Financial Statements
December 31, 2017

Pipestone County

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County Board

Name	Position	District	Term Expires
Daniel Wildermuth	Chairperson	District 4	2018
Luke Johnson	Board Member	District 1	2020
Les Nath	Board Member	District 2	2018
Bruce Kooiman	Board Member	District 3	2020
Chris Hollingsworth	Board Member	District 5	2020

Independent Auditor's Report

To the County Board
Pipestone County
Preston, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County (the County) as of and for the year ended December 31, 2017, including the Medical Center as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of December 31, 2017, including the Medical Center as of June 30, 2017, and the respective changes in financial position and, where applicable, cashflow thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements. The introductory section and combining fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the financial statements.

The combining fund schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report September 27, 2018, on our consideration of the 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 solely 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 effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Eide Bailly LLP

Mankato, Minnesota
September 27, 2018

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	$ 8,582,187	$ 4,659,690	$ 13,241,877
Investments	1,219,000	-	1,219,000
Short-term investments	-	10,642,530	10,642,530
Receivables			
Delinquent taxes receivable	83,305	-	83,305
Patient and resident, net of estimated uncollectibles of $1,067,000 in 2017 and $990,000 in 2016	-	3,929,442	3,929,442
Due from joint operating agreement partner	-	934,503	934,503
Estimated third-party payor settlements	-	392,000	392,000
Due from other funds	-	29,170	29,170
Other receivables	679,323	162,345	841,668
Inventories	189,416	835,806	1,025,222
Prepaid expenses	-	570,363	570,363
Due from other governments	3,690,993	-	3,690,993
Assets restricted for indenture agreements	-	526,987	526,987
Investment in joint venture	-	340,891	340,891
Capital Assets, net of accumulated depreciation			
Land	1,186,361	1,277,445	2,463,806
Construction in progress	-	200,966	200,966
Right-of-way	1,267,283	-	1,267,283
Historical treasures	35,924	-	35,924
Buildings and building improvements	4,716,808	-	4,716,808
Land improvements	153,873	-	153,873
Machinery and equipment	2,749,839	38,555,016	41,304,855
Infrastructure	43,175,832	-	43,175,832
Other Assets	-	34,792	34,792
Total assets	67,730,144	63,091,946	130,822,090
Deferred Outflows of Resources			
Pension related deferred outflows	2,760,941	4,532,892	7,293,833
Liabilities			
Accounts payable	316,234	1,635,454	1,951,688
Contracts payable	208,023	-	208,023
Accrued liabilities	254,952	1,081,316	1,336,268
Internal balances	18,089	-	18,089
Due to other governments	69,021	-	69,021
Noncurrent liabilities			
Due within one year - bonds, loans, compensated absences, premium on bonds	57,560	843,348	900,908
Due in more than one year - bonds, loans, compensated absences, premium on bonds	349,587	24,611,192	24,960,779
Due in more than one year - net pension liability	4,600,796	11,773,281	16,374,077
Total liabilities	5,874,262	39,944,591	45,818,853
Deferred Inflows of Resources			
Pension related deferred inflows	2,435,146	1,254,833	3,689,979
Net Position			
Net investment in capital assets	52,878,773	14,499,863	67,378,636
Restricted for specific purposes	2,690,766	-	2,690,766
Unrestricted	6,612,138	11,925,551	18,537,689
Total net position	$ 62,181,677	$ 26,425,414	$ 88,607,091

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General government	$ 3,944,942	$ 600,024	$ 588,162	$ (2,756,756)	$ -	$ (2,756,756)
Public safety	3,622,748	1,061,348	190,912	(2,370,488)	-	(2,370,488)
Public works	4,657,147	207,002	6,050,543	1,600,398	-	1,600,398
Sanitation	273,561	-	-	(273,561)	-	(273,561)
Human services	1,207,024	-	32,959	(1,174,065)	-	(1,174,065)
Health	106,755	-	-	(106,755)	-	(106,755)
Culture, recreation, and education	126,398	-	-	(126,398)	-	(126,398)
Conservation and development	559,827	3,900	258,832	(297,095)	-	(297,095)
Economic development	7,058	-	-	(7,058)	-	(7,058)
Interest and fiscal charges	6,881	-	-	(6,881)	-	(6,881)
Total governmental activities	14,512,341	1,872,274	7,121,408	(5,518,659)	-	(5,518,659)
Business-type activities						
Medical Center	29,125,784	27,506,736	20,240	-	(1,598,808)	(1,598,808)
Total	$ 43,638,125	$ 29,379,010	$ 7,141,648	(5,518,659)	(1,598,808)	(7,117,467)
General Revenues						
Property taxes, levied for general purposes				5,376,842	-	5,376,842
Property taxes, levied for human services				1,154,342	-	1,154,342
Other taxes				500,320	-	500,320
Grants and contributions not restricted to specific programs				203,769	-	203,769
Investment income				124,690	82,813	207,503
Miscellaneous				867,953	-	867,953
Minority interest				-	973,817	973,817
Transfers				(202,779)	222,636	19,857
Total general revenues and transfers				8,025,137	1,279,266	9,304,403
Change in net position				2,506,478	(319,542)	2,186,936
Net Position - Beginning				59,675,199	26,744,956	86,420,155
Net Position - Ending				$ 62,181,677	$ 26,425,414	$ 88,607,091

	General Fund	Special Revenue Roads and Bridges	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	$ 5,272,801	$ 2,023,813	$ 1,032,399	$ 8,329,013
Undistributed cash in agency funds	158,904	42,867	51,403	253,174
Investments	44,000	1,175,000	-	1,219,000
Receivables:				
Taxes - delinquent	47,336	14,709	21,260	83,305
Special assessments - delinquent	14,032	-	634	14,666
Special assessments - noncurrent	307,909	-	-	307,909
Accounts	98,097	47,886	-	145,983
Interest	34,182	2,367	-	36,549
Loans	-	-	174,216	174,216
Due from other governments	100,610	3,590,383	-	3,690,993
Due from other funds	103	14,037	-	14,140
Inventories	-	189,416	-	189,416
Total assets	6,077,974	7,100,478	1,279,912	14,458,364
Liabilities				
Accounts payable	170,048	145,711	475	316,234
Contracts payable	-	208,023	-	208,023
Accrued liabilities	202,030	52,922	-	254,952
Due to other governments	68,390	631	-	69,021
Due to other funds	14,037	103	18,089	32,229
Total liabilities	454,505	407,390	18,564	880,459
Deferred Inflows of Resources				
Unavailable revenues	384,252	3,155,286	21,894	3,561,432
Fund Balances				
Nonspendable	6,523	189,416	174,216	370,155
Restricted	319,672	2,090,515	280,579	2,690,766
Assigned	1,733,682	1,257,871	784,659	3,776,212
Unassigned	3,179,340	-	-	3,179,340
Total fund balances	5,239,217	3,537,802	1,239,454	10,016,473
Total liabilities, deferred inflows of resources and fund balances	$ 6,077,974	$ 7,100,478	$ 1,279,912	$ 14,458,364

