STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

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, 2008

Audit Practice Division
Office of the State Auditor
State of Minnesota

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

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PIPESTONE, MINNESOTA

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Introductory Section

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

ORGANIZATION
DECEMBER 31, 2008

Office	Name	Term Expires
Commissioners		
1st District	Luke Johnson[1]	January 2009
2nd District	Harold “Butch” Miller[2]	January 2011
3rd District	Marvin Tinklenberg	January 2009
4th District	James Keyes	January 2011
5th District	Jerry Remund	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 2008
[2]Chair 2009

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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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, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Center, which represent the amounts shown as the business-type activities and the Medical Center Enterprise Fund. Those 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, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of December 31, 2008, 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.

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The Management's Discussion and Analysis and the required supplementary information 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 December 9, 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

December 9, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. 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 $49,656,446, of which $37,948,895 is invested in capital assets, and $2,553,497 is restricted for specific purposes. The unrestricted net assets of $9,154,054 may be used to meet the County's ongoing obligations to citizens and creditors.

The County's governmental activities' net assets increased by $563,420 for the year ended December 31, 2008. The increase is mainly attributable to a decrease from the prior year in liabilities related to highways and streets expenses and due to the County investing in capital assets without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was $5,041,407. The net cost was funded by general revenues totaling $5,604,827.

Fund balances of the governmental funds decreased by $380,746. Most of the decrease was due to final payments issued for the construction of the County Emergency Services Building.

At the end of the current fiscal year, the County had an unreserved General Fund balance of $5,515,999. 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 81 percent of total General Fund expenditures.

The Pipestone County Medical Center's assets exceeded its liabilities by $22,798,063 at December 31, 2008. The Medical Center recorded a change in net assets of $1,922,568 for the fiscal year ending December 31, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. The County's governmental assets exceeded liabilities by $49,656,446 at the close of 2008. The largest portion of the net assets (76.42 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 2007 is presented.

Governmental Activities

	2008	2007
Assets		
Current and other assets	$ 13,066,834	$ 13,018,515
Capital assets	37,948,895	37,928,323
Total Assets	$ 51,015,729	$ 50,946,838
Liabilities		
Long-term liabilities	$ 287,493	$ 297,290
Other liabilities	1,071,790	1,556,522
Total Liabilities	$ 1,359,283	$ 1,853,812
Net Assets		
Invested in capital assets, net of related debt	$ 37,948,895	$ 37,905,381
Restricted	2,553,497	1,678,941
Unrestricted	9,154,054	9,508,704
Total Net Assets	$ 49,656,446	$ 49,093,026

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 18.44 percent of the net assets.

The County's governmental activities increased net assets by slightly more than one percent ($49,656,446 for 2008 compared to $49,093,026 for 2007). Key elements in this increase in net assets are as follows with comparative amounts from 2007.

Changes in Net Assets

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Revenues				
Program revenues				
Charges for services	$ 2,176,444	$ 1,969,216	$ 24,862,022	$ 20,332,343
Operating grants and contributions	4,858,142	4,503,645	-	-
Capital grants and contributions	369,577	1,721,216	-	-
General revenues				
Property taxes	3,448,115	3,213,004	-	-
Other	2,401,829	2,665,706	625,060	595,360
Total Revenues	$ 13,254,107	$ 14,072,787	$ 25,487,082	$ 20,927,703

	Governmental Activities		Business-Type Activities	
	2008	2007	2008	2007
Expenses				
General government	$ 2,861,801	$ 2,627,870	$ -	$ -
Public safety	1,989,283	2,288,092	-	-
Highways and streets	3,879,200	3,653,821	-	-
Sanitation	171,289	171,699	-	-
Human services	2,608,124	2,598,513	-	-
Health	63,773	58,785	-	-
Culture and recreation	193,555	201,018	-	-
Conservation of natural resources	613,602	402,948	-	-
Economic development	63,065	62,065	-	-
Interest	1,878	2,131	-	-
Medical Center	-	-	23,809,631	17,584,854
Total Expenses	$ 12,445,570	$ 12,066,942	$ 23,809,631	$ 17,584,854
Excess (Deficiency) Before Transfers	$ 808,537	$ 2,005,845	$ 1,677,451	$ 3,342,849
Transfers	(245,117)	(245,203)	245,117	245,203
Increase in Net Assets	$ 563,420	$ 1,760,642	$ 1,922,568	$ 3,588,052
Net Assets - January 1	49,093,026	47,332,384	20,875,495	17,287,443
Net Assets - December 31	$ 49,656,446	$ 49,093,026	$ 22,798,063	$ 20,875,495

Total governmental revenues for the County were $13,254,107, total expenses were $12,445,570, and total transfers out were $245,117. This reflects a $563,420 increase in net assets for the year ended December 31, 2008.

The cost of all governmental activities for the year was $12,445,570. 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 $3,448,115 because some of the cost was paid by those who directly benefited from the programs (fees, charges, fines, and other)--$2,176,444; or by other governments and organizations that subsidized certain programs with grants and contributions--$4,858,142. 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	
	2008	2007	2008	2007
Highways and streets	$ 3,879,200	$ 3,653,821	$ 525,730	$ (533,978)
Human services	2,608,124	2,598,513	1,144,689	1,115,149
General government	2,861,801	2,627,870	2,366,115	1,878,210
Public safety	1,989,283	2,288,092	583,238	947,463
All others	1,107,162	898,646	421,635	466,021
Totals	$ 12,445,570	$ 12,066,942	$ 5,041,407	$ 3,872,865

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of $9,629,517, a decrease of $380,746 in comparison with the prior year. Of the combined ending fund balances, $8,082,595 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 $5,515,999. 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 81 percent of total General Fund expenditures. During 2008, the ending fund balance decreased by $477,137. The County received $290,918 more in revenue than expected and overspent its budget by $717,996 in the General Fund. However, a major portion of expenditures included the cost related to the completion of the County's Emergency Services Building.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of $1,557,780 at fiscal year-end, representing 49 percent of its 2008 expenditures. The ending fund balance increased $144,577 during 2008.

The Family Services Special Revenue Fund had an unreserved fund balance of $932,331 at fiscal year-end, representing 36 percent of its 2008 expenditures. The ending fund balance decreased $47,606 during 2008.

