

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**CHIPPEWA COUNTY**  
**MONTEVIDEO, MINNESOTA**

YEAR ENDED DECEMBER 31, 2010

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**Year Ended December 31, 2010**



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

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets - Governmental Activities	1	14
Statement of Activities	2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	20
Fiduciary Funds		
Statement of Fiduciary Net Assets	7	21
Statement of Changes in Fiduciary Net Assets	8	22
Notes to the Financial Statements		23
<b>Required Supplementary Information</b>		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	51
Budgetary Comparison Schedules		
General Fund	A-2	52
Road and Bridge Special Revenue Fund	A-3	55
Family Services Special Revenue Fund	A-4	56
Ditch Revenue Special Revenue Fund	A-5	57
Notes to the Required Supplementary Information		58

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Financial Section (Continued)</b>		
Supplementary Information		
Fiduciary Funds		60
Investment Trust Funds		
Combining Statement of Fiduciary Net Assets	B-1	61
Combining Statement of Changes in Fiduciary Net Assets	B-2	62
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	63
Other Schedules		
Schedule of Intergovernmental Revenue	D-1	65
Schedule of Expenditures of Federal Awards	D-2	66
Notes to the Schedule of Expenditures of Federal Awards		68
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		69
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		75
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		78



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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

ORGANIZATION  
2010

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Kenneth Koenen	January 2013
2nd District	Jeffrey Lopez	January 2013
3rd District	Mark Dahl <sup>1</sup>	January 2011
4th District	Jim Dahlvang	January 2013
5th District	Gene Van Binsbergen <sup>2</sup>	January 2011
<b>Officers</b>		
<b>Elected</b>		
Attorney	David Gilbertson	January 2015
Auditor/Treasurer	Jon Clauson	January 2015
Coroner	Erik Shelstad, M.D.	January 2015
County Recorder and Registrar of Titles	Diane Ketelsen	January 2015
Sheriff	Stacy Tufto	January 2015
<b>Appointed</b>		
Assessor	Carol Schultz	Indefinite
Community Corrections	Midge Christianson	Indefinite
Deputy Registrar	Sandra Hodge	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Land and Resource Management	Scott Williams	Indefinite
Veterans Service Officer	Dennis Anderson	Indefinite
Family Services Director	Betty Christensen	Indefinite
Data Processing	KathyLeindecker/KenMenning	Indefinite

<sup>1</sup>Chair 2010

<sup>2</sup>Chair 2009

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Chippewa County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Chippewa County's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information,

although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2011, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 28, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010  
(Unaudited)**

The Auditor/Treasurer of Chippewa County offers readers of Chippewa County's financial statements this narrative overview and analysis of the financial activities of Chippewa County for the fiscal year ended December 31, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that has been furnished in a letter of transmittal and the notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of Chippewa County exceeded its liabilities at the close of the most recent fiscal year (December 31, 2010) by \$61,734,454 (net assets). Of this amount, \$14,687,343 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net assets increased by \$1,903,510. The increase is from additional capital assets.
- As of the close of the 2010 fiscal year, Chippewa County's governmental funds' ending fund balances were \$14,998,858 compared to \$15,419,277 in 2009. Approximately 35.1 percent of the amount (\$5,262,958) is available for spending at Chippewa County's discretion (unreserved, undesignated fund balance).

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to Chippewa County's basic financial statements. Chippewa County's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

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

The statement of net assets presents information on all of Chippewa County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Chippewa County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (uncollected taxes and earned but unused vacation leave).

The government-wide financial statements report functions of Chippewa County principally supported by taxes and intergovernmental revenues as governmental activities. The governmental activities of Chippewa County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

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

### **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Chippewa County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Chippewa County can be divided into two broad categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Within the governmental funds, Chippewa County maintains two fund types: general and special revenue. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, and Ditch Revenue Special Revenue Fund, all of which are considered to be major funds.

Chippewa County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with their budgets.

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

**General Fund.** The General Fund is used to account for all financial resources not accounted for in another fund.

**Special revenue funds.** Special revenue governmental funds account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The special revenue funds include:

- Road and Bridge Fund,
- Family Services Fund, and
- Ditch Revenue Fund.

**Fiduciary funds.** Fiduciary funds (trust and agency funds) are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Chippewa County's own programs. The accounting used for fiduciary funds is much like that used for the government-wide statements.

The basic fiduciary fund financial statements can be found on Exhibits 7 and 8 of this report.

## **Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary schedules referred to earlier in connection with the major governmental funds are presented immediately following the notes to the financial statements. Combining statements can be found on Exhibits B-1, B-2, and C-1 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$61,734,454 on December 31, 2010.

Capital assets of \$46,648,751 (land, buildings, machinery and equipment, infrastructure, improvements to land, and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (75.6 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

One percent of Chippewa County's net assets represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14,687,343) may be used to meet the government's ongoing obligations to citizens and creditors.

### Net Assets

	Governmental Activities	
	2010	2009
Assets		
Current and other assets	\$ 18,022,066	\$ 17,425,056
Capital assets	<u>46,648,571</u>	<u>44,108,553</u>
Total Assets	<u>\$ 64,670,637</u>	<u>\$ 61,533,609</u>
Liabilities		
Other liabilities	\$ 1,686,074	\$ 526,622
Long-term liabilities	<u>1,250,109</u>	<u>1,176,043</u>
Total Liabilities	<u>\$ 2,936,183</u>	<u>\$ 1,702,665</u>
Net Assets		
Invested in capital assets	\$ 46,648,571	\$ 44,108,553
Restricted	398,540	684,581
Unrestricted	<u>14,687,343</u>	<u>15,037,810</u>
Total Net Assets	<u>\$ 61,734,454</u>	<u>\$ 59,830,944</u>

Unrestricted net assets at December 31, 2010--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 23.8 percent of the net assets.

