



Financial Statements  
Year Ended December 31, 2018  
**Pipestone County**

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<b>County Board</b>			
<u>Name</u>	<u>Position</u>	<u>District</u>	<u>Term Expires</u>
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, 2018, including the Medical Center as of and for the year ended June 30, 2018, 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, 2018, including the Medical Center as of June 30, 2018, 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.

## **Emphasis of Matter**

As discussed in Notes 1 and 6 to the financial statements, the County has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of January 1, 2018. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, schedule of changes in the County's total OPEB liability and related ratios, 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 the accounting principles generally accepted in the United States of America requires 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 considers 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 the 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 combining fund schedules 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 dated September 27, 2019, 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.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated September 27, 2019 on our consideration of the County's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for Counties. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for Counties in considering the County's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Mankato, Minnesota  
September 27, 2019

Pipestone County  
Statement of Net Position  
December 31, 2018

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 9,114,418	\$ 6,415,920	\$ 15,530,338
Investments	1,219,000	10,654,431	11,873,431
Receivables			
Delinquent taxes receivable	100,828	-	100,828
Patient and resident, net of estimated uncollectibles of \$1,035,000	-	4,986,205	4,986,205
Due from joint operating agreement partner	-	2,256,863	2,256,863
Other receivables	638,338	164,649	802,987
Inventories	281,030	679,548	960,578
Prepaid expenses	62,949	448,522	511,471
Due from other governments	3,935,434	-	3,935,434
Assets restricted for indenture agreements	-	575,788	575,788
Investment in joint venture	-	374,683	374,683
Other assets	-	2,500	2,500
Capital assets, net of accumulated depreciation where applicable			
Land	1,231,101	1,277,445	2,508,546
Construction in progress	-	73,879	73,879
Right-of-way	1,267,283	-	1,267,283
Historical treasures	35,924	-	35,924
Buildings and building improvements	4,596,463	31,594,977	36,191,440
Land improvements	226,968	1,170,905	1,397,873
Machinery and equipment	2,657,409	4,051,074	6,708,483
Infrastructure	44,702,497	-	44,702,497
Total capital assets	<u>54,717,645</u>	<u>38,168,280</u>	<u>92,885,925</u>
Total assets	<u>70,069,642</u>	<u>64,727,389</u>	<u>134,797,031</u>
Deferred Outflows of Resources			
Pension related deferred outflows	1,958,037	2,488,417	4,446,454
OPEB related deferred outflows	34,190	-	34,190
Total deferred outflows of resources	<u>1,992,227</u>	<u>2,488,417</u>	<u>4,480,644</u>
<b>Liabilities</b>			
Accounts payable	387,677	2,056,408	2,444,085
Contracts payable	319,950	-	319,950
Accrued liabilities	271,551	1,145,931	1,417,482
Internal balances	19,872	-	19,872
Due to other governments	61,203	-	61,203
Noncurrent liabilities			
Due within one year - bonds, loans, compensated absences, premium on bonds	64,012	747,140	811,152
Due in more than one year - bonds, loans, compensated absences, premium on bonds	312,938	24,385,276	24,698,214
Due in more than one year - net pension liability	3,300,898	8,988,578	12,289,476
Due in more than one year - OPEB obligation	539,234	-	539,234
Total liabilities	<u>5,277,335</u>	<u>37,323,333</u>	<u>42,600,668</u>
Deferred Inflows of Resources			
Pension related deferred inflows	2,832,693	2,302,353	5,135,046
<b>Net Position</b>			
Net investment in capital assets	54,604,152	12,671,314	67,275,466
Restricted for specific purposes	1,331,454	575,788	1,907,242
Unrestricted	8,016,235	14,343,018	22,359,253
Total net position	<u>\$ 63,951,841</u>	<u>\$ 27,590,120</u>	<u>\$ 91,541,961</u>

Pipestone County  
Statement of Activities  
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>						
General government	\$ 3,602,280	\$ 627,020	\$ 1,066,923	\$ (1,908,337)	\$ -	\$ (1,908,337)
Public safety	3,343,580	1,138,136	212,737	(1,992,707)	-	(1,992,707)
Public works	4,589,678	241,590	4,851,644	503,556	-	503,556
Sanitation	489,347	-	-	(489,347)	-	(489,347)
Human services	1,265,794	-	113,993	(1,151,801)	-	(1,151,801)
Health	117,551	-	-	(117,551)	-	(117,551)
Culture, recreation, and education	127,827	-	-	(127,827)	-	(127,827)
Conservation and development	472,318	2,550	130,419	(339,349)	-	(339,349)
Economic development	8,365	-	-	(8,365)	-	(8,365)
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Interest and fiscal charges	28,938	-	-	(28,938)	-	(28,938)
<b>Total governmental activities</b>	<b>14,045,678</b>	<b>2,009,296</b>	<b>6,375,716</b>	<b>(5,660,666)</b>	<b>-</b>	<b>(5,660,666)</b>
<b>Business-type activities</b>						
Medical Center	30,825,445	29,965,649	281,208	-	(578,588)	(578,588)
<b>Total</b>	<b>\$ 44,871,123</b>	<b>\$ 31,974,945</b>	<b>\$ 6,656,924</b>	<b>(5,660,666)</b>	<b>(578,588)</b>	<b>(6,239,254)</b>
<b>General Revenues</b>						
Property taxes, levied for general purposes				4,200,762	-	4,200,762
Property taxes, levied for human services				1,198,768	-	1,198,768
Property taxes, levied for roads and bridges				1,308,262	-	1,308,262
Other taxes				471,142	-	471,142
Grants and contributions not restricted to specific programs				97,157	-	97,157
Investment income				94,177	104,922	199,099
Refunds and reimbursements				119,361	-	119,361
Insurance dividend				73,282	-	73,282
Miscellaneous				566,367	103,849	670,216
Minority interest				-	1,322,360	1,322,360
Transfers				(213,553)	212,163	(1,390)
<b>Total general revenues and transfers</b>				<b>7,915,725</b>	<b>1,743,294</b>	<b>9,659,019</b>
<b>Change in net position</b>				<b>2,255,059</b>	<b>1,164,706</b>	<b>3,419,765</b>
<b>Net Position - Beginning, as Restated (Note 6)</b>				<b>61,696,782</b>	<b>26,425,414</b>	<b>88,122,196</b>
<b>Net Position - Ending</b>				<b>\$ 63,951,841</b>	<b>\$ 27,590,120</b>	<b>\$ 91,541,961</b>