Proprietary Fund

The statement of net assets at December 31, 2008, for the Pipestone County Medical Center indicates total assets of $32,327,260, total liabilities of $9,529,197, and net assets of $22,798,063. Total current assets were $6,586,293, and total current liabilities were $3,093,382, for a current ratio of 2.13--up from 1.28 at December 31, 2007. The statement of revenues, expenses, and changes in net assets indicates total operating revenues of $24,862,022 and total operating expenses of $23,491,129, for an operating income of $1,370,893 and nonoperating revenues of $625,060, nonoperating expenses of $318,502, and transfers in of $245,117, which contributed to the increase in net assets from $20,875,495 to $22,798,063.

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 $717,996 over the final budget amounts. The most significant variances occurred in public safety, conservation of natural resources, and general government expenditures.

On the other hand, resources available for appropriation were $290,918 over the final budgeted amount. Intergovernmental revenue and miscellaneous revenue were more than expected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s capital assets for its governmental activities at December 31, 2008, totaled $37,948,895 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $20,572, or less than one percent, over the previous year. The major change in the capital assets figure is attributable to the addition of buildings.

Capital Assets at Year-End
(Net of Depreciation)

	2008	2007
Land and other nondepreciated assets	$ 1,455,952	$ 1,815,814
Land improvements	262,684	274,163
Infrastructure	30,882,833	31,657,020
Buildings	3,472,860	2,208,163
Machinery and equipment	1,874,566	1,973,163
Total	$ 37,948,895	$ 37,928,323

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, 2008, amounted to $12,639,502 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and equipment.

Long-Term Debt

Governmental Activities

At December 31, 2008, the County had no outstanding bonded debt.

Business-Type Activities

At year-end, the Pipestone County Medical Center had total long-term debt outstanding of $6,737,859, 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 2009 budget, tax rates, and fees that will be charged for the year.

- The average annual unemployment rate for Pipestone County at the end of 2008 was 4.4 percent. This compares favorably with the average annual state unemployment rate of 5.4 percent. The 2008 County population is estimated at 9,395, a decrease of 500 from the 2000 census of 9,895.

- Among Pipestone County residents, the overall poverty rate was 12 percent in 2007, compared to 10 percent in Minnesota in 2007.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	$ 8,528,981	$ 1,983,383	$ 10,512,364
Investments	1,590,000	-	1,590,000
Receivables - net	2,745,626	3,679,846	6,425,472
Internal balances	(138,902)	138,902	-
Inventories	294,144	539,843	833,987
Prepaid items	46,985	244,319	291,304
Assets restricted as to use for			
Capital acquisition and debt redemption	-	10,435,684	10,435,684
Insurance	-	500,000	500,000
Bond refunding	-	2,076,509	2,076,509
Capital assets			
Nondepreciable capital assets	1,455,952	472,111	1,928,063
Depreciable capital assets - net of accumulated depreciation	36,492,943	12,167,390	48,660,333
Other assets			
Deferred financing costs - net of accumulated amortization	-	89,273	89,273
Total Assets	**$ 51,015,729**	**$ 32,327,260**	**$ 83,342,989**
Liabilities			
Accounts payable and other current liabilities	$ 833,352	$ 2,707,360	$ 3,540,712
Accrued interest payable	-	83,978	83,978
Unearned revenue	238,438	-	238,438
Long-term liabilities			
Due within one year	19,745	302,044	321,789
Due in more than one year	267,748	6,435,815	6,703,563
Total Liabilities	**$ 1,359,283**	**$ 9,529,197**	**$ 10,888,480**
Net Assets			
Invested in capital assets - net of related debt	$ 37,948,895	$ 7,978,151	$ 45,927,046
Restricted for			
Other purposes	213,390	-	213,390
Public safety	28,485	-	28,485
Highways and streets	2,119,820	-	2,119,820
Human services	6,723	-	6,723
Debt service	185,079	-	185,079
Unrestricted	9,154,054	14,819,912	23,973,966
Total Net Assets	**$ 49,656,446**	**$ 22,798,063**	**$ 72,454,509**

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, 2008

	Expenses		Fees, Charges, Fines, and Other	
Functions/Programs				
Primary Government				
Governmental activities				
General government	$	2,861,801	$	304,225
Public safety		1,989,283		1,168,958
Highways and streets		3,879,200		154,437
Sanitation		171,289		244,270
Human services		2,608,124		182,651
Health		63,773		-
Culture and recreation		193,555		-
Conservation of natural resources		613,602		121,903
Economic development		63,065		-
Interest		1,878		-
Total governmental activities	**$**	**12,445,570**	**$**	**2,176,444**
Business-type activities				
Medical Center		23,105,655		24,158,046
Total Primary Government	**$**	**35,551,225**	**$**	**26,334,490**

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

Total general revenues and transfers

Change in net assets

Net Assets - Beginning

Net Assets - Ending

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

EXHIBIT 2

Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
$ 191,461	$ -	$ (2,366,115)	$ -	$ (2,366,115)
237,087	-	(583,238)	-	(583,238)
2,829,456	369,577	(525,730)	-	(525,730)
55,000	-	127,981	-	127,981
1,280,784	-	(1,144,689)	-	(1,144,689)
-	-	(63,773)	-	(63,773)
-	-	(193,555)	-	(193,555)
264,354	-	(227,345)	-	(227,345)
-	-	(63,065)	-	(63,065)
-	-	(1,878)	-	(1,878)
$ 4,858,142	**$ 369,577**	**$ (5,041,407)**	**$ -**	**$ (5,041,407)**
-	-	-	1,052,391	1,052,391
$ 4,858,142	**$ 369,577**	**$ (5,041,407)**	**$ 1,052,391**	**$ (3,989,016)**
		$ 3,448,115	$ -	$ 3,448,115
		5,163	-	5,163
		357,298	-	357,298
		39,453	-	39,453
		1,547,265	-	1,547,265
		379,919	492,747	872,666
		72,731	10,000	82,731
		-	122,313	122,313
		(245,117)	245,117	-
		$ 5,604,827	**$ 870,177**	**$ 6,475,004**
		$ 563,420	**$ 1,922,568**	**$ 2,485,988**
		49,093,026	**20,875,495**	**69,968,521**
		$ 49,656,446	**$ 22,798,063**	**$ 72,454,509**

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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, 2008