## Governmental Activities

The County's activities increased net assets by 3.2 percent (\$61,734,454 for 2010 compared to \$59,830,944 for 2009). Key elements in this increase in net assets are as follows:

<b>Changes in Net Assets</b>		
	<u>2010</u>	<u>2009</u>
Revenues		
Program revenues		
Charges for services	\$ 1,765,485	\$ 1,549,480
Operating grants and contributions	6,104,646	5,087,450
Capital grants and contributions	864,896	1,045,297
General revenues		
Property taxes	6,814,866	6,591,196
Other	1,666,064	2,060,151
Total Revenues	<u>\$ 17,215,957</u>	<u>\$ 16,333,574</u>
Expenses		
General government	\$ 2,820,407	\$ 3,219,863
Public safety	2,309,103	2,078,468
Highways and streets	3,607,715	3,310,504
Sanitation	205,077	207,612
Human services	4,293,068	4,317,457
Health	107,463	107,463
Culture and recreation	383,838	514,954
Conservation of natural resources	1,444,148	1,394,885
Economic development	133,958	54,030
Interest	7,670	3,603
Total Expenses	<u>\$ 15,312,447</u>	<u>\$ 15,208,839</u>
Increase in Net Assets	\$ 1,903,510	\$ 1,124,735
Net Assets - January 1	<u>59,830,944</u>	<u>58,706,209</u>
Net Assets - December 31	<u>\$ 61,734,454</u>	<u>\$ 59,830,944</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Chippewa County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## **Governmental Funds**

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of \$14,998,858, a decrease of \$420,419, or 2.8 percent, in comparison with the prior year. Of the combined ending fund balances, \$14,246,556 represents unreserved fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$752,302, is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2010, it had an unreserved fund balance of \$3,938,898. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 54.6 percent of total General Fund expenditures. During 2010, the ending fund balance decreased by (\$141,013). Examples of contributing factors to this decline are the General Fund's share of the County Program Aid and Market Value Credit Aid unallotment implemented by the Governor and the lower than expected interest earned on investments due to the erosion of investment rates experienced during 2010.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,638,439 at the end of 2010, representing 61.0 percent of its annual expenditures. The ending fund balance decreased by \$571,286 during 2010, primarily due to advancing of state funds to enable highway projects to be completed in 2010 that would otherwise not have been completed. Advanced funds are shown as a liability until the year that they were originally planned for distribution to the County.

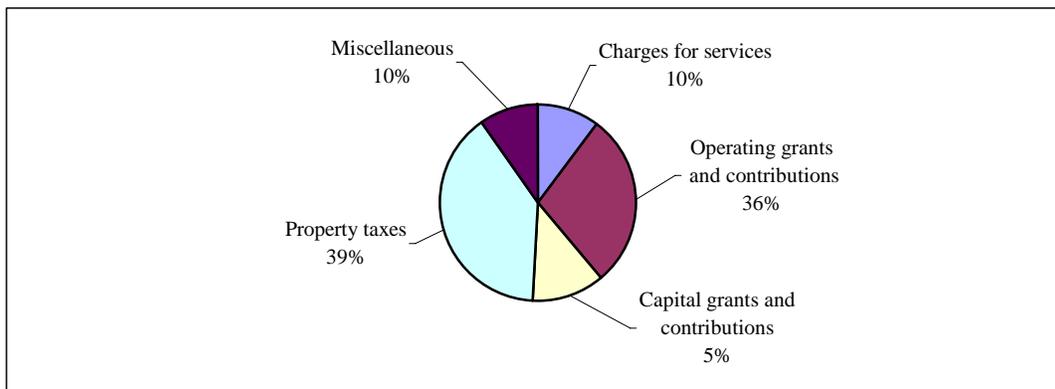
The Family Services Special Revenue Fund had an unreserved fund balance of \$3,659,922 at the end of 2010, representing 84.2 percent of its annual expenditures. The ending fund balance increased by \$380,093 during 2010. Out-of-home placements have been one of the most volatile expenditures for Family Services. In 2010, expenditures were \$192,000, and in 2009 they were \$479,000, resulting in nearly a \$300,000 difference from the prior year. During 2010, payments were received at an enhanced rate (Medicaid FMAP rate) of federal reimbursement for Targeted Case Management cases, resulting in about \$30,000 in increased revenues. This enhanced rate has now ended. Chemical Dependency expenditures were \$25,000 less than budgeted. Adult services were \$12,000 less than budgeted. With the health plans taking over some of the Mental Health Targeted case management and changes at the state level, revenues increased \$60,000 in this area.

The Ditch Revenue Special Revenue Fund had an unreserved fund balance of \$3,009,297 at the end of 2010. The ending fund balance decreased by \$88,213 during 2010, primarily due to expenditures for a significant repair project on Joint County Ditch #1 of Chippewa County that was partially completed by the end of 2010 without the opportunity to file repair liens until the project is completed by the end of 2011.

