2014, interfund payable in the Medical Facility Bonds Debt Service Fund was overstated as a result of including incorrect transactions in the amount “due to proprietary fund.”

Summary of Corrective Action Previously Reported: Pipestone County will review the financial statements’ closing procedures closely, and any required changes will be implemented to ensure compliance with generally accepted accounting principles.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2015-002
Finding Title: Subrecipient Monitoring
Program: Highway Planning and Construction (CFDA No. 20.205)

Summary of Condition: The County did not perform monitoring procedures over the subrecipient.

Summary of Corrective Action Previously Reported: Implement a set of policies and procedures to ensure the proper monitoring of subrecipients in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.331 of the Uniform Guidance.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X

Finding Number: 2007-007
Finding Title: Disaster Recovery Plan

Summary of Condition: Pipestone County does not have a disaster recovery plan.

Summary of Corrective Action Previously Reported: In conjunction with a business continuity plan, a disaster recovery plan will be developed.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _____ No X