Pipestone County  
Balance Sheet – Governmental Funds  
December 31, 2018

	General Fund	Special Revenue Roads and Bridges	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and pooled investments	\$ 5,679,525	\$ 2,396,074	\$ 1,038,819	\$ 9,114,418
Investments	44,000	1,175,000	-	1,219,000
Receivables:				
Taxes - delinquent	58,091	18,004	24,733	100,828
Special assessments - delinquent	13,031	-	599	13,630
Special assessments - noncurrent	296,838	-	-	296,838
Accounts	111,827	8,532	-	120,359
Interest	34,895	3,592	-	38,487
Loans	-	-	169,024	169,024
Due from other governments	81,766	3,853,668	-	3,935,434
Due from other funds	-	13,439	-	13,439
Prepaid items	62,949	-	-	62,949
Inventories	-	281,030	-	281,030
<b>Total assets</b>	<b><u>\$ 6,382,922</u></b>	<b><u>\$ 7,749,339</u></b>	<b><u>\$ 1,233,175</u></b>	<b><u>\$ 15,365,436</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 358,503	\$ 27,902	\$ 1,272	\$ 387,677
Contracts payable	120,502	199,448	-	319,950
Accrued liabilities	213,880	57,671	-	271,551
Due to other governments	58,505	2,698	-	61,203
Due to other funds	12,819	-	20,492	33,311
<b>Total liabilities</b>	<b><u>764,209</u></b>	<b><u>287,719</u></b>	<b><u>21,764</u></b>	<b><u>1,073,692</u></b>
Deferred Inflows of Resources				
Unavailable revenues	445,730	3,861,645	25,332	4,332,707
<b>Fund Balances</b>				
Nonspendable	69,472	281,030	169,024	519,526
Restricted	283,838	763,038	289,990	1,336,866
Assigned	1,682,438	2,555,907	727,065	4,965,410
Unassigned	3,137,235	-	-	3,137,235
<b>Total fund balances</b>	<b><u>5,172,983</u></b>	<b><u>3,599,975</u></b>	<b><u>1,186,079</u></b>	<b><u>9,959,037</u></b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b><u>\$ 6,382,922</u></b>	<b><u>\$ 7,749,339</u></b>	<b><u>\$ 1,233,175</u></b>	<b><u>\$ 15,365,436</u></b>

Pipestone County  
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position  
 December 31, 2018

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Total fund balance - governmental funds \$ 9,959,037

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	\$ 82,037,371	
Accumulated depreciation	<u>(27,319,726)</u>	54,717,645

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	100,828	
Delinquent and noncurrent special assessments	310,468	
Interest on delinquent taxes and special assessments	38,487	
Accounts receivable not received within 60 days of year end	41,919	
Unexpended state allotments	<u>3,841,005</u>	4,332,707

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	(263,457)	
Loans payable	(113,493)	
Net pension liability	(3,300,898)	
OPEB Obligation	<u>(539,234)</u>	(4,217,082)

Pension and OPEB 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	1,992,227	
Deferred inflows of resources	<u>(2,832,693)</u>	<u>(840,466)</u>

Total net position - governmental activities		<u><u>\$ 63,951,841</u></u>
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Pipestone County

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended December 31, 2018

	General Fund	Special Revenue Roads and Bridges	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 4,179,894	\$ 1,308,262	\$ 1,422,798	\$ 6,910,954
Special Assessments	271,840	-	9,947	281,787
Intergovernmental	1,563,437	4,081,706	-	5,645,143
Licenses and permits	22,175	-	-	22,175
Fines, forfeitures and penalties	9,485	-	-	9,485
Public charges for services	1,684,454	138,004	-	1,822,458
Investment income	72,417	15,449	4,240	92,106
Miscellaneous	323,254	526,223	-	849,477
Total revenues	<u>8,126,956</u>	<u>6,069,644</u>	<u>1,436,985</u>	<u>15,633,585</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	3,369,021	-	-	3,369,021
Public safety	3,383,351	-	-	3,383,351
Highways and streets	-	5,716,756	-	5,716,756
Sanitation	523,647	-	-	523,647
Human services	-	-	1,265,794	1,265,794
Health	117,551	-	-	117,551
Culture and recreation	127,827	-	-	127,827
Conservation	459,490	-	11,013	470,503
Economic development	8,365	-	-	8,365
Intergovernmental	175,000	382,330	-	557,330
<b>Debt service</b>				
Principal	26,957	-	-	26,957
Interest and fiscal charges	1,981	-	-	1,981
Total expenditures	<u>8,193,190</u>	<u>6,099,086</u>	<u>1,276,807</u>	<u>15,569,083</u>
Excess (deficiency) of revenues over (under) expenditures	(66,234)	(29,442)	160,178	64,502
<b>Other Financing Uses</b>				
Transfers out	-	-	(213,553)	(213,553)
Net change in fund balances	(66,234)	(29,442)	(53,375)	(149,051)
Fund Balances - Beginning of Year	5,239,217	3,537,802	1,239,454	10,016,473
Change in reserve for inventory	-	91,615	-	91,615
Fund Balances - End of Year	<u>\$ 5,172,983</u>	<u>\$ 3,599,975</u>	<u>\$ 1,186,079</u>	<u>\$ 9,959,037</u>

Pipestone County

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2018

Net change in fund balances - total governmental funds	\$ (149,051)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital Outlay	3,373,980
Depreciation Expense	(1,853,932)
Loss on disposal of capital assets	(88,323)
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.	771,275
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.	
Principal payments	26,957
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	3,240
Change in net pension liability	1,299,898
Change in OPEB obligation	(54,339)
Change in deferred pension outflows	(802,904)
Change in deferred pension inflows	(397,547)
Change in deferred OPEB outflows	34,190
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.	<u>91,615</u>
Change in net position of government activities	<u>\$ 2,255,059</u>

Pipestone County  
Statement of Net Position – Medical Center Proprietary Fund  
June 30, 2018

Assets	
Current Assets	
Cash and pooled investments	\$ 6,415,920
Short-term investments	10,654,431
Patient and resident service receivables, net	4,986,205
Due from joint operating agreement partner	2,256,863
Other receivables	164,649
Prepaid items	679,548
Inventories	448,522
Total current assets	<u>25,606,138</u>
Noncurrent Assets	
Restricted by indenture agreements	575,788
Investment in joint venture	374,683
Capital assets - net	38,168,280
Other assets	2,500
Total noncurrent assets	<u>39,121,251</u>
Total assets	<u>64,727,389</u>
Deferred Outflows of Resources	
Deferred pension outflows	<u>2,488,417</u>
Liabilities	
Current Liabilities	
Current maturities of long-term debt	741,518
Accounts payable	
Trade	1,111,858
Estimated third-party payor settlements	580,000
Construction	364,550
Accrued liabilities	
Compensated absences	634,759
Salaries and wages	351,816
Payroll taxes and other	98,724
Interest	60,632
Total current liabilities	<u>3,943,857</u>
Noncurrent liabilities	
Net pension liability	8,988,578
Long-term debt, less current maturities	24,390,898
Total noncurrent liabilities	<u>33,379,476</u>
Total liabilities	<u>37,323,333</u>
Deferred Inflows of Resources	
Deferred pension inflows	<u>2,302,353</u>
Net Position	
Net investment in capital assets	12,671,314
Restricted - expendable for debt service	575,788
Unrestricted	14,343,018
Total net position	<u>\$ 27,590,120</u>

Pipestone County

Statement of Revenue, Expenses and Changes in Net Position – Medical Center Proprietary Fund

Year Ended June 30, 2018

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Operating Revenues	
Net patient and resident service revenue, net	\$ 29,127,777
Miscellaneous	941,721
Total operating revenues	<u>30,069,498</u>
Operating Expenses	
Salaries and wages	9,228,345
Employee benefits	3,286,758
Purchased services	7,524,854
Supplies and other expenses	7,465,158
Depreciation	2,573,164
Total operating expenses	<u>30,078,279</u>
Operating Loss	<u>(8,781)</u>
Nonoperating Revenues (Expenses)	
Investment income	104,922
Noncapital grants and contributions	281,208
Joint operating agreement partner's share of income	1,322,360
Interest expense	<u>(747,166)</u>
Total nonoperating revenues, net	961,324
Revenues in excess of Expenses	<u>952,543</u>
Transfer in	<u>212,163</u>
Change in net position	<u>1,164,706</u>
Net Position, Beginning of Year	<u>26,425,414</u>
Net Position, Ending of Year	<u><u>\$ 27,590,120</u></u>