**GOVERNMENTAL ACTIVITIES**

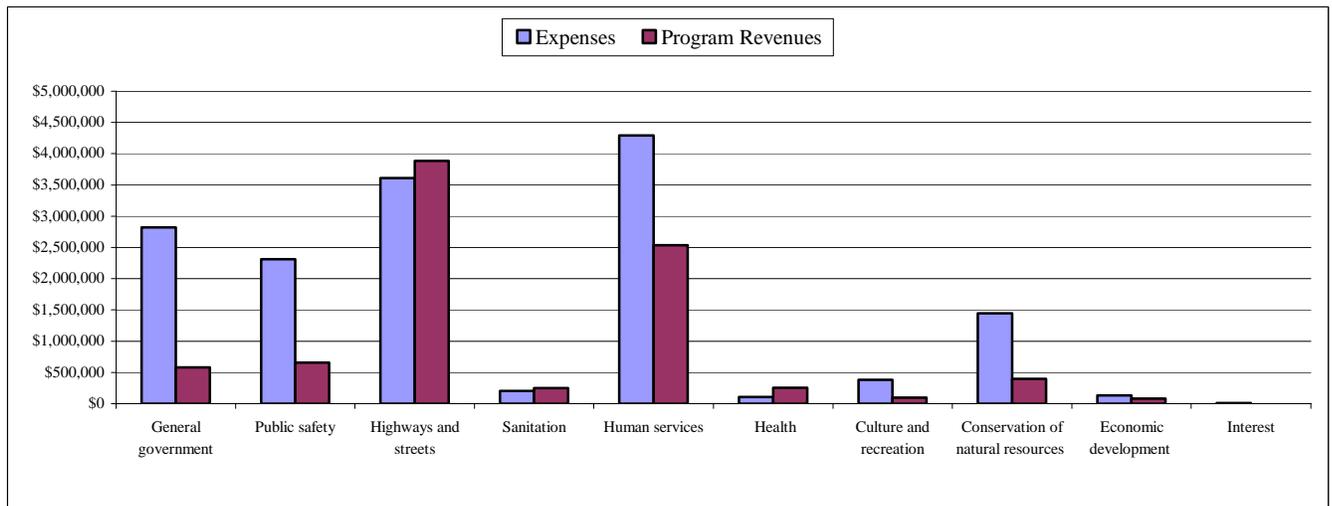
The County’s total revenues were \$17,215,957. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2010.

**Table 1  
Revenues by Source**



The Expenses and Program Revenues (Table 2) show the expenditures for each area on the left-hand bar and revenues received on the right-hand bar. The difference between the two bars is made up by real, personal, and mobile home taxes levied on County property owners.

**Table 2  
Expenses and Program Revenue**



The cost of all governmental activities in 2010 was \$15,312,447. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes and non-program revenues was only \$6,577,420 because some of the cost was paid by those who directly benefited from the programs (\$1,765,483) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,969,542). The County paid for the remaining “public benefit” portion of governmental activities with \$8,480,930 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 3 presents the cost of each of the County’s program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3  
Governmental Activities**

	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
General government	\$ 2,820,407	\$ (2,239,931)
Public safety	2,309,103	(1,652,564)
Highways and streets	3,607,715	278,204
Sanitation	205,077	44,935
Human services	4,293,068	(1,759,518)
Health	107,463	144,698
Culture and recreation	383,838	(285,485)
Conservation of natural resources	1,444,148	(1,046,747)
Economic development	133,958	(53,342)
Interest	<u>7,670</u>	<u>(7,670)</u>
Totals	<u>\$ 15,312,447</u>	<u>\$ (6,577,420)</u>

### **General Fund Budgetary Highlights**

Over the course of the year, the County Board increased the General Fund expenditure budget by \$701,775. The actual charges to appropriations (expenditures) were \$547,646 under the approved budget amounts. Several factors affecting those budget variances were:

- Examples of significant budget adjustments include several grant programs that the County serves as fiscal agent for where the funds were received and then passed on to other agencies or departments, the purchase of new sirens for Emergency Management, the Water Quality Grant Program, and the Greater Milan Initiative. These grant programs had expenditures offset by grant funds that passed through the County. Neither the revenues nor the expenditures were reflected in the original 2010 budget.

- The Governor’s unallotment of funds paid to local government (\$337,539 in 2010) continues to compound financial problems for local units of government by not providing funds promised by the State of Minnesota.
- Weakness in the overall economy and lower than anticipated interest rates continue to increase pressure on County resources.
- The jail experienced lower than anticipated expenditures due to the lower number of prisoners being boarded in the Yellow Medicine County Jail and reduced expenditures due to the reduced number of inmate meals and meds in the Chippewa County Jail.
- Expenditures to the Minnesota Sex Offender Program (MSOP), previously paid by the State of Minnesota that have now been passed down to counties for the treatment costs related to civilly committed sex offenders, continues to add additional pressure to county budgets.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County’s capital assets for its governmental activities at December 31, 2010, totaled \$46,648,571 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,562,084, or 5.8 percent, from the previous year. The major capital asset event was construction of highways and streets for \$2,529,526.

#### **Capital Assets at Year-End Net of Depreciation (in Thousands)**

	<u>2010</u>	<u>2009</u>
Land and right-of-way	\$ 1,594	\$ 1,592
Infrastructure	40,891	38,355
Buildings	2,236	2,340
Machinery and equipment	1,689	1,654
Construction in progress	<u>239</u>	<u>168</u>
Total	<u>\$ 46,649</u>	<u>\$ 44,109</u>

Additional information about the County’s capital assets can be found in the notes to the financial statements.

## **Long-Term Debt**

At the end of the current fiscal year, the County had no outstanding debt.

Additional information on the County's long-term liabilities can be found in the notes to the financial statements of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The County's officials considered many factors when setting the 2010 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2010 was 6.5 percent. This compares with the state unemployment rate of 7.4 percent and shows a small decrease from the County's 8.0 percent rate of one year ago. The economic recovery continues at a very slow rate.
- 2010 property tax levy for the County increased 2.5 percent (\$179,968) from 2009. The increase is due to several factors: reductions in interest earning, state aids, and reserve fund use and increases in civil commitment costs, personal services, other services, and capital outlay.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Chippewa County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Chippewa County Auditor/Treasurer Jon Clauson, 629 North 11th Street, Montevideo, Minnesota 56265.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

***EXHIBIT 1***

**STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010**

**Assets**

Cash and pooled investments	\$	8,458,937
Investments		7,589,484
Receivables - net		1,837,139
Inventories		123,642
Prepaid items		12,864
Capital assets		
Non-depreciable capital assets		1,832,990
Depreciable capital assets - net of accumulated depreciation		44,815,581
		44,815,581
<b>Total Assets</b>	<b>\$</b>	<b>64,670,637</b>