Total fund balance - governmental funds		$ 10,016,473
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in government activities are not financial resources, and therefore, are not reported in the fund statements. Capital assets at year end consist of:		
Capital assets	$ 78,969,250	
Accumulated depreciation	(25,683,330)	53,285,920
Revenues that are not available to pay current liabilities are reported as deferred inflows of resources in the fund financial statements and are recognized as revenue when earned in the government-wide financial statements. Notes receivable are also off set by deferred inflows of resources in the fund financial statements. These types of deferred inflows of resources at year end consist of:		
Delinquent Taxes		3,561,432
Long-term liabilities, including bond and notes payable, are not due in the current period and, therefore, are not reported in the fund statements. Long-term liabilities at year end consist of:		
Compensated absences	(266,697)	
Loans payable	(140,450)	
Net pension liability	(4,600,796)	(5,007,943)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds		
Deferred outflows of resources	2,760,941	
Deferred inflows of resources	(2,435,146)	325,795
Total net position - governmental activities		$ 62,181,677

	General Fund	Special Revenue Roads and Bridges	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	$ 3,992,615	$ 1,093,463	$ 1,363,171	$ 6,449,249
Special Assessments	276,210	-	9,878	286,088
Intergovernmental	1,101,055	5,981,832	32,959	7,115,846
Licenses and permits	12,570	-	-	12,570
Fines, forfeitures and penalties	12,044	-	-	12,044
Public charges for services	1,747,775	200,547	-	1,948,322
Investment income	109,763	10,561	4,367	124,691
Miscellaneous	875,599	234,536	-	1,110,135
Total revenues	8,127,631	7,520,939	1,410,375	17,058,945
Expenditures				
Current				
General government	3,627,615	-	-	3,627,615
Public safety	3,302,641	-	-	3,302,641
Highways and streets	-	6,690,740	-	6,690,740
Sanitation	264,341	-	-	264,341
Human services	-	-	1,166,344	1,166,344
Health	103,157	-	-	103,157
Culture and recreation	122,138	-	-	122,138
Conservation	535,477	-	5,483	540,960
Economic development	6,820	-	-	6,820
Intergovernmental	-	327,010	-	327,010
Debt service				
Principal	29,781	-	-	29,781
Interest and fiscal charges	4,412	-	-	4,412
Total expenditures	7,996,382	7,017,750	1,171,827	16,185,959
Excess of revenues over expenditures	131,249	503,189	238,548	872,986
Other Financing Sources (Uses)				
Debt issued	2,469	-	-	2,469
Transfers out	-	-	(202,779)	(202,779)
Total other financing sources (uses)	2,469	-	(202,779)	(200,310)
Net change in fund balances	133,718	503,189	35,769	672,676
Fund Balances - Beginning of Year	5,105,499	3,170,366	1,203,685	9,479,550
Change in reserve for inventory	-	(135,753)	-	(135,753)
Fund Balances - End of Year	$ 5,239,217	$ 3,537,802	$ 1,239,454	$ 10,016,473

Net change in fund balances - total governmental funds	$	672,676
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of net position the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities:		
Some current expenditures are capitalized		4,268,850
Depreciation is reported in the government-wide statements		(1,851,813)
Loss on disposal of capital assets is reported in the government-wide statements		(214,304)
Taxes and other receivables that are not available to pay current liabilities are reported as deferred inflows of resources in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements. This is the effect of those deferred inflows of resources.		295,937
Debt issued provides current financial resources in the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Debt issued		(2,469)
Principal payments		29,781
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund financial statements.		
Change in compensated absences		6,910
Change in net pension liability		2,745,213
Change in deferred pension outflows		(1,581,382)
Change in deferred pension inflows		(1,727,168)
Accrued interest expense		
The change in inventory is reported as a change in fund balance in the fund financial statements, but is a change in expense in the government-wide statements.		(135,753)
Change in net position of government activities	$	2,506,478

Assets	
Current Assets	
Cash and pooled investments	$ 4,659,690
Short-term investments	10,642,530
Patient and resident service receivables, net	3,929,442
Due from joint operating agreement partner	934,503
Estimated third-party payor settlements	392,000
Due from other funds	29,170
Other receivables	162,345
Prepaid items	570,363
Inventories	835,806
Total current assets	22,155,849
Noncurrent Assets	
Restricted by indenture agreements	526,987
Investment in joint venture	340,891
Capital assets - net	40,033,427
Other assets	34,792
Total noncurrent assets	40,936,097
Total assets	63,091,946
Deferred Outflows of Resources	
Deferred pension outflows	4,532,892
Liabilities	
Current Liabilities	
Current maturities of long-term debt	843,348
Accounts payable	
Trade	1,029,443
Construction	606,011
Accrued liabilities	
Compensated absences	613,718
Salaries and wages	323,010
Payroll taxes and other	71,213
Interest	73,375
Total current liabilities	3,560,118
Noncurrent liabilities	
Net pension liability	11,773,281
Long-term debt, less current maturities	24,611,192
Total noncurrent liabilities	36,384,473
Total liabilities	39,944,591
Deferred Inflows of Resources	
Deferred pension inflows	1,254,833
Net Position	
Net investment in capital assets	14,499,863
Unrestricted	11,925,551
Total net position	$ 26,425,414

Operating Revenues	
Net patient and resident service revenue, net	$ 26,548,406
Miscellaneous	958,330
Total operating revenues	27,506,736
Operating Expenses	
Salaries and wages	9,148,636
Employee benefits	3,856,086
Purchased services	6,890,147
Supplies and other expenses	6,817,943
Depreciation and amortization	1,897,742
Total operating expenses	28,610,554
Operating Loss	(1,103,818)
Nonoperating Revenues (Expenses)	
Investment income	82,813
Noncapital grants and contributions	20,240
Joint operating agreement partner's share of income	973,817
Interest expense	(515,230)
Total nonoperating revenues, net	561,640
Loss before transfers	(542,178)
Transfer in	222,636
Change in net position	(319,542)
Net Position, Beginning of Year	26,744,956
Net Position, Ending of Year	$ 26,425,414

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	$ 25,746,074
Payments to employees for services	(12,262,007)
Payments to suppliers and others	(13,678,028)
Other receipts and payments, net	957,907
Net Cash from Operating Activities	763,946
Cash Flows from Noncapital Financing Activities	
Noncapital grants and contributions	242,876
Cash Flows used for Capital and Related Financing Activities	
Purchase of capital assets	(9,841,292)
Proceeds from the issuance of long-term debt	17,523,896
Principal paid on long-term debt	(18,984,485)
Interest paid on long-term debt, net of capitalized interest	(531,972)
Net Cash used for Capital and Related Financing Activities	(11,833,853)
Cash Flows from Investing Activities	
Sales and maturities of investments	5,509,155
Investment income	82,813
Capital contributed by joint operating agreement partner	898,695
Distribution from joint venture	129,392
Net Cash from Investing Activities	6,620,055
Net Change in Cash and Cash Equivalents	(4,206,976)
Cash and Cash Equivalents, Beginning of Year	9,393,653
Cash and Cash Equivalents, End of Year	$ 5,186,677
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	$ 4,659,690
Noncurrent cash	526,987
Total cash and cash equivalents	$ 5,186,677

Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$	(1,103,818)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation		1,897,742
Provision for bad debts		542,337
Non-cash patronage allocation		(140,567)
Change in assets and liabilities		
Receivables		(1,345,092)
Supplies		80,025
Prepaid expenses		(19,166)
Accounts payable		109,770
Net Pension liability		4,087,605
Deferred outflows of resources		(2,602,094)
Deferred inflows of resources		(791,013)
Accrued expenses		48,217
Net Cash from Operating Activities	$	763,946
Supplemental Disclosure of Noncash Investing and Financing Activities		
Accounts payable - construction in progress	$	606,011

	Agency Funds
Assets	
Cash and investments	$ 325,860
Liabilities	
Due to other governments	$ 325,860

Note 1 - Summary of Significant Accounting Policies

Pipestone County (the County) was established May 23, 1857. The accounting policies of Pipestone County, Minnesota (the County) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Pipestone County is an organized County having the powers, duties, and privileges granted counties by Minn. Statute ch. 373. 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 January meeting.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The County has one blended component unit, the Pipestone County Medical Center, which provides acute inpatient and outpatient care to the County area. County Commissioners are the members of the Pipestone County Medical Center Board, and a financial benefit/burden relationship exists. The Pipestone County Medical Center reports on a fiscal year-end of June 30th. The fiscal year of July 1, 2016 to June 30, 2017, is presented in these financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the fiduciary fund financial statements. 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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

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.