Pipestone County  
Statement of Cash Flows – Medical Center Proprietary Fund  
Year Ended June 30, 2018

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Cash Flows from Operating Activities	
Receipts from and on behalf of patients	\$ 29,043,014
Payments to employees for services	(12,130,453)
Payments to suppliers and others	(14,728,262)
Other receipts and payments, net	<u>968,587</u>
Net Cash from Operating Activities	<u>3,152,886</u>
Cash Flows from Noncapital Financing Activities	
Transfers from other funds	212,163
Noncapital grants and contributions	<u>281,208</u>
Net Cash from Noncapital Financing Activities	<u>493,371</u>
Cash Flows used for Capital and Related Financing Activities	
Purchase of capital assets	(970,053)
Proceeds from the sale of capital assets	20,575
Proceeds from the issuance of long-term debt	359,783
Principal paid on long-term debt	(681,907)
Interest paid on long-term debt, net of capitalized interest	<u>(759,909)</u>
Net Cash used for Capital and Related Financing Activities	<u>(2,031,511)</u>
Cash Flows from Investing Activities	
Purchases of short term investments	(11,901)
Investment income	104,922
Distribution from joint venture	<u>97,264</u>
Net Cash from Investing Activities	<u>190,285</u>
Net Change in Cash and Cash Equivalents	1,805,031
Cash and Cash Equivalents, Beginning of Year	<u>5,186,677</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,991,708</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	\$ 6,415,920
Noncurrent cash	<u>575,788</u>
Total cash and cash equivalents	<u>\$ 6,991,708</u>

Pipestone County  
Statement of Cash Flows – Medical Center Proprietary Fund  
Year Ended June 30, 2018

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Reconciliation of Operating Loss to Net Cash	
from Operating Activities	
Operating loss	\$ (8,781)
Adjustments to reconcile operating loss to net cash	
from operating activities	
Depreciation	2,573,164
Provision for bad debts	647,999
Non-cash patronage allocation	(131,056)
Change in assets and liabilities	
Receivables	(1,285,896)
Supplies	156,258
Prepaid expenses	154,133
Accounts payable	662,415
Net Pension liability	(2,784,703)
Deferred outflows of resources	2,044,475
Deferred inflows of resources	1,047,520
Accrued expenses	77,358
Net Cash from Operating Activities	<u><u>\$ 3,152,886</u></u>
Supplemental Disclosure of Noncash Investing and Financing	
Activities	
Accounts payable - construction in progress	<u><u>\$ 364,550</u></u>



Pipestone County  
Statement of Fiduciary Assets and Liabilities – Agency Funds  
December 31, 2018

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	<u>Agency Funds</u>
Assets	
Cash and investments	<u>\$ 237,271</u>
Liabilities	
Due to other governments	<u>\$ 237,271</u>

## **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 30<sup>th</sup>. The fiscal year of July 1, 2017 to June 30, 2018, 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 proprietary 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** – accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The 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.

The government reports the following non-major funds:

- **Family Services Special Revenue Fund** – accounts for assigned property tax revenues used for economic assistance and community social programs.
- **Ditch Special Revenue Fund** – accounts for special assessment revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.
- **Medical Facility Bonds Debt Service Fund** – accounts for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs.

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

- **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. 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 Statutes § 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". Interfund 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 2012 through 2018 and noncurrent special assessments payable in 2019 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 \$1,035,000 at June 30, 2018.

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.

Capital assets not being depreciated include land, right-of-way, historical treasures, and construction in progress.

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. There was no capitalized interest for the year ended June 30, 2018.

#### **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 three items that qualify for reporting in this category. They are the contributions made to other post-employment benefit plans after the measurement date and prior to the fiscal year-end, 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, 2018 are determined on the basis of current salary rates and include salary related payments. For the governmental activities, compensated absences are liquidated by the General Fund and the Road and Bridge Special Revenue Fund.

## **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. Other Postemployment Benefits**

Under the provisions of the various employee and union contracts the County provides access to health coverage until age 65 if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB Statement No. 75, at January 1, 2018. OPEB obligations are generally liquidated by the General Fund and Road and Bridge Special Revenue Fund.

## **11. Implementation of GASB Statement No. 75**

As of January 1, 2018, the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of this standard is disclosed in Note 6 and the additional disclosures required by this standard are included in Note 4.

## **12. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. 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. For the governmental activities, the pension liability is liquidated through the General Fund. For the business-type activities, the pension liability is liquidated through the Medical Center Enterprise Fund.

## **13. 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.



#### 14. 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, 2014. 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 41%, 15%, and 14% of the Medical Center's net patient service revenue for the year ended June 30, 2018. 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.

### **15. 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 \$194,000 for the year ended June 30, 2018, 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

### **16. 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.

### **17. 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.

### **18. 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.

#### **19. 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, 2018, 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.

**B. Expenditures in Excess of Appropriations**

Expenditures exceeded budgetary appropriations in the General Fund by \$126,956 for the year ended December 31, 2018. These excess expenditures were funded by revenues in excess of budget and fund balance.

**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	\$ 9,114,418
Investments	1,219,000
Business-type activities	
Cash and pooled investments	6,415,920
Investments	10,654,431
Assets restricted by indenture agreements	575,788
Statement of fiduciary net position	
Cash and pooled investments	237,271
	\$ 28,216,828

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.

At December 31, 2018, the County's deposits were undercollateralized by \$725,759.

**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, 2018, none of the County's bank balances were exposed to custodial credit risk.

## 2. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers Investment trusts, and guaranteed investment contracts.

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, 2018, 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, 2018.

Investment Type	Fair Value	Investment Maturities (in Years)		
		< 1	1 - 5	6 - 10
U.S. Government Securities	\$ 150,000	\$ 150,000	\$ -	\$ -
Certificates of Deposit	11,684,431	10,465,431	1,219,000	-
MAGIC Portfolio	39,000	39,000	-	-
<b>Total investments</b>	<b>\$ 11,873,431</b>	<b>\$ 10,654,431</b>	<b>\$ 1,219,000</b>	<b>\$ -</b>

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, 2018:

	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	\$ 150,000	\$ -	\$ 150,000	\$ -
Negotiable certificates of deposit	11,684,431	-	11,684,431	-
<b>Total Investments Included in the Fair Value Hierarchy</b>	<b>\$ 11,834,431</b>	<b>\$ -</b>	<b>\$ 11,834,431</b>	<b>\$ -</b>
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	\$	100,828
Grants		3,841,005
Special assessments		310,468
Solar credit		45,596
Probation officer		15,984
Interest		18,826
		\$ 4,332,707

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, 2018 totaled \$169,024.

Of the receivable amounts, \$228,919 of special assessments receivable and \$163,705 of loans receivable are not scheduled for collection during the subsequent year.