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments	$ 5,963,714	$ 1,271,958	$ 995,831	$ 211,051	$ 8,442,554
Undistributed cash in agency fund	52,958	10,457	14,742	5,145	83,302
Petty cash and change funds	3,025	100	-	-	3,125
Investments	44,000	1,546,000	-	-	1,590,000
Taxes receivable					
Prior	40,438	11,265	15,817	8,227	75,747
Special assessments receivable					
Prior	8,875	-	-	-	8,875
Noncurrent	182,135	-	-	-	182,135
Accounts receivable	46,768	928	61,450	-	109,146
Accrued interest receivable	80,211	25,812	-	-	106,023
Due from other funds	3,486	8,303	-	-	11,789
Due from other governments	51,547	2,079,773	132,380	-	2,263,700
Inventories	-	294,144	-	-	294,144
Prepaid items	27,816	9,470	9,699	-	46,985
Total Assets	**$ 6,504,973**	**$ 5,258,210**	**$ 1,229,919**	**$ 224,423**	**$ 13,217,525**
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 164,625	$ 32,103	$ 91,621	$ 300	$ 288,649
Salaries payable	254,635	83,175	90,163	-	427,973
Contracts payable	20,294	14,563	-	-	34,857
Due to other funds	7,794	-	3,486	139,411	150,691
Due to other governments	323	1,471	80,079	-	81,873
Deferred revenue - unavailable	264,695	2,076,788	15,817	8,227	2,365,527
Deferred revenue - unearned	-	238,438	-	-	238,438
Total Liabilities	**$ 712,366**	**$ 2,446,538**	**$ 281,166**	**$ 147,938**	**$ 3,588,008**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances (Continued)					
Fund Balances					
Reserved for					
Encumbrances	$ -	$ 830,528	$ -	$ -	$ 830,528
Inventories	-	294,144	-	-	294,144
Prepaid items	27,816	9,470	9,699	-	46,985
Missing heirs	3,971	-	-	-	3,971
Law library	49,720	-	-	-	49,720
Recorder's technology fund	38,840	-	-	-	38,840
Recorder's compliance fund	69,478	-	-	-	69,478
Sheriff's contingency	1,853	-	-	-	1,853
Transportation	29,438	-	-	-	29,438
Probation supervision fees	2,870	-	-	-	2,870
DWI fees	6,723	-	-	-	6,723
Drug forfeitures	8,432	-	-	-	8,432
Canteen fund	4,947	-	-	-	4,947
Gun permit fees	3,660	-	-	-	3,660
HAVA election monies	21,943	-	-	-	21,943
Septic/sewer loans	6,917	-	-	-	6,917
Highway allotments	-	119,750	-	-	119,750
Unspent grant monies	-	-	6,723	-	6,723
Unreserved					
Designated for					
Elections	62,917	-	-	-	62,917
Buildings	107,657	-	-	-	107,657
Capital improvements	359,661	-	-	-	359,661
Ambulance	41,000	-	-	-	41,000
Solid waste recycling	390,813	-	-	-	390,813
County septic loan program	52,991	-	-	-	52,991
Undesignated	4,500,960	1,557,780	932,331	-	6,991,071
Unreserved, reported in nonmajor					
Special revenue fund	-	-	-	30,308	30,308
Debt service fund	-	-	-	46,177	46,177
Total Fund Balances	**$ 5,792,607**	**$ 2,811,672**	**$ 948,753**	**$ 76,485**	**$ 9,629,517**
Total Liabilities and Fund Balances	**$ 6,504,973**	**$ 5,258,210**	**$ 1,229,919**	**$ 224,423**	**$ 13,217,525**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008

Fund balance - total governmental funds (Exhibit 3)		**$ 9,629,517**
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.		37,948,895
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,365,527
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	$ (239,241)	
Loans payable	(48,252)	(287,493)
Net Assets of Governmental Activities (Exhibit 1)		**$ 49,656,446**

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

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General	Road and Bridge	Family Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 2,310,273	$ 516,427	$ 728,584	$ 245,341	$ 3,800,625
Special assessments	205,540	-	-	5	205,545
Licenses and permits	12,515	-	-	-	12,515
Intergovernmental	1,874,620	2,460,772	1,642,071	-	5,977,463
Charges for services	1,212,253	90,993	18,810	-	1,322,056
Fines and forfeits	11,693	-	800	-	12,493
Investment earnings	350,189	58,260	-	-	408,449
Miscellaneous	367,150	63,444	166,520	-	597,114
Total Revenues	**$ 6,344,233**	**$ 3,189,896**	**$ 2,556,785**	**$ 245,346**	**$ 12,336,260**
Expenditures					
Current					
General government	$ 2,971,915	$ -	$ -	$ -	$ 2,971,915
Public safety	2,727,213	-	-	-	2,727,213
Highways and streets	-	2,942,948	-	-	2,942,948
Sanitation	171,029	-	-	-	171,029
Human services	-	-	2,604,391	-	2,604,391
Health	7,940	-	-	-	7,940
Culture and recreation	141,393	-	-	-	141,393
Conservation of natural resources	612,495	-	-	809	613,304
Economic development	63,065	-	-	-	63,065
Intergovernmental	107,484	210,739	-	-	318,223
Debt service					
Principal	27,337	-	-	-	27,337
Interest	1,878	-	-	-	1,878
Total Expenditures	**$ 6,831,749**	**$ 3,153,687**	**$ 2,604,391**	**$ 809**	**$ 12,590,636**
Excess of Revenues Over (Under) Expenditures	**$ (487,516)**	**$ 36,209**	**$ (47,606)**	**$ 244,537**	**$ (254,376)**
Other Financing Sources (Uses)					
Transfers out	$ -	$ -	$ -	$ (245,117)	$ (245,117)
Proceeds from the sale of capital assets	4,050	-	-	-	4,050
Loans issued	6,329	-	-	-	6,329
Total Other Financing Sources (Uses)	**$ 10,379**	**$ -**	**$ -**	**$ (245,117)**	**$ (234,738)**
Net Change in Fund Balance	**$ (477,137)**	**$ 36,209**	**$ (47,606)**	**$ (580)**	**$ (489,114)**
Fund Balance - January 1	**6,269,744**	**2,667,095**	**996,359**	**77,065**	**10,010,263**
Increase (decrease) in reserved for inventories	**-**	**108,368**	**-**	**-**	**108,368**
Fund Balance - December 31	**$ 5,792,607**	**$ 2,811,672**	**$ 948,753**	**$ 76,485**	**$ 9,629,517**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2008

Net change in fund balance - total governmental funds (Exhibit 5)		**$ (489,114)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 2,365,527	
Deferred revenue - January 1	(1,451,730)	913,797
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets and infrastructure	$ 1,347,272	
Net book value of capital assets disposed of	(85,824)	
Current year depreciation	(1,240,876)	20,572
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Debt issued		
ISTS loans		(6,329)
Debt principal repayments		
Capital lease payment	$ 22,942	
Loans payable	4,395	27,337
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	$ (11,211)	
Change in inventories	108,368	97,157
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 563,420**

