STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Year Ended December 31, 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	21
Proprietary Fund - Medical Center Enterprise Fund		
Statement of Net Assets	Exhibit 7	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 8	23
Statement of Cash Flows	Exhibit 9	24
Fiduciary Funds		
Statement of Fiduciary Net Assets - Agency Funds	Exhibit 10	25
Notes to the Financial Statements		26
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	63
Road and Bridge Special Revenue Fund	Schedule 2	66
Family Services Special Revenue Fund	Schedule 3	67
Notes to the Required Supplementary Information		68

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		69
Combining Balance Sheet	Statement 1	70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	71
Agency Funds		72
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	73
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 4	75
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 5	76
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*		90

Introductory Section

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

ORGANIZATION
DECEMBER 31, 2007

Office	Name	Term Expires
Commissioners		
1st District	Luke Johnson[2]	January 2009
2nd District	Harold "Butch" Miller	January 2011
3rd District	Marvin Tinklenberg	January 2009
4th District	James Keyes	January 2011
5th District	Jerry Remund[1]	January 2009
Officers		
Elected		
Attorney	James O'Neill	January 2011
Auditor	Joyce Steinhoff	January 2011
Coroner	Dr. Larry Christensen	January 2011
County Recorder	Mary Ann DeGroot	January 2011
Sheriff	Dan Delaney	January 2011
Treasurer	Steve Weets	January 2011
Appointed		
Assessor	Joyce Schmidt	Indefinite
County Coordinator	Sharon Hanson	Indefinite
Family Services Director	Mary Fischer	Indefinite
Highway Engineer	David Halbersma	Indefinite
Veterans Service Officer	Harlan Nepp	Indefinite
Family Services Board		
Chair	Luke Johnson	January 2009
Vice Chair	Harold "Butch" Miller	January 2011
Secretary	Judy Zwart	July 2009
Member	Marvin Tinklenberg	January 2009
Member	James Keyes	January 2011
Member	Jerry Remund	January 2009
Member	Darlene Bouman	July 2008

[1]Chair 2007
[2]Chair 2008

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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center Enterprise Fund, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us; and our opinion expressed here, insofar as it relates to amounts included for the Medical Center Enterprise Fund, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Pipestone County. The statements and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Pipestone County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2009, on our consideration of Pipestone County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 5, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

MANAGEMENT’S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. Since this information is designed to focus on the current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the County’s basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Governmental activities’ total net assets are $49,093,026, of which $37,905,381 is invested in capital assets, and $1,678,941 is restricted for specific purposes. The unrestricted net assets of $9,508,704 may be used to meet the County’s ongoing obligations to citizens and creditors.

The County’s governmental activities’ net assets increased by $1,760,642 for the year ended December 31, 2007. A large part of that increase is attributable to an increase in the County investing in capital assets without increasing long-term debt, net of a decrease to restricted net assets for highways and streets.

The net cost of governmental activities for the current fiscal year was $3,872,865. The net cost was funded by general revenues totaling $5,633,507.

Fund balances of the governmental funds increased by $372,098. Most of the increase was due to increases in highway allotments for construction projects.

For the year ended December 31, 2007, the unreserved fund balance of the General Fund was $5,343,722, or 86 percent, of the total General Fund expenditures for the year.

The Pipestone County Medical Center’s assets exceeded its liabilities by $20,875,495 at December 31, 2007. The Medical Center recorded a change in net assets of $3,588,052 for the fiscal year ending December 31, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by $49,093,026 at the close of 2007. The largest portion of the net assets (77.21 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges). However, it should be noted that these assets are not available for future spending. Comparative data for 2006 is presented.

Governmental Activities

	2007	2006 (Restated)
Assets		
Current and other assets	$ 13,018,515	$ 12,076,213
Capital assets	37,928,323	36,781,419
Total Assets	$ 50,946,838	$ 48,857,632
Liabilities		
Long-term liabilities	$ 297,290	$ 295,331
Other liabilities	1,556,522	1,229,917
Total Liabilities	$ 1,853,812	$ 1,525,248
Net Assets		
Invested in capital assets, net of related debt	$ 37,905,381	$ 36,736,730
Restricted	1,678,941	1,251,402
Unrestricted	9,508,704	9,344,252
Total Net Assets	$ 49,093,026	$ 47,332,384

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 19.37 percent of the net assets.

The County's governmental activities decreased net assets by less than one percent ($49,093,026 for 2007 compared to $49,273,320 for 2006). Key elements in this decrease in net assets are as follows with comparative amounts from 2006.

Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2007	2006 (Restated)	2007	2006
Revenues				
Program revenues				
Charges for services	$ 1,969,216	$ 1,994,487	$ 20,332,343	$ 17,016,384
Operating grants and contributions	4,503,645	4,323,890	-	-
Capital grants and contributions	1,721,216	542,276	-	100,000
General revenues				
Property taxes	3,213,004	3,390,198	-	-
Other	2,665,706	2,154,623	595,360	477,522
Total Revenues	$ 14,072,787	$ 12,405,474	$ 20,927,703	$ 17,593,906

	Governmental Activities		Business-Type Activities	
	2007	2006 (Restated)	2007	2006
Expenses				
General government	$ 2,627,870	$ 2,805,090	$ -	$ -
Public safety	2,288,092	1,903,130	-	-
Highways and streets	3,653,821	3,145,994	-	-
Sanitation	171,699	180,581	-	-
Human services	2,598,513	2,848,906	-	-
Health	58,785	55,833	-	-
Culture and recreation	201,018	160,941	-	-
Conservation of natural resources	402,948	430,441	-	-
Economic development	62,065	61,605	-	-
Interest	2,131	3,264	-	-
Medical Center	-	-	17,584,854	15,857,539
Total Expenses	$ 12,066,942	$ 11,595,785	$ 17,584,854	$ 15,857,539
Excess (Deficiency) Before Transfers	$ 2,005,845	$ 809,689	$ 3,342,849	$ 1,736,367
Transfers	(245,203)	(240,266)	245,203	240,266
Increase in Net Assets	$ 1,760,642	$ 569,423	$ 3,588,052	$ 1,976,633
Net Assets - January 1, Restated	47,332,384	46,762,961	17,287,443	15,310,811
Net Assets - December 31	$ 49,093,026	$ 47,332,384	$ 20,875,495	$ 17,287,444

Total governmental revenues for the County were $14,072,787, total expenses were $12,066,942, and total transfers out were $245,203. This reflects a $1,760,642 increase in net assets for the year ended December 31, 2007.

The cost of all governmental activities for the year was $12,066,942. However, as shown on the statement of activities on Exhibit 2, the amount that taxpayers ultimately financed for these activities through County taxes was only $3,213,004 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--$1,969,216, or by other governments and organizations that subsidized certain programs with grants and contributions--$6,224,861. The County paid for the remaining "public benefit" portion of governmental activities with general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

The following table presents the cost of each of the County's four largest program functions, as well as each function's net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Governmental Activities

	Total Cost of Services		Net Cost (Revenue) of Services	
	2007	2006	2007	2006
Highways and streets	$ 3,653,821	$ 3,145,994	$ (533,978)	$ (814,904)
Human services	2,598,513	2,848,906	1,115,149	1,259,153
General government	2,627,870	2,805,090	1,878,210	2,085,219
Public safety	2,288,092	1,903,130	947,463	745,468
All others	898,646	892,665	466,021	537,452
Totals	$ 12,066,942	$ 11,595,785	$ 3,872,865	$ 3,812,388

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $10,010,263, an increase of $372,098 in comparison with the prior year. Of the combined ending fund balances, $8,167,642 represents unreserved fund balance available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of $5,343,722. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 86 percent of total General Fund expenditures. During 2007, the ending fund balance decreased by $133,646. The County received $515,117 more in revenue than expected and underspent its budget by $552,656. However, a major portion of expenditures budgeted in 2007 included general reserve spending.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $1,815,648 at fiscal year-end, representing 42 percent of its 2007 expenditures. The ending fund balance increased $577,797 during 2007.