**C. Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

Governmental Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 1,186,361	\$ 44,740	\$ -	\$ 1,231,101
Right-of-way	1,267,283	-	-	1,267,283
Historical treasures	35,924	-	-	35,924
Total Capital Assets, Not Being Depreciated	<u>2,489,568</u>	<u>44,740</u>	<u>-</u>	<u>2,534,308</u>
Capital Assets, Being Depreciated				
Buildings and building improvements	8,157,085	-	-	8,157,085
Land improvements	311,486	86,017	-	397,503
Machinery and equipment	5,991,303	419,394	305,859	6,104,838
Infrastructure	62,019,808	2,823,829	-	64,843,637
Total Capital Assets, Being Depreciated	<u>76,479,682</u>	<u>3,329,240</u>	<u>305,859</u>	<u>79,503,063</u>
Less Accumulated Depreciation for:				
Buildings and building improvements	3,440,277	120,345	-	3,560,622
Land improvements	157,613	12,922	-	170,535
Machinery and equipment	3,241,464	423,501	217,536	3,447,429
Infrastructure	18,843,976	1,297,164	-	20,141,140
Total Accumulated Depreciation	<u>25,683,330</u>	<u>1,853,932</u>	<u>217,536</u>	<u>27,319,726</u>
Total Capital Assets, Being Depreciated, Net	<u>50,796,352</u>	<u>1,475,308</u>	<u>88,323</u>	<u>52,183,337</u>
Governmental Activities Capital Assets, Net	<u>\$ 53,285,920</u>	<u>\$ 1,520,048</u>	<u>\$ 88,323</u>	<u>\$ 54,717,645</u>

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

Governmental Activities:

General government	\$ 144,493
Public safety	191,439
Public works	1,518,000
	<u>\$ 1,853,932</u>



Capital asset activity for the year ended June 30, 2018, was as follows:

Business-type Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 1,277,445	\$ -	\$ -	\$ 1,277,445
Construction in progress	200,966	732,894	859,981	73,879
Total Capital Assets, Not Being Depreciated	<u>1,478,411</u>	<u>732,894</u>	<u>859,981</u>	<u>1,351,324</u>
Capital Assets, Being Depreciated				
Land improvements	1,610,841	-	-	1,610,841
Buildings	40,391,661	86,510	-	40,478,171
Fixed equipment	2,853,279	53,909	8,290	2,898,898
Major movable equipment	10,283,518	695,980	491,331	10,488,167
Total Capital Assets, Being Depreciated	<u>55,139,299</u>	<u>836,399</u>	<u>499,621</u>	<u>55,476,077</u>
Less Accumulated Depreciation for:				
Land improvements	344,093	95,843	-	439,936
Buildings	7,162,617	1,720,577	-	8,883,194
Fixed equipment	2,151,942	99,153	8,290	2,242,805
Major movable equipment	6,925,631	657,591	490,036	7,093,186
Total Accumulated Depreciation	<u>16,584,283</u>	<u>2,573,164</u>	<u>498,326</u>	<u>18,659,121</u>
Total Capital Assets, Being Depreciated, Net	<u>38,555,016</u>	<u>(1,736,765)</u>	<u>1,295</u>	<u>36,816,956</u>
Business-Type Activities Capital Assets, Net	<u>\$ 40,033,427</u>	<u>\$ (1,003,871)</u>	<u>\$ 861,276</u>	<u>\$ 38,168,280</u>

Construction in progress at June 30, 2018, consists of expenditures for a Medical Center remodeling project. The Medical Center did not have any commitments for this project.

Depreciation expense totaled \$2,573,164 for the Medical Center for the year ended December 31, 2018.

**D. Long-Term Debt**

Changes in Long-Term Liabilities. During the year ended December 31, 2018, and June 30, 2018 for the Medical Center, the following changes occurred in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities</b>					
Loans payable	\$ 140,450	\$ -	\$ 26,957	\$ 113,493	\$ 27,624
Compensated absences	266,697	233,391	236,631	263,457	36,388
Total governmental activities long-term liabilities	<u>\$ 407,147</u>	<u>\$ 233,391</u>	<u>\$ 263,588</u>	<u>\$ 376,950</u>	<u>\$ 64,012</u>
<b>Business-Type Activities</b>					
<b>Bonds payable</b>					
Medical Center					
Revenue Bonds	\$ 7,000,000	\$ -	\$ 115,631	\$ 6,884,369	\$ 125,000
G.O. Refunding Bonds, Series 2013A	985,000	-	190,000	795,000	195,000
Plus: Unamortized premium	25,770	-	5,622	20,148	5,622
Total bonds payable	<u>8,010,770</u>	<u>-</u>	<u>311,253</u>	<u>7,699,517</u>	<u>325,622</u>
<b>Other long-term debt</b>					
Health Facilities Revenue Note, Series 2001	380,463	-	266,526	113,937	113,937
USDA direct loan	17,063,307	359,783	104,128	17,318,962	307,581
Total other long-term debt	<u>17,443,770</u>	<u>359,783</u>	<u>370,654</u>	<u>17,432,899</u>	<u>421,518</u>
Total long-term liabilities	<u>\$ 25,454,540</u>	<u>\$ 359,783</u>	<u>\$ 681,907</u>	<u>\$ 25,132,416</u>	<u>\$ 747,140</u>

### 1. General Obligation Debt and Certificates of Participation

General obligation debt payable for the County as of December 31, 2018 and June 30, 2018 for the Medical Center, consists of the following:

	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Original Indebtedness</u>	<u>Balance 12/31/2018</u>
Governmental Activities					
Loans Payable					
2009 Redwood River CWP Project	2009	2021	2.00%	\$ 6,783	\$ 2,179
2011 Rock River Septic Loan Program	2011	2022	2.00%	105,501	51,226
2011 Pipestone County Ag Best Management Loan Program	2011	2020	N/A	80,683	25,786
2013 Rock River Septic Loan Program	2013	2026	2.00%	<u>37,306</u>	<u>34,302</u>
Total loans payable				<u>\$ 230,273</u>	<u>\$ 113,493</u>
Business-Type Activities					
Medical Center Revenue Bonds, Series 2014A & 2014B	2014	2043	3.44% to 4.7%	\$ 7,000,000	\$ 6,884,369
G.O. Hospital Refunding Bonds, Series 2013A	2013	2022	2.25%	1,562,639	795,000
Health Facilities Revenue Note, Series 2001	2001	2018	Various	3,075,000	113,937
USDA Direct Loan	2017	2056	2.38%	<u>17,065,678</u>	<u>17,318,962</u>
				28,703,317	25,112,268
Plus: unamortized premium				<u>44,981</u>	<u>20,148</u>
Total long term debt				<u>\$ 28,748,298</u>	<u>\$ 25,132,416</u>

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.

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
2019	\$ 27,624	\$ 1,677	\$ 741,518	\$ 743,908	\$ 769,142	\$ 745,585
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	9,972	417	491,656	667,680	501,628	668,097
2024 - 2028	14,829	599	2,737,883	2,758,457	2,752,712	2,759,056
2029 - 2033	-	-	3,214,085	2,661,423	3,214,085	2,661,423
2034 - 2038	-	-	3,780,642	2,096,674	3,780,642	2,096,674
2039 - 2043	-	-	4,461,458	1,418,899	4,461,458	1,418,899
2044 - 2048	-	-	3,870,933	684,509	3,870,933	684,509
2049- 2053	-	-	2,202,389	315,877	2,202,389	315,877
2054 - 2056	-	-	1,619,936	86,396	1,619,936	86,396
Totals	<u>\$ 113,493</u>	<u>\$ 5,841</u>	<u>\$ 25,112,268</u>	<u>\$ 13,553,101</u>	<u>\$ 25,225,761</u>	<u>\$ 13,558,942</u>

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, 2018 was \$65,105,230.

## 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, 2018, for all operating leases was \$439,460.

### E. Interfund Activity

Interfund balances as of December 31, 2018, are as follows:

	Due to	Due from
General fund	\$ 12,819	\$ -
Roads and Bridges	-	13,439
Nonmajor governmental funds	20,492	-
	<u>\$ 33,311</u>	<u>\$ 13,439</u>

The amount of due to other funds does not agree to the due from other funds due to payments of \$19,872 made between the Medical Center's year-end of June 30, 2018 and the County's year-end of December 31, 2018. The purpose of interfund activity is for reimbursable expenditures for goods and services.