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PROPRIETARY FUND

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
DECEMBER 31, 2008

Assets		
Current assets		
Cash and pooled investments	$	1,983,383
Accounts receivable - net		75,842
Patient and resident receivables - net		3,566,933
Due from minority interest partner		37,071
Due from other funds		138,902
Inventories		539,843
Prepaid items		244,319
Total current assets	**$**	**6,586,293**
Noncurrent assets		
Assets restricted as to use for		
Capital acquisition and debt redemption	$	10,435,684
Insurance		500,000
Bond refunding		2,076,509
Total restricted assets	**$**	**13,012,193**
Capital assets - net	**$**	**12,639,501**
Other assets		
Deferred financing costs - net of accumulated amortization of $114,214	**$**	**89,273**
Total Assets	**$**	**32,327,260**
Liabilities		
Current liabilities		
Accounts payable	$	1,865,745
Salaries payable		98,598
Paid time off		507,256
Payroll taxes and other		235,761
Interest		83,978
Current maturities of long-term debt		302,044
Total current liabilities	**$**	**3,093,382**
Noncurrent liabilities		
Long-term debt, less current maturities	**$**	**6,435,815**
Total Liabilities	**$**	**9,529,197**
Net Assets		
Invested in capital assets - net of related debt	$	7,978,151
Unrestricted		14,819,912
Total Net Assets	**$**	**22,798,063**

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, 2008

Operating Revenues		
Net patient and resident service revenue, net of provision for bad debts	$	23,754,974
Miscellaneous		403,072
Total Operating Revenues	**$**	**24,158,046**
Operating Expenses		
Professional care of patients and residents	$	16,987,306
General and administrative		2,562,365
Property and household		1,284,058
Depreciation and amortization		1,279,567
Dietary		673,857
Total Operating Expenses	**$**	**22,787,153**
Operating Income (Loss)	**$**	**1,370,893**
Nonoperating Revenues (Expenses)		
Interest income	$	492,747
Minority interest share of clinic operations		122,313
Interest expense		(318,502)
Other income		10,000
Total Nonoperating Revenues (Expenses)	**$**	**306,558**
Income (Loss) Before Transfers	**$**	**1,677,451**
Transfers in		245,117
Change in net assets	**$**	**1,922,568**
Net Assets - January 1		**20,875,495**
Net Assets - December 31	**$**	**22,798,063**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

EXHIBIT 9

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
MEDICAL CENTER ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities		
Cash received from patient and resident services	$	22,088,887
Other revenues		462,708
Cash payments to employees for services		(10,934,586)
Cash payments to suppliers for goods and services		(10,862,308)
Net cash provided by (used in) operating activities	**$**	**754,701**
Cash Flows from Capital and Related Financing Activities		
Purchase of property and equipment	$	(948,784)
Repayment of long-term debt		(288,184)
Transfer from County		245,117
Interest paid on long-term debt		(320,340)
Net cash provided by (used in) capital and related financing activities	**$**	**(1,312,191)**
Cash Flows from Investing Activities		
Increase (decrease) in assets limited as to use	$	613,696
Interest income and other		502,747
Net cash provided by (used in) investing activities	**$**	**1,116,443**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**558,953**
Cash and Cash Equivalents - January 1		**1,424,430**
Cash and Cash Equivalents - December 31	**$**	**1,983,383**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**1,370,893**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	$	1,279,567
(Increase) decrease in receivables		(1,356,451)
(Increase) decrease in supplies		(66,955)
Increase (decrease) in prepaid expenses		(58,395)
Increase (decrease) in accounts payable		(416,635)
Increase (decrease) in accrued expenses		2,677
Total adjustments	**$**	**(616,192)**
Net Cash Provided by (Used in) Operating Activities	**$**	**754,701**

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
FIDUCIARY FUNDS
DECEMBER 31, 2008

Assets	
Cash and pooled investments	**$ 153,210**
Liabilities	
Due to other governments	**$ 153,210**

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

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NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. 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, 2008, 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 2008 were $337,914.

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, 2008, was $492,747 and is included in nonoperating revenues (expenses).

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

All receivables are shown net of an allowance for uncollectibles.

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

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients 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 method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary funds and at the government-wide level are recorded as expenses when consumed.

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

5. Restricted Assets and Limited as to Use

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

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.

1. Summary of Significant Accounting Policies

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

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.

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

1. Summary of Significant Accounting Policies

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

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.

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.

1. Summary of Significant Accounting Policies

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

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.

E. Medical Center - Net Patient and Resident Service Revenue

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

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

Medicare - The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2006. The Hospital's classification of patients under the

1. Summary of Significant Accounting Policies

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

Medicare program and the appropriateness of the admission are subject to an independent review by a peer review organization under contract with the Hospital.

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

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

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 General Fund had expenditures in excess of budget for the year ended December 31, 2008, of $717,996. Total budgeted expenditures were $6,113,753, and the General Fund expended $6,831,749.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	8,528,981
Investments		1,590,000
Business-type activities		
Cash and pooled investments		1,983,383
Restricted assets		
Capital acquisition and debt redemption		10,435,684
Bond refunding		2,076,509
Insurance		500,000
Statement of fiduciary net assets		
Cash and pooled investments		153,210
Total Cash and Investments	$	25,267,767

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. County deposits are required by Minn. Stat. § 118A.03 to 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 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 or 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, 2008, were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

b. Investments

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

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

(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, 2008, $4,626,866 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, 2008, 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%	01/16/2014	$ 200,000
Federal Home Loan Mortgage Corporation note	AAA	S&P	<5%	11/15/2014	$ 100,000
Federal Home Loan Bank bond	AAA	S&P		08/11/2014	$ 63,757
Federal Home Loan Bank bond	AAA	S&P		05/13/2016	200,000
Total Federal Home Loan Bank bonds			<5%		$ 263,757
Fannie Mae	AAA	S&P		06/03/2013	$ 500,000
Fannie Mae	AAA	S&P		08/06/2015	395,000
Total Fannie Mae			15.5%		$ 895,000
Freddie Mac	AAA	S&P		05/15/2016	$ 125,000
Freddie Mac	AAA	S&P		05/15/2016	104,000
Freddie Mac	AAA	S&P		03/15/2018	199,875
Freddie Mac	AAA	S&P		03/15/2018	200,000
Total Freddie Mac			10.9%		$ 628,875