The government reports the following major governmental funds:

- **General Fund** – accounts for the County's primary operating activities. It is used to account for and report all financial resources except those required to be accounted for and reported in another fund.

- **Road and Bridge Special Revenue Fund** – special revenue fund that accounts restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The government reports the following major enterprise fund:

- **Medical Center Fund** – accounts for the operation of the Medical Center, a blended component unit of Pipestone County. The Pipestone County Medical Center operates a 25-bed acute care hospital located in Pipestone, Minnesota, and medical clinics located in Pipestone, Minnesota, and other area communities.

- **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.

    - **Lincoln-Pipestone Rural Water System Fund** – accounts for the collection and disbursement of funds to the Lincoln-Pipestone Rural Water System.

    - **State Revenue Fund** – accounts for the state's share of property taxes and state fees collected by the County.

    - **Taxes and Penalties Fund** – accounts for property taxes collected for the County and on behalf of school County’s and local municipalities.

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

1. Cash and Investments

Cash balances of the County’s funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits, as well as short-term investments with an original maturity date within three months of the date acquired by the County.

The County has adopted an investment policy. That policy follows state statutes for allowable investments. The policy also follows state statutes to address custodial credit risk by requiring the County Treasurer to monitor collateral to ensure it is held in safekeeping by a third party and it is at least 10% greater than the amount on deposit. The policy also requires that County deposits be held in qualifying financial institutions within the County, and that they be diversified to reduce the concentration of credit risk.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of municipal accounting funds is allocated to the general fund. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit.

The 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 MN Statues § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is essentially the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". lnterfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, special assessments, and state and federal aids. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The County has determined that no portion of receivables is expected to be uncollectible, and therefore no allowance for uncollectible receivables have been provided.

Property Taxes. The County levies and collects property taxes and special assessments for all governmental units within the County. Property tax collections and payments to other governmental units are accounted for in agency funds. Property taxes and special assessments are billed to individual property owners within the County annually, and for the most part, are due and payable in January but may be paid in two equal installments on or before May 15 and October 15 without penalty. The County is required to distribute the collections to the various governmental units three times each year on a schedule prescribed in MN Statute 276.

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. No allowance for uncollectible delinquent taxes has been provided because of the County's demonstrated ability to recover any losses through the sale of the applicable property.

Special assessment receivables consist of delinquent special assessments payable in the years 2011 through 2017 and noncurrent special assessments payable in 2018 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

All enterprise fund receivables are shown net of an allowance for uncollectibles. The allowance for doubtful accounts for patient and resident receivables was $1,067,000 at June 30, 2017.

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The Medical Center does not assess interest on delinquent accounts.

The carrying amount of patient receivable is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient 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 due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

3. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories in proprietary fund are stated at lower cost (first-in, first-out) or market and 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.

4. Restricted Assets

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

5. Capital Assets

Major outlays for capital assets and improvements are capitalized as projects are constructed.
Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost per the schedule below. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Governmental activities	$ 10,000
Business-type activities	5,000

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.

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Governmental Activities	
Land improvements	20-35 Years
Buildings and building improvements	25-60 Years
Public domain infrastructure	15-70 Years
Machinery and equipment	3-15 Years
Business-Type Activities	
Land improvements	5-30 Years
Buildings and fixed equipment	5-40 Years
Major movable equipment	5-20 Years

The Medical Center capitalized as part of the costs of acquiring capital assets the interest cost on borrowed funds during the period of construction of capital assets. Capitalized interest was $183,486 for the year ended June 30, 2017.

6. Investment in Joint Venture

The Pipestone County Medical Center reports its investments in Central Minnesota Diagnostics, Inc. (CMDI) on the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Medical Center's share of undistributed earnings or losses and distributions.

7. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position or governmental balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position or fund balance that applies to a future period and so will *not* be recognized as an outflow (expense/expenditure) until then. The County has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position or the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position or fund balance that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The County has two items that qualify for reporting in this category. *Unavailable revenue* arises only under the modified accrual basis of accounting. Accordingly, *unavailable revenue* is only reported on the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amount becomes available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

8. Compensated Absences

Under terms of employment, employees are granted sick leave and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at December 31, 2017 are determined on the basis of current salary rates and include salary related payments.

9. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Medical Center Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Non-exchange revenues, including grants and contributions received for purposes other than capital asset acquisition, and investment earnings are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

12. Net Patient Service Revenue

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

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

Medicare - The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most acute care services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2013. Clinical services are paid on a cost basis or a fixed fee schedule.

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

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

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

Revenue from the Medicare and Medicaid programs and Blue Cross accounted for approximately 43%, 13%, and 16% of the Medical Center's net patient service revenue for the year ended June 30, 2017. Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for the years ended June 30, 2017, increased by approximately $13,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements.

13. Charity Care

The Medical Center provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Medical Center does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was $205,000 for the year ended June 30, 2017, calculated by multiplying the ratio of cost to gross charges for the Medical Center by the gross uncompensated charges associated with providing charity care to its patients

14. Grants and Contributions

The Medical Center may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues (less than) in excess of expenses.

15. Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Medical malpractice insurance is discussed in the notes to the financial statements of the Medical Center.

16. Fund Balance and Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. It is the County's policy to spend restricted net position before unrestricted net position. Fund balance is reported in classifications that describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as prepaid items) or are required to be maintained intact.

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

- Committed fund balance—amounts constrained to specific purposes by the County itself, using its highest level of decision-making authority (i.e., County Board). To be reported as committed, amounts cannot be used for any other purpose unless the County takes the same highest level action to remove or change the constraint.

- Assigned fund balance— Includes spendable fund balance amounts that are intended to be used for specific purposes that are not considered restricted or committed. Fund balance may be assigned through the following: 1) The County Board can assign amounts for a specific purpose. 2) All remaining positive spendable amounts in governmental funds, other than the general fund, that are neither restricted nor committed. Assignments may take place after the end of the reporting period.

- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The County considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the County would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The County Board has approved a fund balance policy to maintain unassigned fund balance for the general fund of approximately 35 to 50 percent of fund operating expenditures.

17. Use of Estimates

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

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year end. The actual revenues, expenditures, and transfers for the year ended December 31, 2017, have been compared to the County's budget for the year where applicable. Variances which are in parentheses are unfavorable and indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Administration can authorize transfer of budgeted amounts within any fund per state statutes. Any revisions that alter total expenditures of any fund must be approved by the County Board.