During the year ended December 31, 2018, the Medical Facility Debt Service fund recorded transfers out of \$213,553. During the year ended June 30, 2018, the Medical Center recorded transfers in of \$212,461. The amount of transfers out does not agree to the transfers in due to payments of \$1,092 made between the Medical Center's year-end of June 30, 2018 and the County's year -end of December 31, 2018. The purpose of interfund transfers are to provide funds for debt service requirements.

**F. Fund Balances**

Governmental fund balances reported on the fund financial statements at December 31, 2018, include the following:

	General Fund	Roads and Bridges	Nonmajor Funds	Totals
Nonspendable				
Inventories	\$ -	\$ 281,030	\$ -	\$ 281,030
Missing heirs	6,523	-	-	6,523
Loans receivable	-	-	169,024	169,024
Prepaid items	62,949	-	-	62,949
Total Nonspendable	<u>69,472</u>	<u>281,030</u>	<u>169,024</u>	<u>519,526</u>
Restricted for:				
Health cost management	1,655	-	-	1,655
Law library	30,634	-	-	30,634
Elections	22,466	-	-	22,466
Recorder technology	38,577	-	-	38,577
Recorder compliance	81,557	-	-	81,557
Sheriffs contingency	2,059	-	-	2,059
Aggregate pit restore	8,624	-	-	8,624
Probation supervision	22,030	-	-	22,030
DUI fees	801	-	-	801
Redeem forfeit motor	3,510	-	-	3,510
Adm drug forfeitures	564	-	-	564
Jail canteen fund	3,391	-	-	3,391
Permit to carry	29,852	-	-	29,852
Septic/sewer loans	38,118	-	-	38,118
Highway allotments	-	205,420	-	205,420
Wheelage Tax Construction	-	167,953	-	167,953
Wind Tower Road Life	-	389,665	-	389,665
Debt service	-	-	265,975	265,975
Judicial ditch maintenance	-	-	24,015	24,015
Total Restricted	<u>283,838</u>	<u>763,038</u>	<u>289,990</u>	<u>1,336,866</u>
Assigned for:				
Elections	92,124	-	-	92,124
Buildings	107,657	-	-	107,657
Capital improvements	208,328	-	-	208,328
Capital equipment	-	383,700	-	383,700
Ambulance	65,429	-	-	65,429
Solid waste/recycling	708,946	-	-	708,946
Riparian protection aid	91,194	-	-	91,194
County septic loan program	15,394	-	-	15,394
Radio comm systems	45,000	-	-	45,000
Computer software	200,212	-	-	200,212
School resource officer	52,000	-	-	52,000
Assigned balance	96,154	-	-	96,154
County road and bridge	-	2,172,207	-	2,172,207
Family services	-	-	727,065	727,065
Total Assigned	<u>1,682,438</u>	<u>2,555,907</u>	<u>727,065</u>	<u>4,965,410</u>
Unassigned	<u>3,137,235</u>	<u>-</u>	<u>-</u>	<u>3,137,235</u>
Total fund balances	<u>\$ 5,172,983</u>	<u>\$ 3,599,975</u>	<u>\$ 1,186,079</u>	<u>\$ 9,959,037</u>

**Note 4 - Other Post-Employment Benefits**

**A. Plan Description**

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the County’s health insurance plan after retirement. This single-employer plan covers active employees; retired law enforcement employees who have reached age 50 and 10 years of service (3 years of service if hired before July 1, 2010, and 5 years of service if hired after July 1, 2010, and before June 30, 2014); and all other retired county employees who have reached age 55 and 5 years of service (3 years of service if hired before July 1, 2010). Benefit provisions are established through negotiations between the County and the union representing County employees and are renegotiated at the end of each contract period. The retiree health plan does not issue a publicly available financial report.

**B. Benefits Provided**

Eligible participants and their dependents have access to other post-employment benefits of blended medical premiums of \$557 for single coverage and age graded for spouses. The implicit rate subsidy is only until Medicare eligibility for medical insurance and age 70 for life insurance. There are no subsidized post employment medical, dental, or life benefits.

**C. Employees Covered by Benefit Terms**

At the valuation date of January 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or spouses currently receiving benefit payments	5
Active employees electing coverage	76
	81

**D. Total OPEB Liability**

The County’s total OPEB liability of \$539,234 was measured as of January 1, 2018, and was determined by an actuarial valuation as of that date.

**E. Actuarial Assumptions**

The total OPEB liability in the January 1, 2018, actuarial valuation was determined as using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent	
Salary increases	3.00 percent	
Discount Rate	3.30 percent	
Healthcare cost trend rates	6.50% as of January 1, 2018, grading to 5.00% over 6 years	
Retiree plan participation	Future retirees electing coverage:	
	Pre-65 subsidy available	N/A
	Pre-65 subsidy not available	50%
Percent of married retirees electing spouse coverage	Future retirees electing Pre-65 Spouse Coverage	
	Spouse subsidy available:	N/A
	Spouse subsidy not available:	25%

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale (with Blue Collar adjustment for Police and Fire Personnel)

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the index rate for 20-year, tax-exempt municipal bonds.

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

**F. Changes in the Total OPEB Liability**

Balance at January 1, 2018	\$ 484,895
Changes from the Prior Year:	
Service Cost	37,113
Interest Cost	17,226
Net Change	54,339
Balance at December 31, 2018	\$ 539,234

**G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trends Rate**

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.30%	3.30%	4.30%
Total OPEB Liability	\$ 577,376	\$ 539,234	\$ 503,766

The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current healthcare trend rates:

	1% Decrease in Healthcare Trend Rates	Selected Healthcare Trend Rates	1% Increase in Healthcare Trend Rates
Total OPEB Liability	\$ 489,457	\$ 539,234	\$ 598,403



**H. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB**

For the year ended December 31, 2018, the County recognized OPEB expense of \$20,149.

At December 31, 2018, the County reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made after the measurement date	\$ 34,190	\$ -

\$34,190 reported as deferred outflows of resources related to OPEB resulting from the County’s contributions subsequent to the measurement date will be recognized as reduction of the total OPEB liability in the year ended December 31, 2019.

**Note 5 - 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 Plan**

All full-time and certain part-time employees of the County are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**2. Public Employees Police and Fire Plan**

The Police and Fire Plan, 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 Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

**3. Local Government Correctional Plan**

The Correctional Plan 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. 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. General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

### **2. Police and Fire Plan 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. The annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

### **3. Correctional Plan 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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Correctional Plan benefit recipients receive a future annual 2.5 percent increase. If the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

## **B. Contributions**

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

### **1. General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2018 and the County was required to contribute 7.50% for Coordinated Plan members. The County's contributions to the General Employees Fund for the year ended December 31, 2018 were \$211,617 and the Medical Center's contributions for the year ended June 30, 2018, were \$655,368. The County's contributions were equal to the required contributions as set by state statute.

### **2. Police and Fire Fund Contributions**

Plan members were required to contribute 10.8% of their annual covered salary and the County was required to contribute 16.20% of pay for members in fiscal year 2018. The County's contributions to the Police and Fire Fund for the year ended December 31, 2018, were \$141,143. The County's contributions were equal to the required contributions as set by state statute.

### 3. Correctional Fund Contributions

Plan members were required to contribute 5.83% of their annual covered salary and the County was required to contribute 8.75% of pay for plan members in fiscal year 2018. The County's contributions to the Correctional Fund for the year ended December 31, 2018, were \$45,546. The County's contributions were equal to the required contributions as set by state statute.