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	$ 2,500
Negotiable certificates of deposit with brokers	N/A	N/A	N/A	Various	$ 3,527,000
MAGIC Fund	N/R	N/A	N/A	N/A	$ 154,000
Total investments					$ 5,771,132
Checking					3,212,558
Savings					892,218
Petty cash and change funds					23,350
Certificates of deposit					13,292,000
Cash with escrow agent					2,076,509
Total Cash and Investments					$ 25,267,767

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, 2008, 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	$ 75,747	$ -
Special assessments	191,010	182,135
Due from other governments	2,263,700	-
Accounts	109,146	-
Interest	106,023	-
Total Governmental Activities	$ 2,745,626	$ 182,135

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	$ 75,842	$ -
Patient and resident service revenue	3,566,933	-
Due from minority interest partner	37,071	-
Total Business-Type Activities	$ 3,679,846	$ -

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

Total patient and resident service revenue	$ 33,824,953
Contractual adjustments	
Medicare	$ (5,133,179)
Medicaid	(1,566,079)
Clinic	(619,704)
Other	(2,047,041)
Total contractual adjustments	$ (9,366,003)
Provision for bad debts	$ (703,976)
Net Patient and Resident Service Revenue	$ 23,754,974

3. Detailed Notes on All Funds

   A. Assets (Continued)

      3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 319,989	$ 71,580	$ -	$ 391,569
Right-of-way	926,187	10,235	-	936,422
Construction in progress	533,714	92,037	533,714	92,037
Historical treasures	35,924	-	-	35,924
Total capital assets not depreciated	$ 1,815,814	$ 173,852	$ 533,714	$ 1,455,952
Capital assets depreciated				
Buildings	$ 4,480,893	$ 1,366,996	$ -	$ 5,847,889
Land improvements	344,351	-	-	344,351
Machinery and equipment	3,968,501	302,232	167,306	4,103,427
Infrastructure	40,378,119	37,906	-	40,416,025
Total capital assets depreciated	$ 49,171,864	$ 1,707,134	$ 167,306	$ 50,711,692
Less: accumulated depreciation for				
Buildings	$ 2,272,730	$ 102,299	$ -	$ 2,375,029
Land improvements	70,188	11,479	-	81,667
Machinery and equipment	1,995,338	315,005	81,482	2,228,861
Infrastructure	8,721,099	812,093	-	9,533,192
Total accumulated depreciation	$ 13,059,355	$ 1,240,876	$ 81,482	$ 14,218,749
Total capital assets depreciated, net	$ 36,112,509	$ 466,258	$ 85,824	$ 36,492,943
Governmental Activities Capital Assets, Net	$ 37,928,323	$ 640,110	$ 619,538	$ 37,948,895

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 472,111	$ -	$ -	$ 472,111
Capital assets depreciated				
Buildings	$ 13,007,960	$ -	$ -	$ 13,007,960
Land improvements	498,381	67,766	-	566,147
Fixed equipment	2,911,262	144,420	-	3,055,682
Major movable equipment	6,226,324	736,598	485,516	6,477,406
Total capital assets depreciated	$ 22,643,927	$ 948,784	$ 485,516	$ 23,107,195
Less: accumulated depreciation for				
Buildings	$ 4,042,663	$ 463,983	$ -	$ 4,506,646
Land improvements	286,454	23,712	-	310,166
Fixed equipment	1,823,674	132,411	-	1,956,085
Major movable equipment	4,012,762	639,661	485,516	4,166,907
Total accumulated depreciation	$ 10,165,553	$ 1,259,767	$ 485,516	$ 10,939,804
Total capital assets depreciated, net	$ 12,478,374	$ (310,983)	$ -	$ 12,167,391
Business-Type Activities Capital Assets, Net	$ 12,950,485	$ (310,983)	$ -	$ 12,639,502

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

Governmental Activities	
General government	$ 149,799
Public safety	65,527
Highways and streets, including depreciation of infrastructure assets	1,025,550
Total Depreciation Expense - Governmental Activities	$ 1,240,876
Business-Type Activities	
Medical Center	$ 1,259,767

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	$ 3,486
Road and Bridge	General	7,794
Road and Bridge	Ditch	509
Medical Center	Nonmajor Debt Service	138,902
Total Due To/From Other Funds		$ 150,691

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, 2008. A $245,117 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, 2008, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	$ 288,649	$ 1,865,745
Salaries	427,973	98,598
Payroll taxes and other	-	235,761
Contracts	34,857	-
Due to other governments	81,873	-
Paid time off	-	507,256
Total Payables	$ 833,352	$ 2,707,360

2. Construction Commitments

The County has active construction projects as of December 31, 2008. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Equipment	$ -	$ 97,618
Roads and bridges	291,631	38,711
Gravel crushing	5,374	732,910
Total Construction Commitments	$ 297,005	$ 869,239

3. Leases

Operating Leases

Total equipment rental expense for the Medical Center for the year ended December 31, 2008, was $164,491.

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, 2008.

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amount	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 Redwood River CWP Project	N/A	N/A	2.00	$ 52,647	$ 48,252

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
G.O. Hospital Bonds of 2000	2022	$90,000 - $225,000	4.75 - 5.30	$ 2,935,000	$ 2,320,000
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	2,277,859
Total G.O. Bonds and Revenue Notes				$ 8,150,000	$ 6,737,859

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Business-Type Activities

Year Ending December 31	Principal	Interest
2009	$ 302,044	$ 305,722
2010	2,391,358	237,943
2011	346,148	170,211
2012	361,439	155,052
2013	377,257	139,009
2014 - 2018	2,139,613	420,140
2019 - 2022	820,000	69,430
Total	$ 6,737,859	$ 1,497,507

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, 2008, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	$ 22,942	$ -	$ 22,942	$ -	$ -
Loans payable	46,318	6,329	4,395	48,252	4,484
Compensated absences	228,030	11,211	-	239,241	15,261
Governmental Activities Long-Term Liabilities	$ 297,290	$ 17,540	$ 27,337	$ 287,493	$ 19,745

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	$ 4,575,000	$ -	$ 115,000	$ 4,460,000	$ 120,000
Health Facilities Revenue Note, Series 2001	2,451,043	-	173,184	2,277,859	182,044
Business-Type Activities Long-Term Liabilities	$ 7,026,043	$ -	$ 288,184	$ 6,737,859	$ 302,044

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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. 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 2008 and 2009:

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
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, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2008	2007	2006
Public Employees Retirement Fund	$ 746,046	$ 587,448	$ 488,615
Public Employees Police and Fire Fund	78,756	71,795	58,150
Public Employees Correctional Fund	30,870	26,239	28,663

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 established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. 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, 2008, were:

	Employee	Employer
Contribution amount	$ 1,070	$ 1,070
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 $410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

   A. Contingent Liabilities

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

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

Lincoln-Pipestone Rural Water System

At December 31, 2008, Lincoln-Pipestone Rural Water System had $19,423,000 of general obligation bonds outstanding through 2033. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Lincoln-Pipestone Rural Water System (Continued)

In 2009, Nobles County issued two series of general obligation bonds totaling $19,415,000 on behalf of the Lincoln-Pipestone Rural Water System to finance the water expansion and internal improvements necessary for the delivery of water to its customers. Each of the participating counties adopted board resolutions to approve updated joint powers agreements to guarantee the payment of the bonds.