**Liabilities**

Accounts payable and other current liabilities	\$	475,175
Unearned revenue		1,210,899
Long-term liabilities		
Due within one year		114,742
Due in more than one year		1,135,367
		1,135,367
<b>Total Liabilities</b>	<b>\$</b>	<b>2,936,183</b>

**Net Assets**

Invested in capital assets	\$	46,648,571
Restricted for		
Public safety		35,046
Highways and streets		44,507
Conservation of natural resources		23,555
Other purposes		295,432
Unrestricted		14,687,343
		14,687,343
<b>Total Net Assets</b>	<b>\$</b>	<b>61,734,454</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 2,820,407	\$ 567,265	\$ 13,211	\$ -
Public safety	2,309,103	184,029	472,510	-
Highways and streets	3,607,715	75,422	2,945,601	864,896
Sanitation	205,077	250,012	-	-
Human services	4,293,068	371,074	2,162,476	-
Health	107,463	-	252,161	-
Culture and recreation	383,838	98,353	-	-
Conservation of natural resources	1,444,148	219,330	178,071	-
Economic development	133,958	-	80,616	-
Interest	7,670	-	-	-
	<b>\$ 15,312,447</b>	<b>\$ 1,765,485</b>	<b>\$ 6,104,646</b>	<b>\$ 864,896</b>
<b>Total Governmental Activities</b>	<b>\$ 15,312,447</b>	<b>\$ 1,765,485</b>	<b>\$ 6,104,646</b>	<b>\$ 864,896</b>
<b>General Revenues</b>				
Property taxes				\$ 6,814,866
Mortgage registry and deed tax				6,523
Payments in lieu of tax				129,443
Grants and contributions not restricted to specific programs				1,018,367
Unrestricted investment income				92,301
Miscellaneous				400,247
Gain on disposal of capital assets				19,183
				<b>\$ 8,480,930</b>
<b>Total general revenues</b>				<b>\$ 8,480,930</b>
<b>Change in net assets</b>				<b>\$ 1,903,510</b>
<b>Net Assets - Beginning</b>				<b>59,830,944</b>
<b>Net Assets - Ending</b>				<b>\$ 61,734,454</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 3,940,740	\$ 661,290	\$ 3,511,734	\$ 225,321	\$ 8,339,085
Undistributed cash in agency funds	58,051	17,282	31,123	828	107,284
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	10,368	-	-	-	10,368
Investments	515,173	4,274,311	-	2,800,000	7,589,484
Taxes receivable					
Prior	71,223	19,856	38,200	-	129,279
Special assessments receivable					
Prior	23,675	-	-	44	23,719
Noncurrent	523,491	-	-	381,703	905,194
Accounts receivable	6,645	952	62,893	-	70,490
Loans receivable	85,780	-	-	-	85,780
Accrued interest receivable	10,749	6,928	-	-	17,677
Due from other governments	71,128	330,398	203,474	-	605,000
Inventories	-	123,642	-	-	123,642
Prepaid items	10,754	2,110	-	-	12,864
<b>Total Assets</b>	<b>\$ 5,329,777</b>	<b>\$ 5,436,869</b>	<b>\$ 3,847,524</b>	<b>\$ 3,407,896</b>	<b>\$ 18,022,066</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 114,210	\$ 37,052	\$ 84,268	\$ 16,896	\$ 252,426
Salaries payable	26,109	2,815	2,825	-	31,749
Contracts payable	-	124,938	-	-	124,938
Due to other governments	27,952	4,108	34,002	-	66,062
Deferred revenue - unavailable	625,567	291,664	38,200	381,703	1,337,134
Deferred revenue - unearned	-	1,206,147	4,752	-	1,210,899
<b>Total Liabilities</b>	<b><u>\$ 793,838</u></b>	<b><u>\$ 1,666,724</u></b>	<b><u>\$ 164,047</u></b>	<b><u>\$ 398,599</u></b>	<b><u>\$ 3,023,208</u></b>
<b>Fund Balances</b>					
Reserved for					
Prepaid items	\$ 10,754	\$ 2,110	\$ -	\$ -	\$ 12,864
Missing heirs	21,734	-	-	-	21,734
Inventories	-	123,642	-	-	123,642
Loans receivable	85,780	-	-	-	85,780
Sheriff's contingency	10,842	-	-	-	10,842
Uncompleted contracts	-	5,954	-	-	5,954
Gun permit fees	19,944	-	-	-	19,944
Recorder's technology fund	146,236	-	-	-	146,236
Recorder's compliance fund	116,741	-	-	-	116,741
Drug task force forfeitures	4,294	-	-	-	4,294
Attorney's forfeited property	10,691	-	-	-	10,691
Unclaimed property	154	-	-	-	154
Septic/sewer loans	169,841	-	-	-	169,841
Election equipment grant	30	-	-	-	30
Unspent grant monies	-	-	23,555	-	23,555
Unreserved					
Designated for future expenditures	3,938,898	1,674,700	1,825,000	-	7,438,598
Designated for capital expenditures	-	-	100,000	-	100,000
Designated for capital land	-	400,000	-	-	400,000
Designated for capital equipment	-	545,000	-	-	545,000
Designated for out-of-home care	-	-	500,000	-	500,000
Undesignated	-	1,018,739	1,234,922	3,009,297	5,262,958
<b>Total Fund Balances</b>	<b><u>\$ 4,535,939</u></b>	<b><u>\$ 3,770,145</u></b>	<b><u>\$ 3,683,477</u></b>	<b><u>\$ 3,009,297</u></b>	<b><u>\$ 14,998,858</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 5,329,777</u></b>	<b><u>\$ 5,436,869</u></b>	<b><u>\$ 3,847,524</u></b>	<b><u>\$ 3,407,896</u></b>	<b><u>\$ 18,022,066</u></b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010**