Budgetary control is maintained at the object of expenditure category level within each activity, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the County Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (a) adequate funds were appropriated; (b) the expenditure is still necessary; and (c) funds are available. Budgeted amounts are as originally adopted or as amended by the County Board.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

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

Government-wide statement of net position		
Governmental activities		
Cash and pooled investments	$	8,582,187
Investments		1,219,000
Business-type activities		
Cash and pooled investments		4,659,690
Short-term investments		10,642,530
Assets restricted by indenture agreements		526,987
Statement of fiduciary net position		
Cash and pooled investments		325,860
	$	25,956,254

In accordance with Minnesota Statutes, the County maintains deposits at those depository banks authorized by the County Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the County Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk–Deposits. Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2017, none of the County's bank balances were exposed to custodial credit risk.

2. Investments

Credit and Interest Rate Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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. Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. In establishing specific diversification strategies, the County policy states portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

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 the investment or collateral securities in the possession of than outside party. The County's policy states the Chief Financial Officer or appointed person shall, after careful study of potential additional costs to the County, attempt to structure all investments and deposits so that the custodial risk is in accordance with GASB Statement 3 and only to the extent there is sufficient Security Investor Protection Corporation (SIPC) and excess SIPC coverage available. At December 31, 2017, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk – The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that portfolio maturities shall be staggered to avoid undue concentration of assets in a specific sector. The maturities selected shall provide for stability of income and reasonable liquidity.

The following table presents the County's investment balances at December 31, 2017.

		Investment Maturities (in Years)		
Investment Type	Fair Value	< 1	1 - 5	6 - 10
U.S. Government Securities	$ 650,000	$ 650,000	$ -	$ -
Certificates of Deposit	11,211,530	1,384,875	9,826,655	55,000
Total investments	$ 11,861,530	$ 2,034,875	$ 9,826,655	$ 55,000

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quote prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The County has the following recurring fair value measurements as of December 31, 2017:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
Investments by fair value level				
U.S. government securities	$ 500,000	$ -	$ 500,000	$ -
U.S. agencies	150,000	-	150,000	-
Negotiable certificates of deposit	11,211,530	-	11,211,530	-
Total Investments Included in the Fair Value Hierarchy	$ 11,861,530	$ -	$ 11,861,530	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	$ 39,000			

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

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request.

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

B. Receivables

Governmental funds report unearned revenue in connection with receivables for revenues that have been received but unearned and report unavailable revenue in connection with receivables for revenues that have been earned but not received. Both items are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of unavailable revenue reported in the governmental funds were as follows:

Taxes	$ 83,304
Grants	3,155,285
Special assessments	322,575
Interest	268
	$ 3,561,432

In 2013, Pipestone County executed two promissory notes totaling $197,000 in order for Southwestern Mental Health Center, Inc. to complete a building project. The notes have a payback of 30 years and a 2.75 percent interest rate. The balance outstanding as of December 31, 2017 totaled $174,216.

Of the receivable amounts, $243,525 of special assessments receivable and $169,024 of loans receivable are not scheduled for collection during the subsequent year.

C. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

Governmental Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 1,138,971	$ 47,390	$ -	$ 1,186,361
Right-of-way	1,267,283	-	-	1,267,283
Construction in progress	8,850	-	8,850	-
Historical treasures	35,924	-	-	35,924
Total Capital Assets, Not Being Depreciated	2,451,028	47,390	8,850	2,489,568
Capital Assets, Being Depreciated				
Buildings and building improvements	7,945,470	341,850	130,235	8,157,085
Land improvements	296,319	15,167	-	311,486
Machinery and equipment	6,235,788	557,326	801,811	5,991,303
Infrastructure	58,703,841	3,315,967	-	62,019,808
Total Capital Assets, Being Depreciated	73,181,418	4,230,310	932,046	76,479,682
Less Accumulated Depreciation for:				
Buildings and building improvements	3,367,390	146,294	73,407	3,440,277
Land improvements	147,163	10,450	-	157,613
Machinery and equipment	3,431,417	454,382	644,335	3,241,464
Infrastructure	17,603,289	1,240,687	-	18,843,976
Total Accumulated Depreciation	24,549,259	1,851,813	717,742	25,683,330
Total Capital Assets, Being Depreciated, Net	48,632,159			50,796,352
Governmental Activities Capital Assets, Net	$ 51,083,187			$ 53,285,920

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

Governmental Activities:	
General government	$ 197,714
Public safety	204,918
Public works	1,449,181
	$ 1,851,813

Business-type Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 1,277,445	$ -	$ -	$ 1,277,445
Construction in progress	6,085,146	8,355,449	14,239,629	200,966
Total Capital Assets, Not Being Depreciated	7,362,591	8,355,449	14,239,629	1,478,411
Capital Assets, Being Depreciated				
Buildings	28,833,899	843,621	-	29,677,520
Land improvements	767,220	11,557,762	-	12,324,982
Fixed equipment	2,831,633	21,646	-	2,853,279
Major movable equipment	8,466,918	1,816,600	-	10,283,518
Total Capital Assets, Being Depreciated	40,899,670	14,239,629	-	55,139,299
Less Accumulated Depreciation for:				
Buildings	5,913,833	50,860	-	5,964,693
Land improvements	293,233	1,248,784	-	1,542,017
Fixed equipment	2,051,667	100,275	-	2,151,942
Major movable equipment	6,427,808	497,823	-	6,925,631
Total Accumulated Depreciation	14,686,541	1,897,742	-	16,584,283
Total Capital Assets, Being Depreciated, Net	26,213,129			38,555,016
Business-Type Activities Capital Assets, Net	$ 33,575,720			$ 40,033,427

Construction in progress at June 30, 2017 consists of expenditures for a Medical Center remodeling project. The Medical Center did not have any commitments for this project.

Depreciation expense totaled $1,897,742 for the Medical Center for the year ended December 31, 2017.

D. Long-Term Debt

Changes in Long-Term Liabilities. During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Loans payable	$ 167,762	$ 2,469	$ 29,781	$ 140,450	$ 26,957
Compensated absences	273,607	233,391	240,301	266,697	30,603
Total governmental activities long-term liabilities	$ 441,369	$ 235,860	$ 270,082	$ 407,147	$ 57,560
Business-Type Activities					
Bonds payable					
Medical Center Revenue Bonds	25,065,000	-	$ 18,065,000	$ 7,000,000	$ 120,000
G.O. Refunding Bonds, Series 2013A	1,170,000	-	185,000	985,000	190,000
Plus: Unamortized premium	42,638	-	16,868	25,770	16,868
Total bonds payable	26,277,638	-	18,266,868	8,010,770	326,868
Other long-term debt					
Health Facilities Revenue Note, Series 2001	637,491	-	257,028	380,463	380,463
USDA direct loan	-	17,065,678	2,371	17,063,307	152,885
Total other long-term debt	637,491	17,065,678	259,399	17,443,770	533,348
Total long-term liabilities	$ 26,915,129	$ 17,065,678	$ 18,526,267	$ 25,454,540	$ 860,216

1. General Obligation Debt and Certificates of Participation

General obligation debt payable for the County as of December 31, 2017, consists of the following:

	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 12/31/2017
Governmental Activities					
Loans Payable					
2009 Redwood River CWP Project	2009	2021	2.00%	$ 6,783	$ 2,876
2011 Rock River Septic Loan Program	2011	2022	2.00%	105,501	62,003
2011 Pipestone County Ag Best Management Loan Program	2011	2020	N/A	80,683	37,604
2013 Rock River Septic Loan Program	2013	2026	2.00%	37,306	37,967
Total loans payable				$ 230,273	$ 140,450
Business-Type Activities					
Medical Center Revenue Bonds, Series 2014A	2014	2043	4.70%	$ 6,300,000	$ 6,300,000
Medical Center Revenue Bonds, Series 2014B	2014	2043	3.44%	700,000	700,000
G.O. Hospital Refunding Bonds, Series 2013A	2013	2022	2.25%	1,562,639	985,000
Health Facilities Revenue Note, Series 2001	2001	2018	Various	3,075,000	380,463
USDA Direct Loan	2017	2056	2.38%	17,065,678	17,063,307
				28,703,317	25,428,770
Plus: unamortized premium					25,770
Total long term debt				$ 28,703,317	$ 25,454,540

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

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

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

During the year ended June 30, 2017, the Medical Center obtained $17,065,678 in General Obligation Direct Loan proceeds from USDA to pay off the Series 2014 Bond Anticipation Notes. The USDA loan has an interest rate of 2.375% for 40 years to December of 2056. .