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 2008 was $55,833.

The Lincoln, Lyon, Murray, and Pipestone Public Health Service's 2008 financial report shows total net assets of $1,018,746 and an increase in net assets of $20,895.

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The following is a summary of the Board's annual financial report for the year ended December 31, 2007 (the latest available):

Total assets	$	1,683,591
Total liabilities		323,335
Total net assets		1,360,256
Total revenues		3,359,694
Total expenditures		2,947,615
Net change in net assets		412,079

The Board reported no long-term obligations at December 31, 2007.

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

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln County and Yellow Medicine County 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, 2008, are $19,516,143.

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Lincoln-Pipestone Rural Water System (Continued)

The Lincoln-Pipestone Rural Water System's 2008 financial report shows total net assets of $38,060,524, including unrestricted net assets of $17,709,824. The decrease in net assets for the year ended December 31, 2008, was $18,549.

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 2008, the County's contribution was $7,425.

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

Southwest Minnesota Regional Radio Board

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

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

During 2008, Pipestone County did not contribute to the Joint Powers Board.

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

C. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

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

Redwood-Cottonwood Rivers Control Area

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvements and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. During the year, the County paid $780 of the County levy to the RCRCA.

Pipestone County Economic Development Authority

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

Workforce Investment Act

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

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

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, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,541,153	$ 2,541,153	$ 2,310,273	$ (230,880)
Special assessments	190,000	190,000	205,540	15,540
Licenses and permits	11,610	11,610	12,515	905
Intergovernmental	1,459,579	1,459,579	1,874,620	415,041
Charges for services	1,205,204	1,205,204	1,212,253	7,049
Fines and forfeits	15,500	15,500	11,693	(3,807)
Investment earnings	385,000	385,000	350,189	(34,811)
Miscellaneous	245,269	245,269	367,150	121,881
Total Revenues	**$ 6,053,315**	**$ 6,053,315**	**$ 6,344,233**	**$ 290,918**
Expenditures				
Current				
General government				
Commissioners	$ 177,626	$ 177,626	$ 168,729	$ 8,897
Travel management	9,215	9,215	3,069	6,146
Courts	33,800	33,800	40,755	(6,955)
Law library	19,000	19,000	15,087	3,913
Administrator	106,100	106,100	106,752	(652)
Auditor	206,402	206,402	197,014	9,388
Treasurer	175,637	175,637	170,555	5,082
Accounting and auditing	32,000	32,000	70,412	(38,412)
Personnel	60,685	60,685	54,700	5,985
Data processing	87,975	87,975	81,519	6,456
Elections	64,515	64,515	38,295	26,220
Information technology	132,592	132,592	125,208	7,384
Attorney	182,502	182,502	184,165	(1,663)
Recorder	133,748	133,748	122,861	10,887
Assessor	189,625	189,625	179,051	10,574
Planning and zoning	35,876	35,876	33,447	2,429
Geographic information system	56,000	56,000	51,308	4,692
Buildings and plant	304,532	304,532	231,342	73,190
Fairgrounds	106,831	106,831	134,309	(27,478)
Veterans service officer	50,038	50,038	49,004	1,034
County-wide transportation	416,700	416,700	487,349	(70,649)
Other general government	334,974	334,974	426,984	(92,010)
Total general government	**$ 2,916,373**	**$ 2,916,373**	**$ 2,971,915**	**$ (55,542)**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,115,181	$ 1,115,181	$ 1,142,783	$ (27,602)
Dispatch	218,742	218,742	202,897	15,845
Coroner	3,000	3,000	1,173	1,827
County jail	383,246	383,246	355,925	27,321
Probation and parole	51,732	51,732	60,071	(8,339)
Emergency management	81,434	81,434	75,749	5,685
E-911 system	123,620	123,620	127,410	(3,790)
County ambulance	272,947	272,947	761,205	(488,258)
Total public safety	**$ 2,249,902**	**$ 2,249,902**	**$ 2,727,213**	**$ (477,311)**
Sanitation				
Recycling	**$ 162,251**	**$ 162,251**	**$ 171,029**	**$ (8,778)**
Health				
Nursing services	**$ -**	**$ -**	**$ 7,940**	**$ (7,940)**
Culture and recreation				
Senior citizens	$ 59,150	$ 59,150	$ 56,598	$ 2,552
Parks	4,400	4,400	3,863	537
Hiawatha trails	30,000	30,000	32,760	(2,760)
Other	47,960	47,960	48,172	(212)
Total culture and recreation	**$ 141,510**	**$ 141,510**	**$ 141,393**	**$ 117**
Conservation of natural resources				
Extension	$ 177,769	$ 177,769	$ 171,574	$ 6,195
Agricultural inspection	24,351	24,351	23,742	609
Other	231,553	231,553	417,179	(185,626)
Total conservation of natural resources	**$ 433,673**	**$ 433,673**	**$ 612,495**	**$ (178,822)**
Economic development				
Community development	**$ 63,165**	**$ 63,165**	**$ 63,065**	**$ 100**

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

Schedule 1
(Continued)

BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Intergovernmental				
Health	$ 66,000	$ 66,000	$ 55,833	$ 10,167
Culture and recreation	52,000	52,000	51,651	349
Total intergovernmental	**$ 118,000**	**$ 118,000**	**$ 107,484**	**$ 10,516**
Debt service				
Principal	**$ 27,942**	**$ 27,942**	**$ 27,337**	**$ 605**
Interest	**$ 937**	**$ 937**	**$ 1,878**	**$ (941)**
Total Expenditures	**$ 6,113,753**	**$ 6,113,753**	**$ 6,831,749**	**$ (717,996)**
Excess of Revenues Over (Under) Expenditures	**$ (60,438)**	**$ (60,438)**	**$ (487,516)**	**$ (427,078)**
Other Financing Sources (Uses)				
Proceeds from sale of assets	$ 3,500	$ 3,500	$ 4,050	$ 550
Loans issued	10,000	10,000	6,329	(3,671)
Total Other Financing Sources (Uses)	**$ 13,500**	**$ 13,500**	**$ 10,379**	**$ (3,121)**
Net Change in Fund Balance	**$ (46,938)**	**$ (46,938)**	**$ (477,137)**	**$ (430,199)**
Fund Balance - January 1	**6,269,744**	**6,269,744**	**6,269,744**	**-**
Fund Balance - December 31	**$ 6,222,806**	**$ 6,222,806**	**$ 5,792,607**	**$ (430,199)**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 2