The Family Services Special Revenue Fund had an unreserved fund balance of $977,160 at fiscal year-end, representing 37 percent of its 2007 expenditures. The ending fund balance decreased $81,198 during 2007.

Proprietary Fund

The statement of net assets at December 31, 2007, for the Pipestone County Medical Center indicates total assets of $31,193,915, total liabilities of $10,318,420, and net assets of $20,875,495. Total current assets were $4,508,468, and total current liabilities were $3,495,317, for a current ratio of 1.28--down from 1.32 at December 31, 2006. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of $20,332,343 and total operating expenses of $16,971,053, for an operating income of $3,361,290 and nonoperating revenues of $595,360, nonoperating expenses of $613,801, and transfers in of $245,203, which contributed to the increase in net assets from $17,287,443 to $20,875,495.

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 $552,656 under the final budget amounts. The most significant variances occurred in public safety and general government expenditures.

On the other hand, resources available for appropriation were $515,117 over the final budgeted amount. Intergovernmental revenue, investment earnings, 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, 2007, totaled $37,928,323 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $1,146,904, or three percent, over the previous year. The major change in the capital assets figure is attributable to the addition of infrastructure.

Capital Assets at Year-End
(Net of Depreciation)

	2007	2006
Land and other non-depreciated assets	$ 1,815,814	$ 1,304,358
Land improvements	274,163	265,958
Infrastructure	31,657,020	30,968,904
Buildings	2,208,163	2,292,161
Machinery and equipment	1,973,163	1,950,038
Total	$ 37,928,323	$ 36,781,419

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

Pipestone County Medical Center's capital assets at December 31, 2007, amounted to $12,950,485 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2007, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, Pipestone County Medical Center had total long-term debt outstanding of $7,026,043, which is for a portion of the hospital expansion and remodeling project. The project was principally completed in May 2003 and is allowing for better care to patients, improved physical conditions, and enhanced equipment. The new rehabilitation and surgery areas are vastly expanded from the previous layout and are benefiting the Medical Center in recruitment and retention of patients, employees, and physicians.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2008 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2007 was 3.7 percent. This compares favorably with the average annual state unemployment rate of 4.6 percent. The 2007 County population is estimated at 9,305, a decrease of 590 from the 2000 census of 9,895.

- Among Pipestone County residents, the overall poverty rate was 10.7 percent in 2005, 9.5 percent in 1999, and 14.8 percent in 1989, and was 10.7 percent compared to 9.2 percent in Minnesota in 2005.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 9,058,546	$ 1,424,430	$ 10,482,976
Investments	1,792,958	-	1,792,958
Receivables - net	2,053,787	2,296,251	4,350,038
Internal balances	(128,975)	128,975	-
Inventories	185,776	472,888	658,664
Prepaid items	56,423	185,924	242,347
Assets restricted as to use for			
Capital acquisition and debt redemption	-	11,049,019	11,049,019
Insurance	-	500,000	500,000
Bond refunding	-	2,076,870	2,076,870
Capital assets			
Non-depreciable capital assets	1,815,814	472,111	2,287,925
Depreciable capital assets - net of accumulated depreciation	36,112,509	12,478,374	48,590,883
Other assets			
Deferred financing costs - net of accumulated amortization	-	109,073	109,073
Total Assets	**$ 50,946,838**	**$ 31,193,915**	**$ 82,140,753**
Liabilities			
Accounts payable and other current liabilities	$ 1,288,322	$ 3,121,318	$ 4,409,640
Accrued interest payable	-	85,816	85,816
Unearned revenue	268,200	-	268,200
Long-term liabilities			
Due within one year	42,319	288,183	330,502
Due in more than one year	254,971	6,737,860	6,992,831
Minority interest	-	85,243	85,243
Total Liabilities	**$ 1,853,812**	**$ 10,318,420**	**$ 12,172,232**
Net Assets			
Invested in capital assets - net of related debt	$ 37,905,381	$ 8,001,312	$ 45,906,693
Restricted for			
Other purposes	191,326	-	191,326
Public safety	30,589	-	30,589
Highways and streets	1,405,532	-	1,405,532
Human services	5,541	-	5,541
Debt service	45,953	-	45,953
Unrestricted	9,508,704	12,874,183	22,382,887
Total Net Assets	**$ 49,093,026**	**$ 20,875,495**	**$ 69,968,521**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	$ 2,627,870	$ 388,758
Public safety	2,288,092	1,096,639
Highways and streets	3,653,821	174,080
Sanitation	171,699	37,088
Human services	2,598,513	250,395
Health	58,785	-
Culture and recreation	201,018	-
Conservation of natural resources	402,948	22,256
Economic development	62,065	-
Interest	2,131	-
Total governmental activities	**$ 12,066,942**	**$ 1,969,216**
Business-type activities		
Medical Center	17,584,854	20,332,343
Total	**$ 29,651,796**	**$ 22,301,559**

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
Investment income
Miscellaneous
Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning, as restated (Note 1.E.)

Net Assets - Ending

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

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
$ 282,177	$ 78,725	$ (1,878,210)	$ -	$ (1,878,210)
243,990	-	(947,463)	-	(947,463)
2,371,228	1,642,491	533,978	-	533,978
199,448	-	64,837	-	64,837
1,232,969	-	(1,115,149)	-	(1,115,149)
-	-	(58,785)	-	(58,785)
-	-	(201,018)	-	(201,018)
173,833	-	(206,859)	-	(206,859)
-	-	(62,065)	-	(62,065)
-	-	(2,131)	-	(2,131)
$ 4,503,645	**$ 1,721,216**	**$ (3,872,865)**	**$ -**	**$ (3,872,865)**
-	-	-	2,747,489	2,747,489
$ 4,503,645	**$ 1,721,216**	**$ (3,872,865)**	**$ 2,747,489**	**$ (1,125,376)**
		$ 3,213,004	$ -	$ 3,213,004
		4,990	-	4,990
		343,666	-	343,666
		35,748	-	35,748
		1,624,769	-	1,624,769
		625,782	595,360	1,221,142
		30,751	-	30,751
		(245,203)	245,203	-
		$ 5,633,507	**$ 840,563**	**$ 6,474,070**
		$ 1,760,642	**$ 3,588,052**	**$ 5,348,694**
		47,332,384	**17,287,443**	**64,619,827**
		$ 49,093,026	**$ 20,875,495**	**$ 69,968,521**

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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, 2007