<b>Fund balance - total governmental funds (Exhibit 3)</b>		<b>\$ 14,998,858</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		46,648,571
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,337,134
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (605,897)	
OPEB liability	(104,654)	
Compensated absences	(539,558)	(1,250,109)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u>\$ 61,734,454</u></b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 5**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 3,725,241	\$ 1,112,135	\$ 1,976,719	\$ 79	\$ 6,814,174
Special assessments	178,930	-	-	111,625	290,555
Licenses and permits	8,188	14,000	-	-	22,188
Intergovernmental	1,687,718	4,118,336	2,361,087	50,290	8,217,431
Charges for services	754,745	33,189	229,255	49,419	1,066,608
Gifts and contributions	6,551	-	16,258	-	22,809
Investment earnings	56,937	37,084	111	14,002	108,134
Miscellaneous	564,037	92,211	141,819	9,283	807,350
<b>Total Revenues</b>	<b>\$ 6,982,347</b>	<b>\$ 5,406,955</b>	<b>\$ 4,725,249</b>	<b>\$ 234,698</b>	<b>\$ 17,349,249</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 3,037,235	\$ -	\$ -	\$ -	\$ 3,037,235
Public safety	2,142,747	-	-	-	2,142,747
Highways and streets	-	5,674,172	-	-	5,674,172
Sanitation	202,263	-	-	-	202,263
Human services	-	-	4,237,693	-	4,237,693
Culture and recreation	366,512	-	-	-	366,512
Conservation of natural resources	768,984	-	-	322,911	1,091,895
Economic development	133,958	-	-	-	133,958
<b>Intergovernmental</b>	503,887	290,328	107,463	-	901,678
<b>Debt service</b>					
Principal	47,218	-	-	-	47,218
Interest	7,670	-	-	-	7,670
<b>Total Expenditures</b>	<b>\$ 7,210,474</b>	<b>\$ 5,964,500</b>	<b>\$ 4,345,156</b>	<b>\$ 322,911</b>	<b>\$ 17,843,041</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (228,127)</b>	<b>\$ (557,545)</b>	<b>\$ 380,093</b>	<b>\$ (88,213)</b>	<b>\$ (493,792)</b>
<b>Other Financing Sources (Uses)</b>					
Loans issued	87,114	-	-	-	87,114
<b>Net Change in Fund Balances</b>	<b>\$ (141,013)</b>	<b>\$ (557,545)</b>	<b>\$ 380,093</b>	<b>\$ (88,213)</b>	<b>\$ (406,678)</b>
<b>Fund Balances - January 1</b>	<b>4,676,952</b>	<b>4,341,431</b>	<b>3,303,384</b>	<b>3,097,510</b>	<b>15,419,277</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>(13,741)</b>	<b>-</b>	<b>-</b>	<b>(13,741)</b>
<b>Fund Balances - December 31</b>	<b>\$ 4,535,939</b>	<b>\$ 3,770,145</b>	<b>\$ 3,683,477</b>	<b>\$ 3,009,297</b>	<b>\$ 14,998,858</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (406,678)**

Amounts reported for governmental activities in the statement of activities are different because:

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 1,337,134	
Deferred revenue - January 1	<u>(1,479,157)</u>	(142,023)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 4,303,970	
Current year depreciation	<u>(1,763,952)</u>	2,540,018

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

Principal repayments		
Loans payable		47,218

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:

Debt issued		
Loans issued		(87,114)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in inventories	\$ (13,741)	
Change in OPEB liability	(24,907)	
Change in compensated absences	<u>(9,263)</u>	<u>(47,911)</u>

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,903,510**

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**FIDUCIARY FUNDS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2010**

	<u>Investment Trusts</u>	<u>Agency</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 2,187,537	\$ 844,400
Investments	12,649,178	20,295
Accrued interest	21,992	-
<b>Total Assets</b>	<b><u>\$ 14,858,707</u></b>	<b><u>\$ 864,695</u></b>
<b><u>Liabilities</u></b>		
Due to other governments	\$ -	<b><u>\$ 864,695</u></b>
<b><u>Net Assets</u></b>		
Net assets, held in trust	<b><u>\$ 14,858,707</u></b>	

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Investment Trusts</u>
<b><u>Additions</u></b>	
Contributions from participants	\$ 57,381,701
Interest	<u>122,127</u>
<b>Total Additions</b>	<b>\$ 57,503,828</b>
<b><u>Deductions</u></b>	
Distribution to participants	<u>56,230,369</u>
<b>Change in net assets</b>	<b>\$ 1,273,459</b>
<b>Net Assets - Beginning of the Year</b>	<u><b>13,585,248</b></u>
<b>Net Assets - End of the Year</b>	<u><u><b>\$ 14,858,707</b></u></u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Chippewa County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Chippewa County. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, elected on a County-wide basis, serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures

The County participates in several joint ventures described in Note 4.C. The County also participates in jointly-governed organizations described in Note 4.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Chippewa County. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities normally are supported by taxes and intergovernmental revenue.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The County reports all of its funds as major funds.

The County reports the following major governmental funds:

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Ditch Revenue Special Revenue Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The County has no proprietary funds.

Additionally, the County reports the following fund types:

Fiduciary Funds

Investment trust funds are used to report the external portion of investment pools and specific investments held for others.

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

C. Measurement Focus and Basis of Accounting

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2010 were \$56,937.

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Building improvements	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

5. Compensated Absences

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

At December 31, 2010, Chippewa County reported no bonded debt.

8. Fund Equity

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

9. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 8,458,937
Investments	7,589,484
Statement of fiduciary net assets	
Cash and pooled investments	3,031,937
Investments	12,669,473
Total Cash and Investments	\$ 31,749,831

Checking	\$ 1,849,976
Petty cash and change funds	2,200
Departmental cash	10,368
Savings	3,834,448
Money market	7,511,758
Certificates of deposit	14,145,468
Investments	4,395,613
Total Cash and Investments	\$ 31,749,831

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (4) Bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

At December 31, 2010, the County had the following investments:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>5+ Years</u>
U.S. agency securities	\$ 4,395,613	\$ -	\$ 3,895,528	\$ 500,085
MAGIC Fund	7,511,758	7,511,758	-	-
Total Investments	<u>\$ 11,907,371</u>	<u>\$ 7,511,758</u>	<u>\$ 3,895,528</u>	<u>\$ 500,085</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. The County's exposure to credit risk at December 31, 2010, is as follows:

	<u>S &amp; P Rating</u>	<u>Fair Value</u>
U.S. government agency securities	AAA	\$ 4,395,613
MAGIC Fund	N/R	<u>7,511,758</u>
Total		<u>\$ 11,907,371</u>

N/R - Not rated

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available.

Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2010, \$4,395,613 of Federal Home Loan Bank Bonds held by the County were subject to custodial credit risk.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

The following table presents the County's investment balances at December 31, 2010, by issuer, not including negotiable certificates of deposit:

Issuer	Reported Amount
Federal Home Loan Bank	\$ 4,395,613
MAGIC Fund	7,511,758

c. External Investment Pool

Chippewa County sponsors an external investment pool where cash belonging to the Chippewa County-Montevideo Hospital is pooled and invested with the County's cash. The pool is reported as the Pooled Investment Trust Fund. The fund is not registered with the SEC, but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The fair value of the Hospital's position in the pool is the same as the value of the pool shares.

Cash and pooled investments	
Belonging to the County	\$ 8,458,937
Held in trust for the Hospital	1,080,747
Total Cash and Pooled Investments	\$ 9,539,684

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 129,279	\$ -
Special assessments	928,913	905,194
Accounts	70,490	-
Interest	17,677	-
Loans	85,780	-
Due from other governments	605,000	-
Total Receivables - Net	\$ 1,837,139	\$ 905,194

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,100,366	\$ 2,300	\$ -	\$ 1,102,666
Right-of-way	491,493	-	-	491,493
Construction in progress	168,003	77,277	6,449	238,831
Total capital assets not depreciated	\$ 1,759,862	\$ 79,577	\$ 6,449	\$ 1,832,990
Capital assets depreciated				
Buildings	\$ 9,012,840	\$ 88,545	\$ -	\$ 9,101,385
Machinery and equipment	4,917,096	519,973	211,478	5,225,591
Infrastructure	52,353,625	3,631,361	-	55,984,986
Total capital assets depreciated	\$ 66,283,561	\$ 4,239,879	\$ 211,478	\$ 70,311,962

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 6,672,427	\$ 192,820	\$ -	\$ 6,865,247
Machinery and equipment	3,263,321	475,626	202,441	3,536,506
Infrastructure	13,999,122	1,095,506	-	15,094,628
	<u>\$ 23,934,870</u>	<u>\$ 1,763,952</u>	<u>\$ 202,441</u>	<u>\$ 25,496,381</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 42,348,691	\$ 2,475,927	\$ 9,037	\$ 44,815,581
	<u>\$ 44,108,553</u>	<u>\$ 2,555,504</u>	<u>\$ 15,486</u>	<u>\$ 46,648,571</u>
Capital Assets, Net				

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

General government	\$ 164,648
Public safety	133,745
Highways and streets, including depreciation of infrastructure assets	1,378,803
Sanitation	1,848
Human services	34,068
Culture and recreation	19,626
Conservation of natural resources	31,214
	<u>\$ 1,763,952</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,763,952</u>

B. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 252,426
Salaries	31,749
Contracts	124,938
Due to other governments	66,062
	<u>\$ 475,175</u>
Total Payables	<u>\$ 475,175</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt--Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
Hawk Creek Loan (SRF0074)	2014	\$ 13,921	2.0	\$ 125,605	\$ 46,831
Hawk Creek Continuation Loan (SRF0119)	2016	8,024	2.0	72,398	45,155
Chippewa River Watershed Continuation Loan (SRF0122)	2016	7,521	2.0	67,862	42,326
Hawk Creek Watershed Loan (SRF0158)	2020	27,956	2.0	252,241	240,785
Chippewa River Watershed Loan (SRF0159)	2019	22,889	2.0	206,522	197,142
Chippewa River Continuation Loan (SRF0207)	2023	23,023	2.0	208,000	23,299
Hawk Creek Watershed Continuation Loan (SRF0231)	2023	19,595	2.0	176,800	10,359
Total				<u>\$ 1,109,428</u>	<u>\$ 605,897</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 566,001	\$ 87,114	\$ 47,218	\$ 605,897	\$ 69,210
Compensated absences	530,295	9,263	-	539,558	45,532
Net OPEB liability	79,747	24,907	-	104,654	-
Long-Term Liabilities	<u>\$ 1,176,043</u>	<u>\$ 121,284</u>	<u>\$ 47,218</u>	<u>\$ 1,250,109</u>	<u>\$ 114,742</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2011	\$ 69,211	\$ 11,100
2012	70,600	9,709
2013	72,021	8,290
2014	66,507	6,842
2015	60,815	5,576
2016 - 2020	233,085	11,264
Total	\$ 572,239	\$ 52,781

Clean water loans in the amount of \$33,658 are not included in the debt service requirements because a fixed repayment schedule is not available.