#### C. Pension Costs

##### 1. General Employees Fund Pension Costs

At December 31, 2018, the County reported a liability of \$2,402,106 for its proportionate share of the General Employees Fund's net pension liability. The County's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2018. 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 \$78,758. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was 0.0433%, which was a decrease of 0.0009% from its proportionate share measured as of June 30, 2017.

County's proportionate share of the net pension liability	\$ 2,402,106
State of Minnesota's proportionate share of the net pension liability associated with the County	78,758
Total	\$ 2,480,864

For the year ended December 31, 2018, the County recognized pension expense of \$124,943 for its proportionate share of the General Employees Plan's pension expense. In addition, the County recognized an additional \$18,366 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2018, the County reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 64,843	\$ 69,736
Changes in actuarial assumptions	228,402	273,743
Net collective difference between projected and actual investment earnings	-	255,296
Changes in proportion	55,463	43,091
Contributions paid to PERA subsequent to measurement date	113,087	-
<b>Total</b>	<b>\$ 461,795</b>	<b>\$ 641,866</b>

The \$113,087 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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense
2019	\$ 95,415
2020	(126,725)
2021	(211,713)
2022	(50,135)
2023	-

At June 30, 2018, the Medical Center reported a liability of \$8,988,578 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 2018. 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 \$113,040. 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 those dates. The Medical Center's proportionate share 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, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Medical Center's proportionate share was 0.1408%, which was a decrease of .0042% from its proportionate share measured as of June 30, 2017.

Medical Center's proportionate share of the net pension liability	\$ 8,988,578
State of Minnesota's proportionate share of the net pension liability associated with the Medical Center	<u>113,040</u>
Total	<u><u>\$ 9,101,618</u></u>

For the year ended June 30, 2018, the Medical Center recognized pension expense of \$964,711 for its proportionate share of the General Employees Plan's pension expense. In addition, the Medical Center recognized an additional \$3,265 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, 2018, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 296,236	\$ 598,381
Changes of actuarial assumptions	1,536,813	901,106
Difference between projected and actual investment earnings	-	379,384
Changes in proportion	-	423,482
Contributions paid to PERA subsequent to measurement date	<u>655,368</u>	<u>-</u>
Total	<u><u>\$ 2,488,417</u></u>	<u><u>\$ 2,302,353</u></u>

\$655,368 reported as deferred outflows of resources at June 30, 2018, 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, 2019. 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:	<u>Pension Expense</u>
2019	\$ (274,380)
2020	429,779
2021	(243,155)
2022	(381,548)
2023	-

## 2. Police and Fire Fund Pension Costs

At December 31, 2018, the County reported a liability of \$855,915 for its proportionate share of the Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the County's proportionate share was .0803%, which was an increase of .0013% from the prior year. The County also recognized \$7,227 for the year ended December 31, 2018, as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota's on-behalf contributions to the Police and Fire Fund. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

For the year ended December 31, 2018, the County recognized pension expense of \$80,454 for its proportionate share of the Police and Fire Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of the Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 34,175	\$ 195,715
Changes of actuarial assumptions	980,630	1,240,084
Net collective difference between projected and actual investment earnings	-	191,345
Changes in proportion	159,199	17,044
Contributions paid to PERA subsequent to measurement date	70,993	-
<b>Total</b>	<b>\$ 1,244,997</b>	<b>\$ 1,644,188</b>

The \$70,993 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, 2019. 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:	
2019	\$ (9,995)
2020	(48,105)
2021	(110,962)
2022	(301,225)
2023	103

### 3. Correctional Plan Pension Costs

At December 31, 2018, the County reported a liability of \$42,877 for its proportionate share of the Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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 proportionate share 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the County's proportionate share was .2607%, which was an increase of .0107% from its proportionate share measured as of June 30, 2017.

For the year ended December 31, 2018, the County recognized pension expense of \$(202,448) for its proportionate share of the Correctional Plan's pension expense.

At December 31, 2018, the County reported its proportionate share of the Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,218	\$ 4,395
Changes of actuarial assumptions	186,199	492,224
Net collective difference between projected and actual investment earnings	-	50,020
Changes in proportion	41,137	-
Contributions paid to PERA subsequent to measurement date	21,691	-
Total	\$ 251,245	\$ 546,639



The \$21,691 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, 2019. 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:	
2019	\$ 21,544
2020	(172,616)
2021	(157,037)
2022	(8,976)
2023	-

#### 4. Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2018, was \$1,394,157.

#### D. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

### **General Employees Fund**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

### **Police and Fire Fund**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**Correctional Fund**

Changes in Actuarial Assumptions:

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The mortality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric 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	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
	100%	

**E. Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. 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, the Police and Fire Fund, and the Correctional Fund were 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.

**F. 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:

	<b>Sensitivity Analysis</b>					
	<i>Net Pension Liability (Asset) at Different Discount Rates</i>					
	<u>General Employees Fund</u>		<u>Police and Fire Fund</u>		<u>Correctional Funds</u>	
1% Lower	6.50%	\$ 3,903,731	6.50%	\$ 1,835,136	6.50%	\$ 366,956
Current Discount Rate	7.50%	\$ 2,402,106	7.50%	\$ 855,915	7.50%	\$ 42,877
1% Higher	8.50%	\$ 1,162,559	8.50%	\$ 46,140	8.50%	\$ (216,376)

The following presents the Medical Center'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 Medical Center'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:

	<b>Sensitivity Analysis</b>	
	<i>Net Pension Liability at Different Discount Rates</i>	
	<u>General Employees Fund</u>	
1% Lower	6.50%	\$ 13,941,954
Current Discount Rate	7.50%	\$ 8,988,578
1% Higher	8.50%	\$ 4,933,342

**G. 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](http://www.mnpera.org).

**H. Defined Contribution Plan**

Two County Commissioners and the Sheriff of the County are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *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 five percent 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 contributions 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 two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the County during year ended December 31, 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required Rate
Employee	Employer	Employee	Employer	
\$ 10,106	\$ 10,106	5.00%	5.00%	5.00%

**Note 6 - Adoption of New Standard**

As of January 1, 2018, the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability as follows:

Net Position, December 31, 2017, as previously reported	\$ 62,181,677
Add total OPEB liability under GASB Statement No. 75 at January 1, 2018	<u>(484,895)</u>
Net Position, January 1, 2018, as restated	<u><u>\$ 61,696,782</u></u>

**Note 7 - 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 2018. 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, 2018, the Lincoln-Pipestone Rural Water System had \$40,841,000 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 2018 for the human services function was \$1,270,780, and its contribution to the health services function was \$117,551.

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, 2018, were \$40,841,000.

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. During the year, Pipestone County made no contributions to PrimeWest.

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 collected \$131,056 in revenue for these services to patients and paid Central Minnesota Diagnostics, Inc. \$320,256 in the year ended June 30, 2018. The Pipestone County Medical Center also received \$97,264 of distributions from CMDI for the year ended December 31, 2018.

**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 2018, Pipestone County made no contributions 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 \$33,505 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 2018, Pipestone County provided \$23,243 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.

### **Counties Providing Technology**

Counties Providing Technology (CPT) was created to purchase the technology system related to the taxing system used by the member counties.

CPT is governed by a board consisting of one representative from each member county. Stevens County serves as fiscal agent for CPT. During the year, Pipestone County made an initial contribution of \$175,000 and paid \$42,108 for technology services.