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 6,442,207	$ 1,378,690	$ 970,019	$ 201,442	$ 8,992,358
Undistributed cash in agency funds	39,221	8,081	11,163	4,598	63,063
Petty cash and change funds	3,025	100	-	-	3,125
Investments	226,484	1,566,474	-	-	1,792,958
Taxes receivable					
Prior	34,153	9,929	13,773	7,941	65,796
Special assessments receivable					
Prior	9,453	-	-	5	9,458
Noncurrent	86,150	-	-	-	86,150
Accounts receivable	40,758	2,200	25,090	-	68,048
Accrued interest receivable	120,198	24,787	-	-	144,985
Due from other funds	10,479	12,312	1,200	-	23,991
Due from other governments	56,363	1,431,921	191,066	-	1,679,350
Inventories	-	185,776	-	-	185,776
Prepaid items	32,845	9,920	13,658	-	56,423
Total Assets	**$ 7,101,336**	**$ 4,630,190**	**$ 1,225,969**	**$ 213,986**	**$ 13,171,481**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 239,651	$ 25,132	$ 88,320	$ -	$ 353,103
Salaries payable	240,521	72,753	84,512	-	397,786
Contracts payable	128,170	357,401	-	-	485,571
Due to other funds	13,512	549	9,930	128,975	152,966
Due to other governments	15,664	3,123	33,075	-	51,862
Deferred revenue - unavailable	194,074	1,235,937	13,773	7,946	1,451,730
Deferred revenue - unearned	-	268,200	-	-	268,200
Total Liabilities	**$ 831,592**	**$ 1,963,095**	**$ 229,610**	**$ 136,921**	**$ 3,161,218**
Fund Balances					
Reserved for					
Debt service	$ -	$ -	$ -	$ 45,953	$ 45,953
Encumbrances	671,262	90,280	-	-	761,542
Inventories	-	185,776	-	-	185,776
Prepaid items	32,845	9,920	13,658	-	56,423
Missing heirs	3,971	-	-	-	3,971
Law library	51,712	-	-	-	51,712
Recorder's technology fund	25,812	-	-	-	25,812
Recorder's compliance fund	48,278	-	-	-	48,278
Sheriff's contingency	4,418	-	-	-	4,418
Drug forfeiture	6,263	-	-	-	6,263
Gun permit fees	3,060	-	-	-	3,060
Canteen fund	4,427	-	-	-	4,427
Transportation	36,638	-	-	-	36,638
Probation supervision fees	5,698	-	-	-	5,698
HAVA election money	24,915	-	-	-	24,915
DWI fees	6,723	-	-	-	6,723
Highway projects	-	565,471	-	-	565,471
Unspent grant monies	-	-	5,541	-	5,541
Unreserved					
Designated for capital improvements	348,233	-	-	-	348,233
Designated for solid waste/recycling	264,298	-	-	-	264,298
Designated for County septic loan program	152,658	-	-	-	152,658
Designated for elections	55,490	-	-	-	55,490
Designated for ambulance	20,500	-	-	-	20,500
Designated for buildings	107,657	-	-	-	107,657
Undesignated	4,394,886	1,815,648	977,160	-	7,187,694
Unreserved, reported in nonmajor Special revenue funds	-	-	-	31,112	31,112
Total Fund Balances	**$ 6,269,744**	**$ 2,667,095**	**$ 996,359**	**$ 77,065**	**$ 10,010,263**
Total Liabilities and Fund Balances	**$ 7,101,336**	**$ 4,630,190**	**$ 1,225,969**	**$ 213,986**	**$ 13,171,481**

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

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2007

Fund balances - total governmental funds (Exhibit 3)			**$**	**10,010,263**
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.				37,928,323
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.				1,451,730
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.				
Capital leases	$	(22,942)		
Loans payable		(46,318)		
Compensated absences		(228,030)		(297,290)
Net Assets of Governmental Activities (Exhibit 1)			**$**	**49,093,026**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 2,117,941	$ 495,180	$ 684,739	$ 244,494	$ 3,542,354
Special assessments	143,867	-	-	10,170	154,037
Licenses and permits	10,485	-	-	-	10,485
Intergovernmental	1,775,867	4,189,156	1,625,126	-	7,590,149
Charges for services	1,178,986	91,175	21,672	-	1,291,833
Fines and forfeits	15,420	-	-	-	15,420
Investment earnings	473,403	79,448	-	-	552,851
Miscellaneous	342,398	82,905	232,661	-	657,964
Total Revenues	**$ 6,058,367**	**$ 4,937,864**	**$ 2,564,198**	**$ 254,664**	**$ 13,815,093**
Expenditures					
Current					
General government	$ 2,594,485	$ -	$ -	$ -	$ 2,594,485
Public safety	2,748,801	-	-	-	2,748,801
Highways and streets	-	4,098,558	-	-	4,098,558
Sanitation	171,409	-	-	-	171,409
Human services	-	-	2,589,086	-	2,589,086
Health	2,475	-	-	-	2,475
Culture and recreation	130,879	-	-	-	130,879
Conservation of natural resources	401,648	-	-	316	401,964
Economic development	62,065	-	-	-	62,065
Intergovernmental	70,468	205,470	56,310	-	332,248
Debt service					
Principal	21,747	-	-	-	21,747
Interest	2,131	-	-	-	2,131
Total Expenditures	**$ 6,206,108**	**$ 4,304,028**	**$ 2,645,396**	**$ 316**	**$ 13,155,848**
Excess of Revenues Over (Under) Expenditures	**$ (147,741)**	**$ 633,836**	**$ (81,198)**	**$ 254,348**	**$ 659,245**
Other Financing Sources (Uses)					
Transfers out	$ -	$ -	$ -	$ (245,203)	$ (245,203)
Proceeds from sale of capital assets	14,095	-	-	-	14,095
Total Other Financing Sources (Uses)	**$ 14,095**	**$ -**	**$ -**	**$ (245,203)**	**$ (231,108)**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 5
(Continued)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Net Change in Fund Balances	$ (133,646)	$ 633,836	$ (81,198)	$ 9,145	$ 428,137
Fund Balances - January 1	6,403,390	2,089,298	1,077,557	67,920	9,638,165
Increase (decrease) in reserved for inventories	-	(56,039)	-	-	(56,039)
Fund Balances - December 31	$ 6,269,744	$ 2,667,095	$ 996,359	$ 77,065	$ 10,010,263

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund balances - total governmental funds (Exhibit 5)			**$**	**428,137**
Amounts reported for governmental activities in the statement of activities are different because:				
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.				
Deferred revenue - December 31	$	1,451,730		
Deferred revenue - January 1, as restated		(1,208,131)		243,599
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Expenditures for general capital assets and infrastructure	$	2,472,999		
Net book value of capital assets disposed of		(115,687)		
Current year depreciation		(1,210,408)		1,146,904
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				
Principal repayments				
Capital leases				21,747
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				
Change in compensated absences	$	(23,706)		
Change in inventories		(56,039)		(79,745)
Change in Net Assets of Governmental Activities (Exhibit 2)			**$**	**1,760,642**

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

PROPRIETARY FUND

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2007

Assets		
Current assets		
Cash and cash equivalents	$	1,424,430
Accounts receivable - net		145,405
Patient and resident receivables - net		2,150,846
Due from other funds		128,975
Inventories		472,888
Prepaid items		185,924
Total current assets	**$**	**4,508,468**
Noncurrent assets		
Assets restricted as to use for		
Capital acquisition and debt redemption	$	11,049,019
Insurance		500,000
Bond refunding		2,076,870
Total restricted assets	**$**	**13,625,889**
Capital assets - net	**$**	**12,950,485**
Other assets		
Deferred financing costs - net of accumulated amortization of $94,414	**$**	**109,073**
Total Assets	**$**	**31,193,915**
Liabilities		
Current liabilities		
Accounts payable	$	2,282,380
Salaries payable		344,704
Payroll taxes and other		114,671
Paid time off		379,563
Interest		85,816
Current maturities of long-term debt		288,183
Total current liabilities	**$**	**3,495,317**
Noncurrent liabilities		
Minority interest	$	85,243
Long-term debt, less current maturities		6,737,860
Total noncurrent liabilities	**$**	**6,823,103**
Total Liabilities	**$**	**10,318,420**
Net Assets		
Invested in capital assets - net of related debt	$	8,001,312
Unrestricted		12,874,183
Total Net Assets	**$**	**20,875,495**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Revenues		
Net patient and resident service revenue	$	19,803,770
Miscellaneous		528,573
Total Operating Revenues	**$**	**20,332,343**
Operating Expenses		
Professional care of patients and residents	$	11,155,815
General and administrative		2,255,277
Property and household		1,289,730
Depreciation and amortization		1,266,902
Dietary		634,128
Provision for bad debts		369,201
Total Operating Expenses	**$**	**16,971,053**
Operating Income (Loss)	**$**	**3,361,290**
Nonoperating Revenues (Expenses)		
Interest income	$	595,360
Loss on investment in Pipestone Medical Clinic		(281,382)
Interest expense		(331,851)
Other expenses		(568)
Total Nonoperating Revenues (Expenses)	**$**	**(18,441)**
Income (Loss) Before Contributions and Transfers	**$**	**3,342,849**
Transfers in		245,203
Change in Net Assets	**$**	**3,588,052**
Net Assets - January 1		**17,287,443**
Net Assets - December 31	**$**	**20,875,495**