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 592,173	$ 592,173	$ 516,427	$ (75,746)
Intergovernmental	2,587,257	2,587,257	2,460,772	(126,485)
Charges for services	135,000	135,000	90,993	(44,007)
Investment earnings	40,000	40,000	58,260	18,260
Miscellaneous	78,600	78,600	63,444	(15,156)
Total Revenues	**$ 3,433,030**	**$ 3,433,030**	**$ 3,189,896**	**$ (243,134)**
Expenditures				
Current				
Highways and streets				
Administration	$ 270,422	$ 270,422	$ 222,302	$ 48,120
Construction	1,424,359	1,424,359	1,271,930	152,429
Maintenance	1,138,928	1,138,928	1,062,628	76,300
Equipment and maintenance shops	393,851	393,851	386,088	7,763
Total highways and streets	**$ 3,227,560**	**$ 3,227,560**	**$ 2,942,948**	**$ 284,612**
Intergovernmental				
Highways and streets	205,470	205,470	210,739	(5,269)
Total Expenditures	**$ 3,433,030**	**$ 3,433,030**	**$ 3,153,687**	**$ 279,343**
Net Change in Fund Balance	**$ -**	**$ -**	**$ 36,209**	**$ 36,209**
Fund Balance - January 1	**2,667,095**	**2,667,095**	**2,667,095**	**-**
Increase (decrease) in reserved for inventories	**-**	**-**	**108,368**	**108,368**
Fund Balance - December 31	**$ 2,667,095**	**$ 2,667,095**	**$ 2,811,672**	**$ 144,577**

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

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 3

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 835,613	$ 835,613	$ 728,584	$ (107,029)
Intergovernmental	1,513,364	1,513,364	1,642,071	128,707
Charges for services	11,500	11,500	18,810	7,310
Fines and forfeits	-	-	800	800
Miscellaneous	211,500	211,500	166,520	(44,980)
Total Revenues	**$ 2,571,977**	**$ 2,571,977**	**$ 2,556,785**	**$ (15,192)**
Expenditures				
Current				
Human services				
Income maintenance	$ 975,725	$ 975,725	$ 945,769	$ 29,956
Social services	1,737,730	1,737,730	1,658,622	79,108
Total Expenditures	**$ 2,713,455**	**$ 2,713,455**	**$ 2,604,391**	**$ 109,064**
Net Change in Fund Balance	**$ (141,478)**	**$ (141,478)**	**$ (47,606)**	**$ 93,872**
Fund Balance - January 1	**996,359**	**996,359**	**996,359**	**-**
Fund Balance - December 31	**$ 854,881**	**$ 854,881**	**$ 948,753**	**$ 93,872**

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

1. General Budget Policies

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

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

2. Budget Basis of Accounting

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

3. Budget Amendments

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

4. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General Fund	$ 6,831,749	$ 6,113,753	$ 717,996

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SUPPLEMENTARY INFORMATION

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

DEBT SERVICE FUND

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 1

BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	Special Revenue Ditch		Debt Service Medical Facility Bonds		Total	
Assets						
Cash and pooled investments	$	31,117	$	179,934	$	211,051
Undistributed cash in agency funds		-		5,145		5,145
Taxes receivable						
Prior		-		8,227		8,227
Total Assets	**$**	**31,117**	**$**	**193,306**	**$**	**224,423**
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$	300	$	-	$	300
Due to other funds		509		138,902		139,411
Deferred revenue - unavailable		-		8,227		8,227
Total Liabilities	**$**	**809**	**$**	**147,129**	**$**	**147,938**
Fund Balances						
Unreserved						
Undesignated		30,308		46,177		76,485
Total Liabilities and Fund Balances	**$**	**31,117**	**$**	**193,306**	**$**	**224,423**

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, 2008

	Special Revenue	Debt Service	
	Ditch	Medical Facility Bonds	Total
Revenues			
Taxes	$ -	$ 245,341	$ 245,341
Special assessments	5	-	5
Total Revenues	**$ 5**	**$ 245,341**	**$ 245,346**
Expenditures			
Current			
Conservation of natural resources	809	-	809
Excess of Revenues Over (Under) Expenditures	**$ (804)**	**$ 245,341**	**$ 244,537**
Other Financing Sources (Uses)			
Transfers out	-	(245,117)	(245,117)
Net Change in Fund Balance	**$ (804)**	**$ 224**	**$ (580)**
Fund Balance - January 1	**31,112**	**45,953**	**77,065**
Fund Balance - December 31	**$ 30,308**	**$ 46,177**	**$ 76,485**

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, 2008

	Balance January 1	Additions	Deductions	Balance December 31
LINCOLN-PIPESTONE RURAL WATER SYSTEM				
Assets				
Cash and pooled investments	$ 20,114	$ 255,803	$ 264,836	$ 11,081
Liabilities				
Due to other governments	$ 20,114	$ 255,803	$ 264,836	$ 11,081
STATE				
Assets				
Cash and pooled investments	$ 17,086	$ 703,192	$ 695,886	$ 24,392
Liabilities				
Due to other governments	$ 17,086	$ 703,192	$ 695,886	$ 24,392
FORFEITED TAX SALE				
Assets				
Cash and pooled investments	$ 33,207	$ 490	$ 33,697	$ -
Liabilities				
Due to other governments	$ 33,207	$ 490	$ 33,697	$ -

PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Statement 3
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ 70,319	$ 9,458,586	$ 9,411,168	$ 117,737
Liabilities				
Due to other governments	$ 70,319	$ 9,458,586	$ 9,411,168	$ 117,737
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 140,726	$ 10,418,071	$ 10,405,587	$ 153,210
Liabilities				
Due to other governments	$ 140,726	$ 10,418,071	$ 10,405,587	$ 153,210