### **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 \$2,058 to the MCC.



Required Supplementary Information  
December 31, 2018

## Pipestone County

Pipestone County  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 4,364,184	\$ 4,364,184	\$ 4,179,894	\$ (184,290)
Special assessments	240,500	240,500	271,840	31,340
Intergovernmental	1,263,271	1,263,271	1,563,437	300,166
Licenses and permits	15,150	15,150	22,175	7,025
Fines, forfeitures and penalties	5,100	5,100	9,485	4,385
Public charges for services	1,727,611	1,727,611	1,684,454	(43,157)
Investment income	110,000	110,000	72,417	(37,583)
Miscellaneous	300,011	300,011	323,254	23,243
<b>Total revenues</b>	<b>8,025,827</b>	<b>8,025,827</b>	<b>8,126,956</b>	<b>101,129</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	3,436,147	3,436,147	3,369,021	67,126
Public safety	3,565,114	3,565,114	3,383,351	181,763
Sanitation	331,538	331,538	523,647	(192,109)
Health	117,551	117,551	117,551	-
Culture and recreation	126,496	126,496	127,827	(1,331)
Conservation	457,668	457,668	459,490	(1,822)
Economic development	8,320	8,320	8,365	(45)
Intergovernmental	-	-	175,000	(175,000)
<b>Debt Service</b>				
Principal	22,800	22,800	26,957	(4,157)
Interest	600	600	1,981	(1,381)
<b>Total expenditures</b>	<b>8,066,234</b>	<b>8,066,234</b>	<b>8,193,190</b>	<b>(126,956)</b>
<b>Net change in fund balance</b>	<b>\$ (40,407)</b>	<b>\$ (40,407)</b>	<b>(66,234)</b>	<b>\$ (25,827)</b>
<b>Fund Balance, Beginning</b>			<b>5,239,217</b>	
<b>Fund Balance, Ending</b>			<b>\$ 5,172,983</b>	

Pipestone County  
 Budgetary Comparison Schedule – Road and Bridge Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,365,000	\$ 1,365,000	\$ 1,308,262	\$ (56,738)
Intergovernmental	6,928,511	6,928,511	4,081,706	(2,846,805)
Public charges for services	302,500	302,500	138,004	(164,496)
Investment income	10,750	10,750	15,449	4,699
Miscellaneous	108,500	108,500	526,223	417,723
<b>Total revenues</b>	<b>8,715,261</b>	<b>8,715,261</b>	<b>6,069,644</b>	<b>(2,645,617)</b>
<b>Expenditures</b>				
<b>Current</b>				
Highways and streets	8,385,261	8,385,261	5,716,756	2,668,505
Intergovernmental	330,000	330,000	382,330	(52,330)
<b>Total expenditures</b>	<b>8,715,261</b>	<b>8,715,261</b>	<b>6,099,086</b>	<b>2,616,175</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(29,442)</b>	<b>\$ (29,442)</b>
Fund Balance, Beginning			3,537,802	
Increase in inventories			91,615	
<b>Fund Balance, Ending</b>			<b>\$ 3,599,975</b>	

**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, 2018, the board did not make supplemental budgetary appropriations.

Pipestone County  
 Schedule of Changes in the County's Total OPEB Liability and Related Ratios  
 December 31, 2018

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**Schedule of Changes in the County's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years\***

	2018
Service cost	\$ 37,113
Interest	17,226
Changes of assumptions	-
Benefit payments	-
Net change in total OPEB liability	54,339
Total OPEB liability - beginning	484,895
Total OPEB liability - ending	\$ 539,234
Covered-employee payroll	\$ 4,018,076
Total OPEB liability as a percentage of covered-employee payroll	13.42%

\*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.

**Notes to the Schedule of Changes in the County's Total OPEB Liability and Related Ratios**

- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

December 31, 2018

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

Pension Plan	Measurement Date	County's Proportionate Share (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 its Covered - Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Fund	6/30/2018	0.0433%	\$ 2,402,106	\$ 78,758	\$ 2,480,864	\$ 3,428,182	70.07%	79.5%
General Employees Fund	6/30/2017	0.0442%	2,821,699	35,475	2,857,174	3,015,955	93.56%	75.9%
General Employees Fund	6/30/2016	0.0431%	3,499,506	45,639	3,545,145	2,662,941	131.42%	68.9%
General Employees Fund	6/30/2015	0.0422%	2,187,023	N/A	2,187,023	2,482,283	88.11%	78.2%
General Employees - PCMC	6/30/2017	0.1408%	\$ 8,988,578	\$ 113,040	\$ 9,101,618	\$ 9,408,004	95.54%	79.5%
General Employees - PCMC	6/30/2016	0.1450%	11,773,281	153,770	11,927,051	9,331,701	126.16%	75.9%
General Employees - PCMC	6/30/2015	0.1483%	7,685,767	N/A	7,685,767	8,714,344	88.20%	68.9%
General Employees - PCMC	6/30/2014	0.1533%	7,291,991	N/A	7,291,991	8,153,703	89.43%	78.2%
Police and Fire Fund	6/30/2018	0.0803%	\$ 855,915	N/A	\$ 855,915	\$ 984,936	86.90%	88.8%
Police and Fire Fund	6/30/2017	0.0790%	1,066,594	N/A	1,066,594	813,063	131.18%	85.4%
Police and Fire Fund	6/30/2016	0.0740%	2,969,749	N/A	2,969,749	712,533	416.79%	63.9%
Police and Fire Fund	6/30/2015	0.0770%	874,900	N/A	874,900	704,233	124.23%	86.6%
Correctional Fund	6/30/2018	0.2607%	42,877	N/A	\$ 42,877	\$ 620,525	6.91%	97.6%
Correctional Fund	6/30/2017	0.2500%	712,503	N/A	712,503	500,451	142.37%	65.9%
Correctional Fund	6/30/2016	0.2400%	876,754	N/A	876,754	450,808	194.49%	58.2%
Correctional Fund	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)
General Employees Fund	12/31/2018	\$ 211,617	\$ 211,617	-	\$ 2,821,556	7.50%
General Employees Fund	12/31/2017	227,870	227,870	-	3,038,267	7.50%
General Employees Fund	12/31/2016	210,392	210,392	-	2,805,223	7.50%
General Employees Fund	12/31/2015	189,422	189,422	-	2,525,631	7.50%
General Employees - PCMC	6/30/2018	\$ 655,368	\$ 655,368	-	\$ 8,738,240	7.50%
General Employees - PCMC	6/30/2017	679,436	679,436	-	9,059,147	7.50%
General Employees - PCMC	6/30/2016	653,318	653,318	-	8,710,907	7.50%
General Employees - PCMC	6/30/2015	594,963	594,963	-	7,932,840	7.50%
Police and Fire Fund	12/31/2018	\$ 141,143	\$ 141,143	-	\$ 871,250	16.20%
Police and Fire Fund	12/31/2017	133,723	133,723	-	825,449	16.20%
Police and Fire Fund	12/31/2016	125,705	125,705	-	775,956	16.20%
Police and Fire Fund	12/31/2015	108,158	108,158	-	667,643	16.20%
Correctional Fund	12/31/2018	\$ 45,546	\$ 45,546	-	\$ 520,521	8.75%
Correctional Fund	12/31/2017	46,167	46,167	-	527,625	8.75%
Correctional Fund	12/31/2016	41,399	41,399	-	473,135	8.75%
Correctional Fund	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.



Since the last actuarial valuation as of June 30, 2017, the following have changed:

### **General Employees Fund**

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

### **Police and Fire Fund**

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

- Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution.
- New annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
- Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
- Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**Correctional Fund**

## Changes in Actuarial Assumptions:

- The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
- The morality projection scale was changed from MP-2016 to MP-2017.
- The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

## Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.