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

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities		
Cash received from patient and resident services	$	20,038,863
Other revenue		433,189
Cash payments to employees for services		(8,126,792)
Cash payments to suppliers for goods and services		(7,079,323)
Net cash provided by (used in) operating activities	**$**	**5,265,937**
Cash Flows From Capital and Related Financing Activities		
Purchase of property and equipment	$	(854,491)
Repayment of long-term debt		(274,755)
Transfer from County		245,203
Interest paid on long-term debt		(333,613)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,217,656)**
Cash Flows From Investing Activities		
(Increase) decrease in assets limited as to use	$	(3,578,706)
Investment in Pipestone Medical Clinic		(384,335)
Increase in minority interest		85,243
Interest income and other		594,792
Net cash provided by (used in) investing activities	**$**	**(3,283,006)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**765,275**
Cash and Cash Equivalents - January 1		**659,155**
Cash and Cash Equivalents - December 31	**$**	**1,424,430**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**3,361,290**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	$	1,266,902
(Increase) decrease in receivables		(331,090)
(Increase) decrease in supplies		(83,521)
Increase (decrease) in prepaid expenses		(77,537)
Increase (decrease) in accounts payable		1,032,590
Increase (decrease) in accrued expenses		97,303
Total adjustments	**$**	**1,904,647**
Net Cash Provided by (Used in) Operating Activities	**$**	**5,265,937**

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

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FIDUCIARY FUNDS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007

<u>Assets</u>	
Cash and pooled investments	**$ 140,726**
<u>Liabilities</u>	
Due to other governments	**$ 140,726**

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The County has chosen to apply FASB pronouncements issued on or before that date to its business-type activities. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements (Continued)

      2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The County reports the following major enterprise fund:

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

Additionally, the County reports the following funds:

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Pipestone County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

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

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2007 were $290,556.

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

The Medical Center's investment income for the year ended December 31, 2007, was $595,360 and is included in nonoperating revenues (expenses).

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

through December 30, 2007, in Pipestone, Minnesota. The Group rented its building from the Medical Center. At December 31, 2007, the Group owed nothing to the Medical Center.

The loss on the investment, totaling $281,382 for the year ended December 31, 2007, is included in nonoperating revenues and expenses. During 2007, the Medical Center invested additional funds of $384,335 in the Clinic.

The partners of Group determined that it would be beneficial for the Clinic to be organized as a provide-based clinic under Medicare regulations instead of a traditional fee-for-service clinic. To accomplish this organizational change the Clinic was transferred to the Medical Center effective on December 31, 2007, to be operated as a department of the Medical Center. The interest in the Clinic that is attributable to the other partner in this venture is shown as minority interest on the balance sheet.

3. Receivables and Payables

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

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

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

All receivables are shown net of an allowance for uncollectibles.

1. Summary of Significant Accounting Policies

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

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

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

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

      4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

1. Summary of Significant Accounting Policies

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

5. Restricted Assets and Limited as to Use

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

Assets limited as to use include assets restricted by bond indentures and those set aside by the governing board for future capital improvements, insurance, and debt redemption, over which the board retains control and may, at its discretion, subsequently use for other purposes.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an estimated useful life in excess of two years and an initial, individual cost of more than $10,000 for governmental activities or more than $1,000 for business-type activities. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

Property, plant, and equipment of the County, as well as the blended component unit, are depreciated using the straight-line method over the following estimated useful lives:

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

7. Compensated Absences

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

8. Deferred Revenue

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

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Fund Equity

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

11. Use of Estimates

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

1. Summary of Significant Accounting Policies (Continued)

E. Restatement of Net Assets

Net assets for governmental activities at January 1, 2007, were restated for shared revenues improperly recognized for year-end 2006. Certain highway revenues are expenditure-driven grants which should only be recognized when earned. The following table summarizes the change:

	Governmental Activities
Net Assets - January 1, as previously reported	$ 49,273,320
Restatement	(1,940,936)
Net Assets - January 1, as restated	$ 47,332,384

F. Medical Center - Net Patient and Resident Service Revenue

Net patient and resident service revenue for the Medical Center are determined based on agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Medicare - The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2005. The Hospital's classification of patients under the Medicare program and the appropriateness of the admission are subject to an independent review by a peer review organization under contract with the Hospital.

1. Summary of Significant Accounting Policies

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

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

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

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The Road and Bridge Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2007, of $22,775. Total budgeted expenditures were $4,281,253, and the Road and Bridge Special Revenue Fund expended $4,304,028.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	$ 9,058,546
Investments	1,792,958
Business-type activities	
Cash and pooled investments	1,424,430
Restricted assets	
Capital acquisition and debt redemption	11,049,019
Bond refunding	2,076,870
Insurance	500,000
Statement of fiduciary net assets	
Cash and pooled investments	140,726
Total Cash and Investments	$ 26,042,549

a. Deposits

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

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

3. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         a. Deposits (Continued)

            Custodial Credit Risk

            Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2007, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

         b. Investments

            Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

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

            (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

            (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

            (4) bankers' acceptances of United States banks;

            (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2007, $5,122,708 of the County's investments was exposed to custodial credit risk.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 following table presents the County's cash and investment balances at December 31, 2007, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
Investment Type	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	AAA	S&P	<5%	10/14/2009	$ 250,292
Federal Home Loan Mortgage Corporation note	AAA	S&P		09/15/2012	$ 600,333
Federal Home Loan Mortgage Corporation note	AAA	S&P		05/15/2013	400,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		11/15/2014	100,000
Federal Home Loan Mortgage Corporation note	AAA	S&P		07/15/2014	100,000
Total Federal Home Loan Mortgage Corporation notes			19.1%		$ 1,200,333
Federal Home Loan Bank bond	AAA	S&P		06/18/2009	$ 250,000
Federal Home Loan Bank bond	AAA	S&P		08/11/2014	63,758
Federal Home Loan Bank bond	AAA	S&P		06/26/2013	200,000
Federal Home Loan Bank bond	AAA	S&P		06/18/2014	201,400
Federal Home Loan Bank bond	N/A	N/A		07/29/2008	100,000
Federal Home Loan Bank bond	AAA	S&P		01/15/2008	300,000
Federal Home Loan Bank bond	N/A	N/A		04/08/2008	100,000
Federal Home Loan Bank bond	N/A	N/A		07/29/2008	200,000
Federal Home Loan Bank bond	Aaa	Moody's		06/19/2013	122,952
Federal Home Loan Bank bond	N/A	N/A		04/08/2008	100,000
Federal Home Loan Bank bond	N/A	N/A		01/15/2008	473
Total Federal Home Loan Bank bonds			26.1%		$ 1,638,583