5. Conduit Debt

In 2007, Chippewa County issued \$36,565,000 of Gross Revenue Hospital Bonds to provide financial assistance to the Montevideo Hospital for the acquisition, construction, and equipping of a new hospital located in the City. The bonds are secured by the property. They are financed and payable solely from revenues of the Hospital. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2010, the outstanding principal amount payable was \$36,565,000. The first principal payment is due in 2011.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

Plan Description (Continued)

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

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2010	2009	2008
General Employees Retirement Fund	\$ 262,990	\$ 247,006	\$ 236,804
Public Employees Police and Fire Fund	81,824	78,998	68,278
Public Employees Correctional Fund	36,624	31,909	26,215

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Five County Commissioners of Chippewa County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	Employee	Employer
Contribution amount	\$ 7,379	\$ 7,379
Percentage of covered payroll	5 %	5 %

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Chippewa County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical, dental, and life insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Chippewa County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2010, there were approximately 130 participants in the plan, including 10 spouses.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$	82,869
Interest on net OPEB obligation		-
Adjustment to ARC		-
		-
Annual OPEB cost (expense)	\$	82,869
Contributions made		(57,962)
		(57,962)
Increase in net OPEB obligation	\$	24,907
Net OPEB Obligation - Beginning of Year		79,747
		79,747
Net OPEB Obligation - End of Year	\$	104,654
		104,654

The County's annual OPEB cost for December 31, 2010, was \$82,869. The percentage of annual OPEB cost contributed to the plan was 69.9 percent, and the net OPEB obligation for 2010 was \$24,907. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

B. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$692,892 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$692,892. The covered payroll (annual payroll of active employees covered by the plan) was \$4,902,246, and the ratio of the UAAL to the covered payroll was 14.13 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information as it becomes available about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Chippewa County's implicit rate of return on the General Fund. The annual health care cost trend is 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

2.5 percent inflation assumption. The dental trend rate is 4.0 percent. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 27 years.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Countryside Public Health Service

Chippewa County participates with Big Stone, Lac qui Parle, Swift, and Yellow Medicine Counties in a joint venture to provide community health services. The governing board consists of 11 members, three from Chippewa County and two from each of the other participating counties.

Chippewa County's contribution to the Countryside Public Health Service of \$107,463 is shown as an intergovernmental expenditure in the Family Services Special Revenue Fund. Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

Region 6W Community Corrections

Chippewa County participates with Lac qui Parle, Swift, and Yellow Medicine Counties to provide community corrections services. Region 6W Community Corrections develops and implements humane and effective methods of prevention, control, punishment, and rehabilitation of offenders.

The County Boards of the participating counties have direct authority over and responsibility for community corrections activities.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Region 6W Community Corrections (Continued)

Chippewa County's contribution of \$181,401 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Montevideo-Chippewa Airport Commission

Chippewa County has joined with the City of Montevideo to form a joint powers agreement for the operation of the airport. The Montevideo-Chippewa Airport Commission was established June 5, 1970. The governing board is composed of ten members--seven are appointed by the City Council, one of whom is a Council member, and three are appointed by the County Board, two of whom are Board members.

Chippewa County's contribution of \$24,611 to the Montevideo-Chippewa Airport Commission is shown as an expenditure in the General Fund. Complete financial statements of the City of Montevideo, which include the Montevideo-Chippewa Airport Commission, can be obtained at Benson Road, Montevideo, Minnesota 56265.

Chippewa County-Montevideo Hospital

Chippewa County participates with the City of Montevideo in a joint venture to provide acute inpatient and outpatient care to the Chippewa County area. The Hospital Commission consists of seven members--three from Chippewa County, three from the City of Montevideo, and a seventh member appointed by the other six members.

Complete financial statements can be obtained at Chippewa County-Montevideo Hospital, 824 North 11th Street, Montevideo, Minnesota 56265.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Kandiyohi - Region 6W Community Corrections Agencies Detention Center (Prairie Lakes Youth Programs)

The County entered into a joint powers agreement to create and operate the Kandiyohi - Region 6W Community Corrections Agencies Detention Center, commonly referred to as the Prairie Lakes Youth Programs (PLYP), pursuant to Minn. Stat. § 471.59. The PLYP provides detention services to juveniles under the jurisdiction of the counties which are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties--which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

Control of the PLYP is vested in a joint board, which is composed of one County Commissioner from each participating county. An advisory board has also been established, which is composed of the directors of the Kandiyohi County Community Corrections Agency and the Region 6W Community Corrections Agency, and the directors of the family services or human services departments of the counties participating in the agreement.

The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota. Financing is provided by charges for services to member and nonmember counties. Kandiyohi County, under a separate agreement with the PLYP, provides accounting and payroll services and, in an agent capacity, reports the cash transactions of the PLYP as an agency fund on its financial statements. Complete financial information can be obtained from the PLYP office, P. O. Box 894, Willmar, Minnesota 56201.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, & Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

Minnesota River Board

Chippewa County entered into a joint powers agreement to promote the orderly water quality improvement and management of the Minnesota River Watershed pursuant to Minn. Stat. § 471.59.

The management of the Minnesota River Board is vested in a Board of Directors consisting of one member and an alternate from each County Board of Commissioners included in this agreement. According to the latest information available, 37 counties are members under this agreement.

Financing is provided by a contribution from each member county based on its share of the annual budget. Chippewa County paid dues in the amount of \$1,313 in 2010.

Complete audited financial statements for the Minnesota River Board can be obtained from its administrative office at 184 Trafton Science Center, Minnesota State University at Mankato, Mankato, Minnesota 56001.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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

D. Jointly-Governed Organizations

Chippewa County, in conjunction with other local governments, has formed joint powers boards to provide a variety of services. The County participates along with other governments in the following organization:

Pioneerland Library System

Chippewa County, along with several cities and other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional public library service. Chippewa County's contribution of \$226,659 to Pioneerland Library System is shown as an expenditure in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