OTHER SCHEDULE

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 4

SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Shared Revenue		
State		
Highway users tax	$	2,066,383
County program aid		1,071,012
PERA rate reimbursement		14,804
Disparity reduction aid		71,647
Police aid		71,794
Enhanced 911		82,061
Market value credit		389,802
Total Shared Revenue	**$**	**3,767,503**
Reimbursement for Services		
Minnesota Department of Human Services	**$**	**188,212**
Payments		
Local		
Payments in lieu of taxes	**$**	**39,453**
Grants		
State		
Minnesota Department/Board of		
Corrections	$	18,767
Human Services		478,261
Natural Resources		38,526
Public Safety		37,825
Transportation		219,549
Water and Soil Resources		231,594
Veterans Affairs		5,606
Peace Officer Standards and Training Board		5,207
Pollution Control Agency		55,000
Total State	**$**	**1,090,335**
Federal		
Department of		
Agriculture	$	72,632
Transportation		231,295
Health and Human Services		573,228
Homeland Security		14,805
Total Federal	**$**	**891,960**
Total State and Federal Grants	**$**	**1,982,295**
Total Intergovernmental Revenue	**$**	**5,977,463**

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 5

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. SUMMARY OF AUDITOR'S RESULTS

A. Our report expresses unqualified opinions on the basic financial statements of Pipestone County.

B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pipestone County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.

C. No instances of noncompliance material to the financial statements of Pipestone County were disclosed during the audit.

D. A significant deficiency relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." It was not a material weakness.

E. The Auditor's Report on Compliance for the major federal award programs for Pipestone County expresses an unqualified opinion.

F. A finding relative to a major federal award program for Pipestone County was reported as required by Section 510(a) of OMB Circular A-133.

G. The major programs are:

Formula Grants for Other Than Urbanized Areas	CFDA #20.509
Title IV-D Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-3 Segregation of Duties

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

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

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

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

Client’s Response:

Pipestone County 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

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. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls. During our audit, we proposed audit adjustments, which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

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

We recommend that the County review internal controls currently in place and 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.

06-5 Accounting Policies and Procedures Manual

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

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

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

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

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

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

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

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

Client's Response:

The County has compiled some internal 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.

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.

<u>Client's Response</u>:

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

<u>PREVIOUSLY REPORTED ITEMS RESOLVED</u>

Preparation of Financial Statements (07-1)

The County lacked internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution

The County continues to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of each major fund and budgetary comparison schedules for 2008.

Adding New Vendors to the Integrated Financial System (07-3)

New vendors added to the Integrated Financial System were not regularly reviewed by an individual independent from the disbursement process.

Resolution

A procedure was implemented requiring new vendors to be reviewed by another employee in the department. The County Auditor reviews all new vendors, with the exception of Human Services vendors, which are reviewed by the Human Services Director.

Controls Within the Sheriff's Office (07-5)

The County Sheriff's Office did not segregate accounting duties or have a formal monitoring process to ensure all collections were properly handled.

Resolution

A procedure was implemented requiring the County Sheriff to review and approve collections in the department.

Computer Risk Management (06-2), Capital Assets Policies and Procedures (06-3), and Documenting and Monitoring Internal Controls (07-2)

The County had not addressed risks associated with its computer system or developed accounting policies and procedures related to capital assets, including policies on estimating and reconsidering useful lives, and documenting and monitoring internal controls.

Resolution

These findings were combined with Finding 06-5.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

08-1 Family Services Reporting (CFDA Nos. 93.563 and 93.778)

A portion of the salary for the Pipestone County Family Services Director is reimbursed by Nobles County for services provided. Pipestone County is reporting the entire amount of the Director's salary on two quarterly reports (Income Maintenance and Social Services) to the Minnesota Department of Human Services. The County is being reimbursed by the Department of Human Services and Nobles County for the Director's salary.

We recommend Pipestone County contact the Department of Human Services to determine if prior quarterly reports should be restated. We further recommend the County include only Pipestone County's portion of the salary expense on future quarterly reports.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Jenny Vander Plaats

Corrective Action:

Pipestone County has resubmitted prior quarterly reports, and current quarterly reports only include Pipestone County's portion of the salary expense.

Completion Date:

This has been completed.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Vehicle Leases (07-6)
Individual leases were not approved by the County Board, and authorization for some of the leased vehicles was not noted in the Board minutes.

Resolution
New vehicle leases are now taken to the County Board for authorization and approval.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-7 Disaster Recovery Plan

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

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

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

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

Client's Response:

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

REBECCA OTTO
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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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 9, 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 over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 99-3, 06-1, 06-5, and 07-4 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 over financial reporting that might be significant deficiencies or material weaknesses. However, we believe none of the significant deficiencies described above is 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.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment for consideration. We believe the recommendation to be of benefit to Pipestone County, and it is reported for that purpose.

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

This report is intended solely for the information and use of the Board of County Commissioners, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 9, 2009

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

Board of County Commissioners
Pipestone County

Compliance

We have audited the compliance of Pipestone County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Pipestone County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Pipestone County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of Pipestone County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 9, 2009. We did not audit the financial statements of the Medical Center Enterprise Fund. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed here, insofar as it relates to amounts included for the Medical Center Enterprise Fund, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pipestone County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 9, 2009

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

Schedule 6

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for Food Stamp Program	10.561	**$**	**72,632**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	75,045
Formula Grants for Other Than Urbanized Areas	20.509		155,388
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		862
Total U.S. Department of Transportation		**$**	**231,295**
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State			
Help America Vote Act Requirements Payments	90.401	**$**	**2,972**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Temporary Assistance for Needy Families (TANF)	93.558	$	82,892
Child Support Enforcement	93.563		156,868
Refugee and Entrant Assistance	93.566		197
Child Care Cluster			
Child Care and Development Block Grant	93.575		7,003
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		1,564
Child Welfare Services - State Grants	93.645		6,848
Foster Care - Title IV-E	93.658		17,812
Social Services Block Grant	93.667		79,180
Chafee Foster Care Independence Program	93.674		8,626
Children's Health Insurance Program	93.767		198
Medical Assistance Program	93.778		211,294
Block Grants for Community Mental Health Services	93.958		746
Total U.S. Department of Human Services		**$**	**573,228**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	97.042	**$**	**14,805**
Total Federal Awards		**$**	**894,932**

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

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PIPESTONE COUNTY
PIPESTONE, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. Reporting Entity

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

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Pipestone County considers all revenues to be available if collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	$	891,960
Help America Vote Act Requirements Payments grant monies unspent in 2006 and expended in 2008 (CFDA #90.401)		2,972
Expenditures per Schedule of Expenditures of Federal Awards	$	894,932

4. Passed Through to Subrecipients

During 2008, the County did not pass any federal money to subrecipients.

5. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.