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk: Over 5% of Portfolio	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Investment pools/mutual funds					
Raymond James Money Market Account	N/R	N/A	N/A	N/A	$ 7,500
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	$ 3,026,000
MAGIC Fund	N/R	N/A	N/A	N/A	$ 154,000
Total investments					$ 6,276,708
Checking					2,607,936
Savings					5,533,226
Petty cash and change funds					23,325
Certificates of deposit					9,524,484
Cash with escrow agent					2,076,870
Total Cash and Investments					$ 26,042,549

N/A - Not Applicable
N/R - Not Rated
<5% - Concentration is less than 5% of investments
S&P - Standard & Poor's

2. Receivables

Receivables as of December 31, 2007, 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	$ 65,796	$ -
Special assessments	95,608	86,150
Due from other governments	1,679,350	-
Accounts	68,048	-
Interest	144,985	-
Total Governmental Activities	$ 2,053,787	$ 86,150

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Accounts	$ 145,405	$ -
Patient and resident service revenue	2,150,846	-
Total Business-Type Activities	$ 2,296,251	$ -

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

Total patient and resident service revenue	$ 27,839,136
Contractual adjustments	
Medicare	$ (5,871,825)
Medicaid	(1,154,711)
Other	(1,008,830)
Total contractual adjustments	$ (8,035,366)
Provision for bad debts	$ (369,201)
Net Patient and Resident Service Revenue	$ 19,434,569

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 364,990	$ -	$ 45,001	$ 319,989
Right-of-way	903,444	22,743	-	926,187
Construction in progress	-	533,714	-	533,714
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	$ 1,304,358	$ 556,457	$ 45,001	$ 1,815,814
Capital assets depreciated				
Buildings	$ 4,480,893	$ -	$ -	$ 4,480,893
Land improvements	325,095	19,256	-	344,351
Machinery and equipment	3,768,646	397,835	197,980	3,968,501
Infrastructure	38,878,668	1,499,451	-	40,378,119
Total capital assets depreciated	$ 47,453,302	$ 1,916,542	$ 197,980	$ 49,171,864
Less: accumulated depreciation for				
Buildings	$ 2,188,732	$ 83,998	$ -	$ 2,272,730
Land improvements	59,137	11,051	-	70,188
Machinery and equipment	1,818,608	304,024	127,294	1,995,338
Infrastructure	7,909,764	811,335	-	8,721,099
Total accumulated depreciation	$ 11,976,241	$ 1,210,408	$ 127,294	$ 13,059,355
Total capital assets depreciated, net	$ 35,477,061	$ 706,134	$ 70,686	$ 36,112,509
Governmental Activities Capital Assets, Net	$ 36,781,419	$ 1,262,591	$ 115,687	$ 37,928,323

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 227,692	$ 244,419	$ -	$ 472,111
Construction in progress	1,539,366	138,384	1,677,750	-
Total capital assets not depreciated	$ 1,767,058	$ 382,803	$ 1,677,750	$ 472,111
Capital assets depreciated				
Buildings	$ 11,465,319	$ 1,542,641	$ -	$ 13,007,960
Land improvements	446,798	51,583	-	498,381
Fixed equipment	2,746,356	164,906	-	2,911,262
Major movable equipment	5,873,804	404,910	52,390	6,226,324
Total capital assets depreciated	$ 20,532,277	$ 2,164,040	$ 52,390	$ 22,643,927
Less: accumulated depreciation for				
Buildings	$ 3,621,770	$ 420,893	$ -	$ 4,042,663
Land improvements	269,135	17,319	-	286,454
Fixed equipment	1,734,907	122,000	33,233	1,823,674
Major movable equipment	3,330,757	682,005	-	4,012,762
Total accumulated depreciation	$ 8,956,569	$ 1,242,217	$ 33,233	$ 10,165,553
Total capital assets depreciated, net	$ 11,575,708	$ 921,823	$ 19,157	$ 12,478,374
Business-Type Activities Capital Assets, Net	$ 13,342,766	$ 1,304,626	$ 1,696,907	$ 12,950,485

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

Governmental Activities	
General government	$ 149,177
Public safety	42,100
Highways and streets, including depreciation of infrastructure assets	1,017,954
Family services	1,177
Total Depreciation Expense - Governmental Activities	$ 1,210,408
Business-Type Activities	
Medical Center	$ 1,242,217

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	$ 9,930
General	Road and Bridge	549
Road and Bridge	General	12,312
Family Services	General	1,200
Medical Center	Nonmajor Debt Service	128,975
Total Due To/From Other Funds		$ 152,966

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

2. Interfund Transfer

There was one interfund transfer for the year ended December 31, 2007. A $245,203 transfer to the Medical Center Enterprise Fund from the Medical Facility Bonds Debt Service Fund, a nonmajor governmental fund, was made to provide funds for debt service.

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 353,103	$ 2,282,380
Salaries	397,786	344,704
Payroll taxes and other	-	114,671
Contracts	485,571	-
Due to other governments	51,862	-
Paid time off	-	379,563
Total Payables	$ 1,288,322	$ 3,121,318

2. Construction Commitments

The County has active construction projects as of December 31, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Emergency Medical Services Building	$ 444,345	$ 592,955
Livestock Show Ring Building	70,000	71,097
Concrete	-	7,210
Roads and bridges	10,190,803	891,011
Gravel crushing	-	90,280
Total Construction Commitments	$ 10,705,148	$ 1,652,553

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Leases

Operating Leases

Total equipment rental expense for the Medical Center for the year ended December 31, 2007, was $122,738.

Capital Leases

Governmental Activities

On September 11, 1998, the County agreed to participate in a governmental lease purchase with Johnson Controls, Inc., financed by Norwest Investment Services, Inc., to retrofit the courthouse heating and cooling system. Norwest Investment Services, Inc., loaned the County $182,484 at an interest rate of 5.42 percent. The County is to make semi-annual payments of $11,939 through 2008.

Lease	Maturity	Installment	Payment Amount	Original	Balance
1998 retrofit heating and cooling system	2008	Semi-annual	$ 11,939	$ 182,484	$ 23,879

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

Year Ending December 31	Governmental Activities
2008	$ 23,879
Less: amount representing interest	(937)
Present Value of Minimum Lease Payments	$ 22,942

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Advance Crossover Refunding of Debt

On June 6, 2005, Pipestone County issued General Obligation Hospital Refunding Bonds of 2005 in the amount of $2,140,000 with interest rates of 3.25 percent to 4.15 percent to advance crossover refund the General Obligation Hospital Bonds of 2000, dated December 15, 2000, maturing after February 1, 2010. The balance of the outstanding maturities to be refunded is $2,075,000, and interest rates are 4.80 percent to 5.30 percent.