Annual debt service requirements to maturity for general obligation debt as are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 26,957	$ 1,982	$ 843,348	$ 767,916	$ 870,305	$ 769,898
2019	27,624	1,677	630,157	743,230	657,781	744,907
2020	24,978	1,367	642,749	725,220	667,727	726,587
2021	20,452	1,050	665,526	711,243	685,978	712,293
2022	15,638	731	683,493	682,815	699,131	683,546
2023 - 2027	24,801	1,016	2,643,974	3,174,374	2,668,775	3,175,390
2028 - 2032	-	-	3,114,533	2,714,220	3,114,533	2,714,220
2033 - 2037	-	-	3,659,722	2,163,336	3,659,722	2,163,336
2038 - 2042	-	-	4,313,350	1,503,108	4,313,350	1,503,108
2043 - 2047	-	-	4,199,716	732,606	4,199,716	732,606
2048 - 2052	-	-	2,501,936	315,877	2,501,936	315,877
2053 - 2056	-	-	1,530,266	86,396	1,530,266	86,396
Totals	$ 140,450	$ 7,823	$ 25,428,770	$ 14,320,341	$ 25,569,220	$ 14,328,164

In accordance with Minnesota Statutes, net indebtedness of the County may not exceed 3% of the market value of taxable property within the County's jurisdiction. The debt limit as of December 31, 2017 was $65,107,741.

2. Operating Lease

The Medical Center leases certain equipment under various operating leases with terms of less than one year or cancelable upon written notice. Total lease expense for the year ended June 30, 2017, for all operating leases was $365,980.

E. Interfund Activity

Interfund balances as of December 31, 2017 are as follows:

	Due to	Due from
General fund	$ 14,037	$ 103
Roads and Bridges	103	14,037
Nonmajor governmental funds	18,089	-
Medical Center enterprise fund	-	29,170
	$ 32,229	$ 43,310

The amount of due to other funds does not agree to the due from other funds due to payments of $11,081 made between the Medical Center’s year-end of June 30, 2017 and the County’s year-end of December 31, 2017.

During the year ended December 31, 2017, the Medical Facility Debt Service fund had a transfer out of $202,779. During the year ended June 30, 2017, the Medical Center had a transfer in of $222,636. The amount of transfers out does not agree to the transfers in due to payments of $19,857 made between the Medical Center’s year-end of June 30, 2017 and the County’s year -end of December 31, 2017.

F. Fund Balances

Governmental fund balances reported on the fund financial statements at December 31, 2017, include the following:

	General Fund	Roads and Bridges	Nonmajor Funds	Totals
Nonspendable				
Inventories	$ -	$ 189,416	$ -	$ 189,416
Missing heirs	6,523	-	-	6,523
Loans receivable	-	-	174,216	174,216
Total Nonspendable	6,523	189,416	174,216	370,155
Restricted for:				
Health cost management	1,655	-	-	1,655
Law library	29,115	-	-	29,115
Recorder technology	39,802	-	-	39,802
Recorder compliance	102,641	-	-	102,641
Sheriffs contingency	3,333	-	-	3,333
K9 Sassy medical expenses	1,022	-	-	1,022
Aggregate pit restore	4,557	-	-	4,557
Transit/UCAP	6,926	-	-	6,926
Probation supervision	18,750	-	-	18,750
DUI fees	801	-	-	801
Redeem forfeit motor	3,510	-	-	3,510
Adm drug forfeitures	2,632	-	-	2,632
Jail canteen fund	3,851	-	-	3,851
Permit to carry	29,430	-	-	29,430
Highway allotments	-	681,730	-	681,730
Septic/sewer loans	71,647	-	-	71,647
Debt service	-	-	255,498	255,498
Judicial ditch maintenance	-	1,408,785	25,081	1,433,866
Total Restricted	319,672	2,090,515	280,579	2,690,766
Assigned for:				
Elections	98,364	-	-	98,364
Buildings	107,657	-	-	107,657
Capital improvements	208,077	-	-	208,077
Capital equipment	-	248,700	-	248,700
Ambulance	30,429	-	-	30,429
Solid waste/recycling	735,325	-	-	735,325
Frgrds beef barn	177,050	-	-	177,050
Riparian protection aid	91,194	-	-	91,194
County septic loan program	20,319	-	-	20,319
Radio comm systems	45,000	-	-	45,000
Computer software	200,212	-	-	200,212
Prepaid court expense	774	-	-	774
School resource officer	19,281	-	-	19,281
Family services	-	-	784,659	784,659
County road and bridge	-	1,009,171	-	1,009,171
Total Assigned	1,733,682	1,257,871	784,659	3,776,212
Unassigned (deficit)	3,179,340	-	-	3,179,340
Total fund balances	$ 5,239,217	$ 3,537,802	$ 1,239,454	$ 10,016,473

Note 4 - Defined Benefit Pension Plans

A. Plan Description

The County participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the County are covered by the General Employees Retirement Fund (GERF). GERF 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

3. Public Employees Correctional Fund (PECF)

The Local Government Correctional Fund, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in County and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

1. GERF Benefits

General Employees Plan 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 PERA's 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining 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 members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

2. PEPFF Benefits

Benefits for Police and Fire Plan members first hired after June 30, 2010 but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014 vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

3. PECF Benefits

Benefits for Correctional Plan members first hired after June 30, 2010 vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. The annuity accrual rate is 1.9 percent of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989 a full annuity is available when age plus years of service equal at least 90.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2017. The County was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2017. The County’s contributions to the GERF for the year ended December 31, 2017 were $218,760 and the Medical Center’s contributions for the year ended June 30, 2017, were $679,439. The County’s contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2017. The County was required to contribute 16.20% of pay for PEPFF members in calendar year 2017. The County's contributions to the PEPFF for the year ended December 31, 2017, were $133,723. The County's contributions were equal to the required contributions as set by state statute.

3. PECF Contributions

In calendar year 2017 plan members were required to contribute 5.83% of their annual covered salary. The County was required to contribute 8.75% of pay for PECF members in calendar year 2017. The County's contributions to the PECF for the year ended December 31, 2017, were $46,167. Pipestone County's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At December 31, 2017, the County reported a liability of $2,821,699 for its proportionate share of the GERF's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the County totaled $35,475. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0442%, which was an increase of 0.0011% from the prior year.