Supplemental Schedules  
December 31, 2018

# Pipestone County

Pipestone County  
Combining Balance Sheet – Nonmajor Governmental Funds  
December 31, 2018

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Family Services</u>	<u>Ditch</u>	<u>Medical Facility Bonds</u>	
<b>Assets</b>				
Cash and investments	\$ 727,065	\$ 25,907	\$ 285,847	\$ 1,038,819
Receivables:				
Taxes - delinquent	19,321	-	5,412	24,733
Special assessments - delinquent	-	599	-	599
Loans	169,024	-	-	169,024
<b>Total assets</b>	<u>\$ 915,410</u>	<u>\$ 26,506</u>	<u>\$ 291,259</u>	<u>\$ 1,233,175</u>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 1,272	\$ -	\$ 1,272
Due to other funds	-	620	19,872	20,492
<b>Total liabilities</b>	<u>-</u>	<u>1,892</u>	<u>19,872</u>	<u>21,764</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - notes receivable	19,321	599	5,412	25,332
<b>Fund Balances</b>				
Nonspendable	169,024	-	-	169,024
Restricted	-	24,015	265,975	289,990
Assigned	727,065	-	-	727,065
<b>Total fund balances</b>	<u>896,089</u>	<u>24,015</u>	<u>265,975</u>	<u>1,186,079</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 915,410</u>	<u>\$ 26,506</u>	<u>\$ 291,259</u>	<u>\$ 1,233,175</u>

Pipestone County

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Nonmajor Governmental Funds  
Year Ended December 31, 2018

	Special Revenue		Debt Service	Total Nonmajor Governmental Funds
	Family Services	Ditch	Medical Facility Bonds	
Revenues				
Taxes	\$ 1,198,768	\$ -	\$ 224,030	\$ 1,422,798
Special Assessments	-	9,947	-	9,947
Investment income	4,240	-	-	4,240
Total revenues	<u>1,203,008</u>	<u>9,947</u>	<u>224,030</u>	<u>1,436,985</u>
Expenditures				
Current				
Human services	1,265,794	-	-	1,265,794
Conservation	-	11,013	-	11,013
Total expenditures	<u>1,265,794</u>	<u>11,013</u>	<u>-</u>	<u>1,276,807</u>
Excess (deficiency) of revenues over (under) expenditures	(62,786)	(1,066)	224,030	160,178
Other Financing Uses				
Transfers out	-	-	(213,553)	(213,553)
Net Change in Fund Balances	(62,786)	(1,066)	10,477	(53,375)
Fund Balances - Beginning of Year	<u>958,875</u>	<u>25,081</u>	<u>255,498</u>	<u>1,239,454</u>
Fund Balances - End of Year	<u>\$ 896,089</u>	<u>\$ 24,015</u>	<u>\$ 265,975</u>	<u>1,186,079</u>

Pipestone County  
 Budgetary Comparison Schedule – Family Services Fund  
 Year Ended December 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,261,101	\$ 1,261,101	\$ 1,198,768	\$ (62,333)
Investment income	-	-	4,240	4,240
Total revenues	<u>1,261,101</u>	<u>1,261,101</u>	<u>1,203,008</u>	<u>(58,093)</u>
Expenditures				
Current				
Human services	<u>1,261,101</u>	<u>1,261,101</u>	<u>1,265,794</u>	<u>(4,693)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(62,786)	<u>\$ (62,786)</u>
Fund Balance, Beginning			<u>958,875</u>	
Fund Balance, Ending			<u>\$ 896,089</u>	

Pipestone County  
 Budgetary Comparison Schedule – Ditches Fund  
 Year Ended December 31, 2018

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	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 10,200	\$ 10,200	\$ 9,947	\$ (253)
Expenditures				
Current				
Conservation	10,200	10,200	11,013	(813)
Net change in fund balance	\$ -	\$ -	(1,066)	\$ (1,066)
Fund Balance, Beginning			25,081	
Fund Balance, Ending			\$ 24,015	

Pipestone County  
 Budgetary Comparison Schedule – Medical Facility Bonds Fund  
 Year Ended December 31, 2018

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	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 223,532	\$ 223,532	\$ 224,030	\$ 498
Other Financing Sources				
Transfers Out	(223,532)	(223,532)	(213,553)	9,979
Net change in fund balance	\$ -	\$ -	10,477	\$ 10,477
Fund Balance, Beginning			255,498	
Fund Balance, Ending			\$ 265,975	



Pipestone County  
Combining Statement of Changes in Assets and Liabilities - Agency Funds  
Year Ended December 31, 2018

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>Lincoln-Pipestone Rural Water System</u>				
Assets				
Cash and investments	<u>\$ 22,134</u>	<u>\$ 153,115</u>	<u>\$ 167,172</u>	<u>\$ 8,077</u>
Liabilities				
Due to other governments	<u>\$ 22,134</u>	<u>\$ 153,115</u>	<u>\$ 167,172</u>	<u>\$ 8,077</u>
<u>State Revenue</u>				
Assets				
Cash and investments	<u>\$ (24,606)</u>	<u>\$ 1,761,478</u>	<u>\$ 1,678,874</u>	<u>\$ 57,998</u>
Liabilities				
Due to other governments	<u>\$ (24,606)</u>	<u>\$ 1,761,478</u>	<u>\$ 1,678,874</u>	<u>\$ 57,998</u>
<u>Taxes and Penalties</u>				
Assets				
Cash and investments	<u>\$ 328,332</u>	<u>\$ 15,754,626</u>	<u>\$ 15,911,762</u>	<u>\$ 171,196</u>
Liabilities				
Due to other governments	<u>\$ 328,332</u>	<u>\$ 15,754,626</u>	<u>\$ 15,911,762</u>	<u>\$ 171,196</u>
<u>Total Agency Funds</u>				
Assets				
Cash and investments	<u>\$ 325,860</u>	<u>\$ 17,669,219</u>	<u>\$ 17,757,808</u>	<u>\$ 237,271</u>
Liabilities				
Due to other governments	<u>\$ 325,860</u>	<u>\$ 17,669,219</u>	<u>\$ 17,757,808</u>	<u>\$ 237,271</u>



## 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2019.

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, one item 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*. See finding 2018-003 in the attached schedule of findings. 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.

### Response to Findings

The County's response to the finding identified in our audit is described in the accompanying schedule of findings. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota  
September 27, 2019



**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, 2018, 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, 2019.

**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.

*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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 and 2018-002 that we consider to be material weaknesses.

**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. 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.



Mankato, Minnesota  
September 27, 2019

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**Section I – Financial Statement Findings**

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**Material Weakness**

**2018-001                      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**

**2018-002                      Material 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.

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**Section II – Minnesota Legal Compliance Findings**

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**2018-003      Pledged Collateral**

*Criteria:* A good system of internal accounting control contemplates an adequate system for monitoring the requirements of pledged collateral.

*Condition:* Minnesota Statute 118A.03 subd. 3 requires that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate security bonds. The County's pledged collateral did not meet this requirement at December 31, 2018, for First Bank and Trust. The County was under collateralized at First Bank and Trust by \$725,759.

*Cause:* The County does not have an internal control system designed to properly monitor the requirements of pledged collateral.

*Effect:* The County was not in compliance with Minnesota Statute 118A.03 subd. 3. Noncompliance increases the custodial risk of the County.

*Recommendation:* The County needs to periodically review the pledged collateral to ensure compliance.

*Views of Responsible Officials:* There is no disagreement with the audit finding.