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

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

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

3. Detailed Notes on All Funds

C. Liabilities

4. Long-Term Debt (Continued)

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for financing of failing septic systems. The loans are secured by special assessments placed on the individual parcels requesting repair of a failing septic system. Loan payments will be reported in the General Fund. The debt service requirement for the loan is not known as of December 31, 2007.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
2005 Redwood River CWP Project	N/A	N/A	2.00	$ 46,318	$ 46,318

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2007
G.O. Hospital Bonds of 2000	2022	$90,000 - $225,000	4.75 - 5.30	$ 2,935,000	$ 2,435,000
G.O. Hospital Bonds of 2005	2022	$145,000 - $220,000	3.25 - 4.15	2,140,000	2,140,000
Health Facilities Revenue Note, Series 2001	2018	$70,000 - $80,000	5.00	3,075,000	2,451,043
Total G.O. Bonds and Revenue Notes				$ 8,150,000	$ 7,026,043

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Business-Type Activities

Year Ending December 31	Principal	Interest
2008	$ 288,183	$ 320,222
2009	302,044	305,722
2010	2,391,358	237,943
2011	346,148	170,211
2012	361,439	155,052
2013 - 2017	2,065,961	515,341
2018 - 2022	1,270,910	113,238
Total	$ 7,026,043	$ 1,817,729

Governmental Activities

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

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	$ 44,689	$ -	$ 21,747	$ 22,942	$ 22,942
Loans payable	46,318	-	-	46,318	5,336
Compensated absences	204,324	23,706	-	228,030	14,041
Governmental Activities Long-Term Liabilities	$ 295,331	$ 23,706	$ 21,747	$ 297,290	$ 42,319

3. Detailed Notes on All Funds

C. Liabilities

6. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	$ 4,685,000	$ -	$ 110,000	$ 4,575,000	$ 115,000
Health Facilities Revenue Note, Series 2001	2,615,798	-	164,755	2,451,043	173,183
Business-Type Activities Long-Term Liabilities	$ 7,300,798	$ -	$ 274,755	$ 7,026,043	$ 288,183

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	$ 587,448	$ 488,615	$ 438,027
Public Employees Police and Fire Fund	71,795	58,150	48,307
Public Employees Correctional Fund	26,239	28,663	25,980

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

B. Defined Contribution Plan

One employee of Pipestone County is covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. 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. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	Employee	Employer
Contribution amount	$ 951	$ 951
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

5. Risk Management

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

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

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

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Lincoln, Lyon, Murray, and Pipestone Public Health Service

Pipestone County participates with other surrounding counties to provide health service to its citizens through a joint venture as authorized by Minn. Stat. § 471.59. Financing is provided by state grants, appropriations from member counties, and charges for services. The County's contribution in 2007 was $56,310.

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

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

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

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln 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, 2007, are $19,496,142.

6. Summary of Significant Contingencies and Other Items

   B. Joint Ventures

      Lincoln-Pipestone Rural Water System (Continued)

      The Rural Water System's 2007 financial report shows total net assets of $38,079,073, including unrestricted net assets of $19,414,884. The decrease in net assets for the year ended December 31, 2007, is $68,041. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 188, Lake Benton, Minnesota 56149-0188.

      Southwest Regional Solid Waste Commission

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

      The governing board is composed of one Board member from each of the participating counties. Financing of the Commission's solid waste management program is through appropriations from the participating counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to $1,000 per county per year. The current assessment is $500.

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Pipestone County and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Pipestone County provided $40,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative.

Douglas County acts as fiscal agent for the Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2007, the County's contribution was $2,475.

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid $2,458 of the County levy to the Project.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. During the year, the County did not contribute to the Board.

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $741 of the County levy to the RCRCA.

Pipestone County Economic Development Authority

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

D. Agricultural Best Management Loan Program

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

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REQUIRED SUPPLEMENTARY INFORMATION

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 1

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,356,308	$ 2,356,308	$ 2,117,941	$ (238,367)
Special assessments	121,200	121,200	143,867	22,667
Licenses and permits	8,710	8,710	10,485	1,775
Intergovernmental	1,346,617	1,346,617	1,775,867	429,250
Charges for services	1,167,426	1,167,426	1,178,986	11,560
Fines and forfeits	16,000	16,000	15,420	(580)
Investment earnings	300,000	300,000	473,403	173,403
Miscellaneous	226,989	226,989	342,398	115,409
Total Revenues	**$ 5,543,250**	**$ 5,543,250**	**$ 6,058,367**	**$ 515,117**
Expenditures				
Current				
General government				
Commissioners	$ 177,669	$ 177,669	$ 163,568	$ 14,101
Travel management	8,700	8,700	2,147	6,553
Courts	31,300	31,300	33,684	(2,384)
Law library	19,000	19,000	17,930	1,070
Coordinator	99,474	99,474	97,500	1,974
Auditor	193,585	193,585	185,834	7,751
Treasurer	163,588	163,588	157,154	6,434
Assessor	178,838	178,838	147,814	31,024
Elections	10,200	10,200	8,802	1,398
Accounting and auditing	30,000	30,000	22,827	7,173
Data processing	125,149	125,149	115,207	9,942
Personnel	57,736	57,736	53,631	4,105
Information technology	106,041	106,041	86,697	19,344
Attorney	190,849	190,849	167,328	23,521
Recorder	148,903	148,903	123,903	25,000
Planning and zoning	58,336	58,336	59,415	(1,079)
Geographic information systems	57,000	57,000	20,315	36,685
Buildings and plant	313,445	313,445	245,160	68,285
Veterans service officer	47,554	47,554	42,938	4,616
County-wide transportation	347,713	347,713	465,691	(117,978)
Fairgrounds	87,541	87,541	105,405	(17,864)
Other general government	290,209	290,209	271,535	18,674
Total general government	**$ 2,742,830**	**$ 2,742,830**	**$ 2,594,485**	**$ 148,345**

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,015,222	$ 1,015,222	$ 1,096,787	$ (81,565)
Dispatch	217,294	217,294	186,211	31,083
Ambulance	1,256,062	1,256,062	885,691	370,371
Coroner	5,000	5,000	3,400	1,600
E-911 system	204,860	204,860	93,317	111,543
County jail	385,548	385,548	353,470	32,078
Probation and parole	50,453	50,453	58,441	(7,988)
Civil defense	72,424	72,424	71,484	940
Total public safety	**$ 3,206,863**	**$ 3,206,863**	**$ 2,748,801**	**$ 458,062**
Sanitation				
Recycling	**$ 170,861**	**$ 170,861**	**$ 171,409**	**$ (548)**
Health				
Nursing service	**$ -**	**$ -**	**$ 2,475**	**$ (2,475)**
Culture and recreation				
Parks	$ 3,400	$ 3,400	$ 2,831	$ 569
Hiawatha trails	-	-	31,247	(31,247)
Senior citizens	54,620	54,620	50,725	3,895
Other	46,040	46,040	46,076	(36)
Total culture and recreation	**$ 104,060**	**$ 104,060**	**$ 130,879**	**$ (26,819)**
Conservation of natural resources				
Extension	$ 171,612	$ 171,612	$ 167,787	$ 3,825
Agricultural inspection	23,061	23,061	18,464	4,597
Other	182,963	182,963	215,397	(32,434)
Total conservation of natural resources	**$ 377,636**	**$ 377,636**	**$ 401,648**	**$ (24,012)**
Economic development				
Community development	**$ 62,165**	**$ 62,165**	**$ 62,065**	**$ 100**
Intergovernmental				
Library	**$ 70,468**	**$ 70,468**	**$ 70,468**	**$ -**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures (Continued)				
Debt service				
Principal	$ 21,750	$ 21,750	$ 21,747	$ 3
Interest	$ 2,131	$ 2,131	$ 2,131	$ -
Total Expenditures	$ 6,758,764	$ 6,758,764	$ 6,206,108	$ 552,656
Excess of Revenues Over (Under) Expenditures	$ (1,215,514)	$ (1,215,514)	$ (147,741)	$ 1,067,773
Other Financing Sources (Uses)				
Proceeds from sale of assets	22,000	22,000	14,095	(7,905)
Net Change in Fund Balance	$ (1,193,514)	$ (1,193,514)	$ (133,646)	$ 1,059,868
Fund Balance - January 1	6,403,390	6,403,390	6,403,390	-
Fund Balance - December 31	$ 5,209,876	$ 5,209,876	$ 6,269,744	$ 1,059,868