For the year ended December 31, 2017, the County recognized pension expense of $138,069 for its proportionate share of the GERF's pension expense. In addition, the County recognized an additional $1,025 as revenue, which results in a reduction of net pension liability, for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

At December 31, 2017, the County reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 92,995	$ 176,226
Changes of actuarial assumptions	456,804	282,876
Difference between projected and actual investment earnings	3,639	-
Changes in proportion	90,903	21,139
Contributions paid to PERA subsequent to measurement date	111,111	-
Total	$ 755,452	$ 480,241

The $111,111 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Year Ended December 31:	
2018	130,158
2019	188,051
2020	(34,333)
2021	(119,776)
2022	-

At June 30, 2017, the Medical Center reported a liability of $11,773,281 for its proportionate share of the General Employees Fund's net pension liability. The Medical Center's net pension liability reflected a reduction due to the state of Minnesota's contribution of $6 million to the fund in 2017. The state of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the Medical Center totaled $153,770. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Medical Center's proportion of the net pension liability was based on the Medical Center's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Medical Center's proportion was 0.1450%. a decrease of .0033%.

For the year ended June 30, 2017, the Medical Center recognized pension expense of $1,419,783 for its proportionate share of the General Employees Plan's pension expense. In addition, the Medical Center recognized an additional $45,850 as pension expense (and revenue) for its proportional share of the state of Minnesota's contribution of $6 million to the General Employees Fund.

At June 30, 2017, the Medical Center reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 37,320	$ 962,153
Changes of actuarial assumptions	2,554,955	-
Difference between projected and actual investment earnings	1,261,181	-
Changes in proportion	-	292,680
Contributions paid to PERA subsequent to measurement date	679,436	-
Total	$ 4,532,892	$ 1,254,833

$679,436 reported as deferred outflows of resources at June 30, 2017 related to pensions resulting from the Medical Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Expense
2018	681,980
2019	394,045
2020	1,098,205
2021	424,393
2022	-

2. PEPFF Pension Costs

At December 31, 2017, the County reported a liability of $1,066,594 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0790%, which was a decrease of 0.005% from the prior year.

For the year ended December 31, 2017, the County recognized a reduction of pension expense of $103,666 for its proportionate share of the PEPFF's pension expense. The County recognized $7,110 for the year ended December 31, 2017, as revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing $9 million to the PEPFF each year, starting in fiscal year 2014.

At December 31, 2017, the County reported its proportionate share of the PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 24,551	$ 270,411
Changes of actuarial assumptions	1,307,506	1,514,299
Difference between projected and actual investment earnings	-	4,729
Changes in proportion	183,417	22,725
Contributions paid to PERA subsequent to measurement date	67,023	-
Total	$ 1,582,497	$ 1,812,164

The $67,023 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense
2018	$ 26,723
2019	26,723
2020	(11,386)
2021	(74,243)
2022	(264,507)

3. PECF Pension Costs

At December 31, 2017, the County reported a liability of $712,503 for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Wabasha County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.25%, which was an increase of 0.01% from the prior year.

For the year ended December 31, 2017, the County recognized pension expense of $62,025 for its proportionate share of the PECF's pension expense.

At December 31, 2017, the County reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 457	$ 11,328
Changes of actuarial assumptions	372,399	124,025
Difference between projected and actual investment earnings	-	7,388
Changes in proportion	27,399	-
Contributions paid to PERA subsequent to measurement date	22,737	-
Total	$ 422,992	$ 142,741

The $22,737 reported as deferred outflows of resources related to pensions resulting from County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Year Ended December 31:	
2018	$ 154,012
2019	158,748
2020	(35,413)
2021	(19,833)
2022	-

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	6/30/2017
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	8.00% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans, and 2.5 percent for all years for the Correctional Plan.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

GERF

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

PEPFF

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.

- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.6 percent to 7.5 percent

PECF

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%
	100%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund and the Police and Fire Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the fund's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date, An equivalent single discount rate of 5.96% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 3.56% after.

G. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1.00% Decrease	Discount Rate	1.00% Increase
	(6.50%)	(7.50%)	(8.50%)
County's Proportionate Share of the GERF Net Pension Liability	$ 4,376,665	$ 2,821,699	$ 1,548,677
	(6.50%)	(7.50%)	(8.50%)
County's Proportionate Share of the PEPFF Net Pension Liability	$ 2,008,708	$ 1,066,594	$ 288,827
	(4.96%)	(5.96%)	(6.96%)
County's Proportionate Share of the PECF Net Pension Liability	$ 1,174,115	$ 712,503	$ 352,208
	(6.50%)	(7.50%)	(8.50%)
Medical Center's Proportionate Share of the GERF Net Pension Liability	$ 16,721,548	$ 11,773,281	$ 7,697,255

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org .

I. Defined Contribution Plan

Two County Commissioners and the Sheriff of the County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP 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. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the County during year ended December 31, 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
9,110	9,110	5.00%	5.00%	5.00%

Note 5 - Other Information

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The Workers' Compensation Division of MCIT and the Property and Casualty Division of MCIT are self-sustaining. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $500,000 for 2017. Should the MCIT liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT. The County accounts for and reports risk management activities in the General Fund within the constraints of the modified accrual basis of accounting.

The Southwest/West Central Service Cooperative (Service Cooperative) is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. The Medical Center is also insured under an excess umbrella liability policy with a limit of $20 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

B. Contingencies

The County participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the County believes that any disallowed costs as a result of such audits will be immaterial.

As of December 31, 2017, the Lincoln-Pipestone Rural Water System had $47,572,000 of general obligation bonds and other loans outstanding through 2052. The bonds were issued by some of the participating counties in the Rural Water System to finance the construction of water system expansions and improvements. The debt is paid by the Lincoln-Pipestone Rural Water System from special assessments levied against property specifically benefitted by the applicable expansion, extension, or enlargement of the system and from the net revenues from time to time received in excess of the current costs of operating and maintaining the system. The bonds are general obligations of the issuing counties for which their full faith, credit, and taxing powers are pledged. The participating counties have adopted board resolutions and have signed joint powers agreements to define their liability for a proportional share of the debt should the issuing counties be required to make any debt service payments. In such a situation, each of the other counties will reimburse the paying counties in proportion to the percentage of Rural Water System customers located in such country. The outstanding bonds are reported on the annual financial statements of the Lincoln-Pipestone Rural Water System and are not reported as liabilities in the financial statements of any of the participating ten counties. The participating counties disclose a contingent liability due to the guarantee of indebtedness.

C. Joint Ventures

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

Southwest Health and Human Services

Southwest Health and Human Services (SWHHS) was formed on January 1, 2011, by four counties, including Pipestone, to provide human service and public health functions. Since forming, two additional counties' health and human service functions have been assumed by SWHHS. SWHHS is governed by the Joint Health and Human Services Board, Human Services Board, and Community Health Board, which are made up of a combination of County Commissioners and citizens from the participating Counties. Funding for SWHHS is provided by state and federal grants and appropriations from member counties based on population based on three criteria, which are weighted equally:

- Population based on the most recent national census
- Tax capacity
- Most recent three-year average social services expenditure and grant reconciliation report (SEAGR)

Pipestone County's contribution in 2017 for the human services function was $1,210,626, and its contribution to the health services function was $103,157.

Complete financial statements of SWHHS can be obtained at 607 West Main, Marshall, Minnesota 56258.

Lincoln-Pipestone Rural Water System

The Lincoln-Pipestone Rural Water System was established by ten counties, including Pipestone and 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 System is governed by a Board appointed by the District Court. The Rural Water System's board is solely responsible for the budgeting and financing of the Rural Water System.

Bonds were issued by three of the participating counties to finance the construction of the Rural Water System. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations as of December 31, 2017, were $47,572,000.

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

PrimeWest Rural Minnesota Health Care Access Initiative

The PrimeWest Rural Minnesota Health Care Access Initiative (PrimeWest) was established as a joint powers agreement between ten counties to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care. Since forming, three counties have joined the initiative. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs. In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to current members based on their proportional share of each member's county-based purchasing eligible population.

Control of PrimeWest is vested in a Joint Powers Board, composed of two Commissioners from each member county. Each member of the Joint Powers Board is appointed by the County Commissioners of the county represented.

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

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

Central Minnesota Diagnostics, Inc.

The Pipestone County Medical Center and other hospitals formed Central Minnesota Diagnostics, Inc (CMDI), a non-profit corporation to provide certain agreed-upon shared services to those hospitals who are members of the corporation. CMDI operates as a non-profit cooperative and allocates income to its member hospitals based on the services the member hospitals purchase from CMDI. The Medical Center records its investment in CMDI based on the allocations it receives.

CMDI provides some equipment for the Pipestone County Medical Center's patients. The Pipestone County Medical Center billed and collected the revenue for these services to patients and paid Central Minnesota Diagnostics, Inc $323,136 in the year ended June 30, 2017. The Pipestone County Medical Center also received $129,393 of distributions from CMDI for the year ended December 31, 2017.

Southwestern Mental Health Center, Inc.

The Southwestern Mental Health Center, Inc., is a private, non-profit agency established by five counties for the purpose of providing mental health services and programs to the residents of these counties.

In 2017, Pipestone County contributed $375 to the Southwestern Mental Health Center, Inc., for mental health services.

Complete financial statements for the Southwestern Mental Health Center, Inc., can be obtained at 216 East Luverne Street, Luverne, Minnesota 56156.

Buffalo Ridge Drug Task Force

The Buffalo Ridge Drug Task Force was established to provide drug enforcement services for member organizations, which consist of Counties and Cities.

Control of the Task Force is vested in a Board of Directors that consists of the Chief of Police and the Sheriff from each party. Fiscal agent responsibilities for the Task Force are with the City of Worthington. During the year, Pipestone County provided $33,586 to the Task Force.

Plum Creek Library System

The Plum Creek Library System was created as a public library service to provide expanded library service to Cities and Counties, with the additional purpose of furthering the public interest by providing the potential for extending public library services into areas without services.

The Library System is governed by a board of trustees which consists of two representatives from each county. One is appointed by the County Commissioners and the second from the board of the participating libraries. During 2016, Pipestone County provided $46,486 to the Library System.

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

D. Jointly-Governed Organization

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

Minnesota Counties Computer Cooperative

Minnesota Counties have created the Minnesota Counties Computer Cooperative (MCCC) to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Pipestone County paid $6,634 to the MCC.

Required Supplementary Information
December 31, 2017

Pipestone County

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 4,228,816	$ 4,228,816	$ 3,992,615	$ (236,201)
Special assessments	237,800	237,800	276,210	38,410
Intergovernmental	747,676	747,676	1,101,055	353,379
Licenses and permits	13,150	13,150	12,570	(580)
Fines, forfeitures and penalties	4,500	4,500	12,044	7,544
Public charges for services	1,798,552	1,798,552	1,747,775	(50,777)
Investment income	110,000	110,000	109,763	(237)
Miscellaneous	617,582	617,582	875,599	258,017
Total revenues	7,758,076	7,758,076	8,127,631	369,555
Expenditures				
Current				
General government	3,530,917	3,530,917	3,627,615	(96,698)
Public safety	3,352,070	3,352,070	3,302,641	49,429
Sanitation	569,208	569,208	264,341	304,867
Health	103,157	103,157	103,157	-
Culture and recreation	124,896	124,896	122,138	2,758
Conservation	464,540	464,540	535,477	(70,937)
Economic development	6,775	6,775	6,820	(45)
Debt Service				
Interest	800	800	4,412	(3,612)
Principal	23,000	23,000	29,781	(6,781)
Total expenditures	8,175,363	8,175,363	7,996,382	178,981
Other Financing Sources				
Issuance of debt	-	-	2,469	2,469
Net change in fund balance	$ (417,287)	$ (417,287)	133,718	$ 551,005
Fund Balance, Beginning			5,105,499	
Fund Balance, Ending			$ 5,239,217	

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues				
Taxes	$ 1,154,312	$ 1,154,312	$ 1,093,463	$ (60,849)
Intergovernmental	5,893,626	5,893,626	5,981,832	88,206
Public charges for services	289,500	289,500	200,547	(88,953)
Investment income	11,000	11,000	10,561	(439)
Miscellaneous	166,831	166,831	234,536	67,705
Total revenues	7,515,269	7,515,269	7,520,939	5,670
Expenditures				
Current				
Highways and streets	7,185,269	7,185,269	6,690,740	494,529
Intergovernmental	330,000	330,000	327,010	2,990
Total expenditures	7,515,269	7,515,269	7,017,750	497,519
Net change in fund balance	$ -	$ -	503,189	$ 503,189
Fund Balance, Beginning			3,170,366	
Increase (decrease) in inventories			(135,753)	
Fund Balance, Ending			$ 3,537,802	

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the County Finance Director so that a budget can be prepared. Before September 30, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year ended December 31, 2017, the board did not make supplemental budgetary appropriations.

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years *

Pension Plan	Measurement Date	County's Proportion (Percentage) of the Net Pension Liability (Asset)	County's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With County (b)	Total (d) (a+b)	County's Covered - Payroll (e)**	County's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Payroll** (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF	6/30/2017	0.0442%	$ 2,821,699	$ 35,475	$ 2,857,174	$ 3,015,955	93.56%	75.9%
GERF	6/30/2016	0.0431%	3,499,506	45,639	3,545,145	2,662,941	131.42%	68.9%
GERF	6/30/2015	0.0422%	2,187,023	N/A	2,187,023	2,482,283	88.11%	78.2%
GERF - Medical Center	6/30/2016	0.1450%	$ 11,773,281	$ 113,040	$ 11,886,321	$ 9,331,701	126.16%	75.9%
GERF - Medical Center	6/30/2015	0.1483%	7,685,767	N/A	7,685,767	8,714,344	88.20%	68.9%
GERF - Medical Center	6/30/2014	0.1533%	7,291,991	N/A	7,291,991	8,153,703	89.43%	78.2%
PEPFF	6/30/2017	0.0790%	$ 1,066,594	N/A	$ 1,066,594	$ 813,063	131.18%	85.4%
PEPFF	6/30/2016	0.0740%	2,969,749	N/A	2,969,749	712,533	416.79%	63.9%
PEPFF	6/30/2015	0.0770%	874,900	N/A	874,900	704,233	124.23%	86.6%
PECF	6/30/2017	0.2500%	$ 712,503	N/A	$ 712,503	$ 500,451	142.37%	65.9%
PECF	6/30/2016	0.2400%	876,754	N/A	876,754	450,808	194.49%	58.2%
PECF	6/30/2015	0.2400%	37,104	N/A	37,104	426,512	8.70%	97.0%

Schedule of Employer's Contributions
Last 10 Fiscal Years *

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Payroll (d)**	Contributions as a Percentage of Covered - Payroll (b/d)**
GERF	12/31/2017	$ 227,870	$ 227,870	-	$ 3,038,267	7.50%
GERF	12/31/2016	210,392	210,392	-	2,805,223	7.50%
GERF	12/31/2015	189,422	189,422	-	2,525,631	7.50%
GERF - Medical Center	6/30/2017	$ 679,436	$ 679,436	-	$ 9,408,004	7.22%
GERF - Medical Center	6/30/2016	653,318	653,318	-	9,331,701	7.00%
GERF - Medical Center	6/30/2015	594,963	594,963	-	8,714,344	6.83%
PEPFF	12/31/2017	$ 133,723	$ 133,723	-	$ 825,449	16.20%
PEPFF	12/31/2016	125,705	125,705	-	775,956	16.20%
PEPFF	12/31/2015	108,158	108,158	-	667,643	16.20%
PECF	12/31/2017	$ 46,167	$ 46,167	-	$ 527,625	8.75%
PECF	12/31/2016	41,399	41,399	-	473,135	8.75%
PECF	12/31/2015	37,338	37,338	-	426,714	8.75%

* GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

**Covered payroll as restated to conform to GASB Statement No. 82

Since the last actuarial valuation as of June 30, 2016, the following have changed:

GERF

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2 044 and 2.5 percent per year thereafter.