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 570,969	$ 570,969	$ 495,180	$ (75,789)
Intergovernmental	3,482,986	3,482,986	4,189,156	706,170
Charges for services	73,600	73,600	91,175	17,575
Investment earnings	30,000	30,000	79,448	49,448
Miscellaneous	68,600	68,600	82,905	14,305
Total Revenues	**$ 4,226,155**	**$ 4,226,155**	**$ 4,937,864**	**$ 711,709**
Expenditures				
Current				
Highways and streets				
Administration	$ 248,316	$ 248,316	$ 224,639	$ 23,677
Maintenance	1,128,886	1,128,886	886,991	241,895
Construction	2,430,172	2,430,172	2,690,299	(260,127)
Equipment and maintenance shops	280,995	280,995	296,629	(15,634)
Total highways and streets	**$ 4,088,369**	**$ 4,088,369**	**$ 4,098,558**	**$ (10,189)**
Intergovernmental				
Highways and streets	192,884	192,884	205,470	(12,586)
Total Expenditures	**$ 4,281,253**	**$ 4,281,253**	**$ 4,304,028**	**$ (22,775)**
Net Change in Fund Balance	**$ (55,098)**	**$ (55,098)**	**$ 633,836**	**$ 688,934**
Fund Balance - January 1	**2,089,298**	**2,089,298**	**2,089,298**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**(56,039)**	**(56,039)**
Fund Balance - December 31	**$ 2,034,200**	**$ 2,034,200**	**$ 2,667,095**	**$ 632,895**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 789,480	$ 789,480	$ 684,739	$ (104,741)
Intergovernmental	1,506,897	1,506,897	1,625,126	118,229
Charges for services	10,000	10,000	21,672	11,672
Miscellaneous	160,872	160,872	232,661	71,789
Total Revenues	**$ 2,467,249**	**$ 2,467,249**	**$ 2,564,198**	**$ 96,949**
Expenditures				
Current				
Human services				
Income maintenance	$ 893,625	$ 893,625	$ 928,901	$ (35,276)
Social services	1,804,450	1,794,450	1,660,185	134,265
Total human services	**$ 2,698,075**	**$ 2,688,075**	**$ 2,589,086**	**$ 98,989**
Intergovernmental				
Health	55,000	55,000	56,310	(1,310)
Total Expenditures	**$ 2,753,075**	**$ 2,743,075**	**$ 2,645,396**	**$ 97,679**
Net Change in Fund Balance	**$ (285,826)**	**$ (275,826)**	**$ (81,198)**	**$ 194,628**
Fund Balance - January 1	**1,077,557**	**1,077,557**	**1,077,557**	**-**
Fund Balance - December 31	**$ 791,731**	**$ 801,731**	**$ 996,359**	**$ 194,628**

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

The expenditure budget was amended in the following fund:

	Original Budget	Increase (Decrease)	Final Budget
Family Services Special Revenue Fund	$ 2,753,075	$ (10,000)	$ 2,743,075

The budget was revised during the year because of new information changing original budget estimates.

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
Road and Bridge Special Revenue	$ 4,304,028	$ 4,281,253	$ 22,775

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SUPPLEMENTARY INFORMATION

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Special Revenue	Debt Service	
	Ditch	Medical Facility Bonds	Total
Assets			
Cash and pooled investments	$ 30,852	$ 170,590	$ 201,442
Undistributed cash in agency funds	260	4,338	4,598
Taxes receivable			
Prior	-	7,941	7,941
Special assessments receivable			
Prior	5	-	5
Total Assets	**$ 31,117**	**$ 182,869**	**$ 213,986**
Liabilities and Fund Balances			
Liabilities			
Due to other funds	$ -	$ 128,975	$ 128,975
Deferred revenue - unavailable	5	7,941	7,946
Total Liabilities	**$ 5**	**$ 136,916**	**$ 136,921**
Fund Balances			
Reserved for debt service	$ -	$ 45,953	$ 45,953
Unreserved			
Undesignated	31,112	-	31,112
Total Fund Balances	**$ 31,112**	**$ 45,953**	**$ 77,065**
Total Liabilities and Fund Balances	**$ 31,117**	**$ 182,869**	**$ 213,986**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 2

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Special Revenue	Debt Service	
	Ditch	**Medical Facility Bonds**	**Total**
Revenues			
Taxes	$ -	$ 244,494	$ 244,494
Special assessments	10,170	-	10,170
Total Revenues	**$ 10,170**	**$ 244,494**	**$ 254,664**
Expenditures			
Current			
Conservation of natural resources	316	-	316
Excess of Revenues Over (Under) Expenditures	**$ 9,854**	**$ 244,494**	**$ 254,348**
Other Financing Sources (Uses)			
Transfers out	-	(245,203)	(245,203)
Net Change in Fund Balance	**$ 9,854**	**$ (709)**	**$ 9,145**
Fund Balance - January 1	**21,258**	**46,662**	**67,920**
Fund Balance - December 31	**$ 31,112**	**$ 45,953**	**$ 77,065**

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

AGENCY FUNDS

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

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

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

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 3

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
LINCOLN-PIPESTONE RURAL WATER SYSTEM				
Assets				
Cash and pooled investments	$ 13,920	$ 249,272	$ 243,078	$ 20,114
Liabilities				
Due to other governments	$ 13,920	$ 249,272	$ 243,078	$ 20,114
STATE				
Assets				
Cash and pooled investments	$ 15,345	$ 688,627	$ 686,886	$ 17,086
Liabilities				
Due to other governments	$ 15,345	$ 688,627	$ 686,886	$ 17,086
FORFEITED TAX SALE				
Assets				
Cash and pooled investments	$ 350	$ 34,972	$ 2,115	$ 33,207
Liabilities				
Due to other governments	$ 350	$ 34,972	$ 2,115	$ 33,207

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 3
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 96,944	$ 8,587,823	$ 8,614,448	$ 70,319
Liabilities				
Due to other governments	$ 96,944	$ 8,587,823	$ 8,614,448	$ 70,319
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 126,559	$ 9,560,694	$ 9,546,527	$ 140,726
Liabilities				
Due to other governments	$ 126,559	$ 9,560,694	$ 9,546,527	$ 140,726

OTHER SCHEDULE

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 4

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Shared Revenue		
State		
Highway users tax	$	3,908,547
County program aid		1,174,539
PERA rate reimbursement		14,804
Disparity reduction aid		71,647
Police aid		58,150
Enhanced 911		82,064
Market value credit		363,779
Total Shared Revenue	**$**	**5,673,530**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**641,477**
Payments		
Local		
Payments in lieu of taxes	**$**	**35,748**
Grants		
State		
Minnesota Department of		
Corrections	$	12,390
Human Services		435,337
Natural Resources		31,247
Public Safety		57,472
Transportation		145,828
Historical Society		21,191
Water and Soil Resources Board		99,938
Pollution Control Agency		52,039
Total State	**$**	**855,442**
Federal		
Department of		
Agriculture	$	3,104
Transportation		176,609
Health and Human Services		184,449
Homeland Security		19,790
Total Federal	**$**	**383,952**
Total State and Federal Grants	**$**	**1,239,394**
Total Intergovernmental Revenue	**$**	**7,590,149**

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Segregation of Duties

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

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

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

Client's Response:

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

06-1 Audit Adjustments and Restatements

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Two control deficiencies that typically are considered significant are identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls and restatement of previously issued financial statements to reflect the correction of a material misstatement.