PEPFF

Changes in Actuarial Assumptions:

- Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
- Assumed rates of retirement were changed, resulting in fewer retirements.
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
- Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- Assumed percentage of married female members was decreased from 65 percent to 60 percent.
- Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing Joint and Survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.
- The single discount rate was changed from 5.6 percent to 7.5 percent

PECF

Changes in Actuarial Assumptions:

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
- The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
- The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

Supplemental Schedules
December 31, 2017

Pipestone County

	Special Revenue		Debt Service	
	Family Services	Ditch	Medical Facility Bonds	Total Nonmajor Governmental Funds
Assets				
Cash and investments	$ 738,731	$ 25,120	$ 268,548	$ 1,032,399
Undistributed cash in agency funds	45,928	436	5,039	51,403
Receivables:				
Taxes - delinquent	16,086	-	5,174	21,260
Special assessments - delinquent	-	634	-	634
Loans	174,216	-	-	174,216
Total assets	$ 974,961	$ 26,190	$ 278,761	$ 1,279,912
Liabilities				
Accounts payable	-	475	-	475
Due to other funds	-	-	18,089	18,089
Total liabilities	-	475	18,089	18,564
Deferred Inflows of Resources				
Unavailable revenues - notes receivable	16,086	634	5,174	21,894
Fund Balances				
Nonspendable	174,216	-	-	174,216
Restricted	-	25,081	255,498	280,579
Assigned	784,659	-	-	784,659
Total fund balances	958,875	25,081	255,498	1,239,454
Total liabilities, deferred inflows of resources, and fund balances	$ 974,961	$ 26,190	$ 278,761	$ 1,279,912

	Special Revenue		Debt Service	
	Family Services	Ditch	Medical Facility Bonds	Total Nonmajor Governmental Funds
Revenues				
Taxes	$ 1,154,342	$ -	$ 208,829	1,363,171
Special Assessments	-	9,878	-	9,878
Intergovernmental	32,959	-	-	32,959
Investment income	4,367	-	-	4,367
Total revenues	1,191,668	9,878	208,829	1,410,375
Expenditures				
Current				
Human services	1,166,344	-	-	1,166,344
Conservation	-	5,483	-	5,483
Total expenditures	1,166,344	5,483	-	1,171,827
Excess of revenues over expenditures	25,324	4,395	208,829	238,548
Other Financing Uses				
Transfers out	-	-	(202,779)	(202,779)
Net Change in Fund Balances	25,324	4,395	6,050	35,769
Fund Balances - Beginning of Year	933,551	20,686	249,448	1,203,685
Fund Balances - End of Year	$ 958,875	$ 25,081	$ 255,498	1,239,454

	Balance January 1	Additions	Deductions	Balance December 31
Lincoln-Pipestone Rural Water System				
Assets				
Cash and investments	$ 44,125	$ 154,445	$ 176,436	$ 22,134
Liabilities				
Due to other governments	$ 44,125	$ 154,445	$ 176,436	$ 22,134
State				
Assets				
Cash and investments	$ 36,312	$ 2,010,253	$ 2,071,171	$ (24,606)
Liabilities				
Due to other governments	$ 36,312	$ 2,010,253	$ 2,071,171	$ (24,606)
Taxes and Penalties				
Assets				
Cash and investments	$ 181,412	$ 16,437,257	$ 16,290,337	$ 328,332
Liabilities				
Due to other governments	$ 181,412	$ 16,437,257	$ 16,290,337	$ 328,332
Total Agency Funds				
Assets				
Cash and investments	$ 261,849	$ 18,601,955	$ 18,537,944	$ 325,860
Liabilities				
Due to other governments	$ 261,849	$ 18,601,955	$ 18,537,944	$ 325,860

Independent Auditor's Report on Minnesota Legal Compliance

To the County Board
Pipestone County
Preston, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

The *Minnesota Legal Compliance Audit Guide for Counties*, promulgated by the State Auditor pursuant to Minnesota Statutes Sec. 6.65 contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Mankato, Minnesota
September 27, 2018

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Independent Auditor's 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*

To the County Board
Pipestone County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pipestone County (the County) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-A and 2017-B that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and the County's corrective action plan, a separate document. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eide Bailly LLP

Mankato, Minnesota
September 27, 2018

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance

To the County Board
Pipestone County

Report on Compliance for the Major Federal Program
We have audited Pipestone County's (the County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2017. The County's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the Major Federal Program
In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2017.

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Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Mankato, Minnesota
September 27, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Department of Justice			
Public Safety Partnership and Community Policing Grants	16.710	N/A	$ 39,455
Total Department of Justice			39,455
Department of Homeland Security			
Disaster Grants - Public Assistance	97.036	N/A	3,357
Total Department Homeland Security			3,357
Department of Health and Human Services			
Passed through State			
Medical Assistance Program (Medicaid Cluster)	93.778	Unknown	27,291
Total Department Health and Human Services			27,291
Department of Transportation			
Passed through State			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	059-030-009, 059-616-032, 059-602-025	2,374,126
State and Community Highway Safety	20.600	Unknown	527
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	Unknown	5,184
National Priority Safety Programs	20.616	Unknown	1,325
Total Department of Transportation			2,381,162
Total Federal Financial Assistance			$ 2,451,265

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity for Pipestone County (the County) under programs of the federal government for the year ended December 31, 2017. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows, if applicable of the County.

Note B – Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized using the following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

The County does not draw for indirect administrative expenses, and has not elected to use the 10% de minimis cost rate.

Section I – Summary of Audit Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program	CFDA Number
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Material Weakness

2017-A Preparation of Financial Statements, Including Footnotes

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements, including footnotes.
Condition: The County does not have an internal control system designed to provide for the preparation of the financial statements and footnotes being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary information.
Cause: The County does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.
Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
Recommendation: This control deficiency is not unusual in a County of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
Views of Responsible Officials: There is no disagreement with this audit finding.

Material Weakness

2017-B Significant Journal Entries

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.
Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance as a result of the County's existing internal controls.
Cause: The County does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.
Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
Recommendation: A thorough and timely review and reconciliation of accounts in each fund should take place on a monthly basis. This review should be done at both the accounting staff and accounting supervisor levels.
Views of Responsible Officials: There is no disagreement with the audit finding.

Section III – Federal Award Findings and Questioned Costs

None reported

Section II – *Minnesota Legal Compliance* Findings

None reported