During our audit, we made adjustments that resulted in significant changes to the County's financial statements, including a material restatement. The prior period adjustment related to amounts recognized as revenue and included in net assets in the government-wide financial statements at year-end 2006 for expenditure-driven state-aid funds. Other adjustments resulted from: County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; errors made in recording transactions and with mapping of various account codes; control over calculating the proper amounts of assets and liabilities that did not detect a number of errors resulting in the client's records overstating assets, fund balance, and revenues, and understating liabilities, expenditures, and other financing uses; and the County not considering the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

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

Client's Response:

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

06-2 Computer Risk Management

The County has some internal controls in place for its computer system. However, the County has not developed a formal plan to identify and manage the risks associated with its computer system.

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

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not require strong passwords or limit access to accounting system functions, such as journal entries, vendors, and user maintenance, to those employees whose job duties require them to have this access.

We recommend the County take steps to improve the control over its computer systems by requiring passwords that are longer and include more random characters and by limiting access to various accounting system functions to select County employees.

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

Client's Response:

Pipestone County will address the risk management of the computer system (general system and i5 series) during the 2009 fiscal year.

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

06-3 Capital Assets Policies and Procedures

The County's current capital assets policy defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods; however, the policy does not address redetermination of the useful lives of the capital assets, nor when redetermination of the capital asset will take place. Also, it is not clear how the costs of replaced infrastructure assets are being deleted, if at all.

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

We recommend the County Board address these issues in the capital assets policy. The policy should establish procedures to address the point when useful lives of current capital assets should be reconsidered and provide guidance on the point when work on highway projects should be capitalized as part of construction in progress and when it should be recorded as infrastructure and depreciated. The policy should also address when improvements should be treated as repairs and when they should be capitalized as part of capital assets.

We also recommend that department heads report capital asset additions and deletions to the person maintaining the capital asset records at least annually. A physical inventory of capital assets should be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

The County will review its current Capital Asset Policy to address the redetermination of useful lives and address when the useful lives of capital assets should be reconsidered.

The County as part of its Capital Asset Policy review will include language regarding the physical inventory of capital assets.

06-5 Accounting Policies and Procedures Manual

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

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

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

Client's Response:

The County has compiled some internal control narratives from Departments. The County will review current accounting policies and procedures. The County will seek out qualified individual(s) to assist in the development of an accounting policies and procedures manual.

ITEMS ARISING THIS YEAR

07-1 Preparation of Financial Statements

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Pipestone County has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, however, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal controls over the preparation of financial statements in accordance with GAAP.

Pipestone County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements. We recommend the County continue to obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP, which includes preparing and reporting appropriate government-wide and fund financial statements and the related notes to the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes.

As part of the financial statement preparation process, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

If the County intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, the County must identify and train individuals to obtain the expertise to sufficiently review, understand, and approve the financial statements, including notes.

Client's Response:

The County will continue to work towards training individuals in order to prepare the financial statements in accordance with GAAP.

07-2 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

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

Client's Response:

County will work towards developing a plan that details internal controls.

07-3 Adding New Vendors to the Integrated Financial System

The employee who performs disbursement procedures has the ability to enter new vendors into the Integrated Financial System (IFS). This employee enters disbursements and prints warrants. New vendors added to the IFS are not regularly reviewed by an individual independent from the disbursement process.

We recommend an employee independent of the disbursing process be assigned the responsibility for adding new vendors, an employee independent of the disbursing process review new vendors added to the IFS, or other compensating controls be implemented. Unusual new vendors should be investigated. This review should also be documented.

Client's Response:

The County Auditor will implement for the 2008 fiscal year a review of all County vendors and will review new vendors added to the IFS. The County Auditor will document her review.

07-4 Segregation of Duties - Payroll

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

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

Client's Response:

Payroll internal controls will be reviewed by the County Auditor and appropriate controls methods will be put into place with payroll systems.

07-5 Controls Within the Sheriff's Office

The County Sheriff's Office does not segregate accounting duties or have a formal monitoring process to ensure all collections are properly handled, resulting in the following problems:

- Accounts receivable are not being tracked in total. Background checks and civil process fees are kept in a file with no summary completed. Pay to stay is tracked by individual calendar years, but a grand total is not kept.

- A collection policy does not exist that defines billing follow-up procedures for uncollected amounts or addresses at what point second billings are sent or amounts are deemed uncollectible.

- Bank reconciliations are prepared by the same employee who is responsible for billing, collecting, preparing the deposits, and recording receipts. The Sheriff does not initial and date the completed reconciliation to document his review.

- Not all invoices and billings are pre-numbered. Civil process cases are numbered with the case number, but no other billings are numbered.

- Monies receipted and remitted by the jail administrator are also receipted by the Sheriff's Office. An independent person does not compare the two receipting systems for completeness and accuracy.

We recommend formal policies and procedures, including monitoring procedures, be established to provide the guidance necessary to ensure all collections are receipted and properly posted to the general ledger. We further recommend that the County Sheriff review the items noted above and make correcting adjustments.

Client's Response:

- *Accounts receivable are now being tracked in total.*

- *The Sheriff will present pay for stay collection policies for the Board's review and approval.*

- *The Sheriff or independent individual will initial and date completed bank reconciliations to document his review.*

- *Invoices and billing are now pre-numbered.*

- *The Sheriff will review the two receipt systems.*

PREVIOUSLY REPORTED ITEM RESOLVED

Controls Over the Accounting System Journal Entry Function (06-4)
Most journal entries made to the accounting system were not reviewed or approved by someone other than the person making the journal entries.

Resolution
A procedure was implemented where the Auditor or Treasurer signs off on the manual journal entry forms each month.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

07-6 Vehicle Leases

Vehicles leased by the Sheriff's Office were signed for by personnel of that office. Individual leases were not approved by the County Board, and authorization for some of the leased vehicles was not noted in the Board minutes. The only copies of the leases were kept in the Sheriff's Office. The County approved payments for claims without comparing detail to the applicable lease agreements, thus without viewing documentation to support the claims.

Under Minn. Stat. § 471.38, the county board cannot audit and allow claims unless the claim is properly itemized. In order to audit and approve claims for lease payments, the Board must have a copy of the lease that supports the claim for payment.

We recommend that the County Board approve each vehicle lease. At the very least, the Board must have a copy of each lease in order to audit and approve monthly claims for payment pursuant to the lease. We also recommend that copies of all leases be kept in a centralized location within the County to allow for public inspection. We further recommend that the County Board comply with the requirements of Minn. Stat. § 471.38 and only allow claims that have the proper itemization and supporting documentation.

Client's Response:

The Pipestone County Board will revise the purchase and spending policy regarding lease agreements to ensure compliance with state statute.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

07-7 Disaster Recovery Plan

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

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

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;

- a description of the responsibilities of each member of the recovery team and of all other County employees;

- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;

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

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

Client's Response:

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

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help counties address their OPEB liability in at least three important ways:

- it allows counties to create both revocable and irrevocable OPEB trusts;

- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and

- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

- determine if employees are provided OPEB;

- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;

- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

- if an OPEB trust will be established, the County will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and

- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Pipestone County for the year ended December 31, 2008.

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

Board of County Commissioners
Pipestone County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 5, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Pipestone County Medical Center, a component unit of Pipestone County, which represents the amounts shown as the business-type activities and the Medical Center Enterprise Fund, as described in our report on Pipestone County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 99-3, 06-1 through 06-3, 06-5, and 07-1 through 07-5 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Pipestone County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 07-6.

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

Pipestone County's written responses to the significant deficiencies, material weakness, legal compliance finding, and management practice finding identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 5, 2009