***EXHIBIT A-1***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	-	\$ 692,892	\$ 692,892	0.0%	\$ 4,902,246	14.13%

See Note 3.C., Other Postemployment Benefits (OPEB), for more information.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,010,392	\$ 4,010,392	\$ 3,725,241	\$ (285,151)
Special assessments	90,500	90,500	178,930	88,430
Licenses and permits	10,050	10,050	8,188	(1,862)
Intergovernmental	1,123,096	1,123,096	1,687,718	564,622
Charges for services	616,708	616,708	754,745	138,037
Gifts and contributions	-	-	6,551	6,551
Investment earnings	141,000	141,000	56,937	(84,063)
Miscellaneous	304,333	304,333	564,037	259,704
<b>Total Revenues</b>	<b>\$ 6,296,079</b>	<b>\$ 6,296,079</b>	<b>\$ 6,982,347</b>	<b>\$ 686,268</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 247,279	\$ 247,279	\$ 228,620	\$ 18,659
Courts	5,000	5,000	-	5,000
Law library	60,486	60,486	19,844	40,642
County auditor/treasurer	406,887	406,887	401,345	5,542
Deputy registrar - License Bureau	152,924	152,924	157,510	(4,586)
Accounting and auditing	45,000	45,000	36,449	8,551
County assessor	274,391	274,391	275,488	(1,097)
Elections	32,000	45,500	44,394	1,106
Data processing	256,571	285,571	291,818	(6,247)
Central services	75,350	75,350	61,914	13,436
Attorney	374,374	374,374	332,297	42,077
Recorder	261,426	261,426	269,992	(8,566)
Buildings and plant	486,190	536,190	544,146	(7,956)
Veterans service officer	174,175	174,175	160,180	13,995
Geographic information systems	90,000	90,000	15,361	74,639
Other general government	147,300	188,075	197,877	(9,802)
<b>Total general government</b>	<b>\$ 3,089,353</b>	<b>\$ 3,222,628</b>	<b>\$ 3,037,235</b>	<b>\$ 185,393</b>
<b>Public safety</b>				
Sheriff	\$ 994,914	\$ 994,914	\$ 999,907	\$ (4,993)
Safety management	6,475	7,475	7,291	184
Boat and water safety	1,200	14,200	14,163	37
D.A.R.E. program	2,400	2,400	2,392	8
Coroner	13,775	19,775	18,821	954
Dispatch	66,850	66,850	45,978	20,872
Jail	961,436	961,436	801,204	160,232
Victim witness program	59,725	59,725	54,120	5,605
Emergency management	33,574	203,574	198,871	4,703
<b>Total public safety</b>	<b>\$ 2,140,349</b>	<b>\$ 2,330,349</b>	<b>\$ 2,142,747</b>	<b>\$ 187,602</b>

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Sanitation</b>				
Solid waste	\$ 63,500	\$ 63,500	\$ 52,500	\$ 11,000
Recycling	123,320	134,320	133,599	721
Hazardous waste	3,000	16,000	16,164	(164)
<b>Total sanitation</b>	<b>\$ 189,820</b>	<b>\$ 213,820</b>	<b>\$ 202,263</b>	<b>\$ 11,557</b>
<b>Health</b>				
Ambulance	\$ 5,000	\$ 5,000	\$ -	\$ 5,000
<b>Culture and recreation</b>				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Regional library	233,903	254,403	267,295	(12,892)
Parks	44,800	44,800	23,606	21,194
Fairgrounds	21,000	21,000	21,000	-
Airport	20,000	25,000	24,611	389
<b>Total culture and recreation</b>	<b>\$ 349,703</b>	<b>\$ 375,203</b>	<b>\$ 366,512</b>	<b>\$ 8,691</b>
<b>Conservation of natural resources</b>				
Extension	\$ 119,538	\$ 119,538	\$ 116,558	\$ 2,980
Soil and water conservation	72,000	72,000	72,000	-
Agricultural inspector	73,277	73,277	69,148	4,129
Weed control	74,960	174,960	173,980	980
Water planning	11,115	61,115	87,583	(26,468)
Land resource management	186,718	311,718	249,715	62,003
County farm	2,000	2,000	-	2,000
<b>Total conservation of natural resources</b>	<b>\$ 539,608</b>	<b>\$ 814,608</b>	<b>\$ 768,984</b>	<b>\$ 45,624</b>
<b>Economic development</b>				
Community development	\$ 38,000	\$ 38,000	\$ 21,382	\$ 16,618
Prairie Five	7,000	7,000	5,008	1,992
Other	36,560	84,560	107,568	(23,008)
<b>Total economic development</b>	<b>\$ 81,560</b>	<b>\$ 129,560</b>	<b>\$ 133,958</b>	<b>\$ (4,398)</b>
<b>Intergovernmental</b>				
General government	\$ 175,702	\$ 181,702	\$ 181,401	\$ 301
Conservation of natural resources	485,250	485,250	322,486	162,764
<b>Total intergovernmental</b>	<b>\$ 660,952</b>	<b>\$ 666,952</b>	<b>\$ 503,887</b>	<b>\$ 163,065</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 47,218	\$ (47,218)
Interest	-	-	7,670	(7,670)
<b>Total debt service</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,888</u>	<u>\$ (54,888)</u>
<b>Total Expenditures</b>	<u>\$ 7,056,345</u>	<u>\$ 7,758,120</u>	<u>\$ 7,210,474</u>	<u>\$ 547,646</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (760,266)	\$ (1,462,041)	\$ (228,127)	\$ 1,233,914
<b>Other Financing Sources (Uses)</b>				
Loans issued	-	-	87,114	87,114
<b>Net Change in Fund Balance</b>	\$ (760,266)	\$ (1,462,041)	\$ (141,013)	\$ 1,321,028
<b>Fund Balance - January 1</b>	<u>4,676,952</u>	<u>4,676,952</u>	<u>4,676,952</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 3,916,686</u>	<u>\$ 3,214,911</u>	<u>\$ 4,535,939</u>	<u>\$ 1,321,028</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-3**

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,211,080	\$ 1,211,080	\$ 1,112,135	\$ (98,945)
Licenses and permits	-	-	14,000	14,000
Intergovernmental	3,774,570	3,774,570	4,118,336	343,766
Charges for services	-	-	33,189	33,189
Investment earnings	102,000	102,000	37,084	(64,916)
Miscellaneous	150,000	150,000	92,211	(57,789)
<b>Total Revenues</b>	<b>\$ 5,237,650</b>	<b>\$ 5,237,650</b>	<b>\$ 5,406,955</b>	<b>\$ 169,305</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Maintenance	\$ 1,016,650	\$ 1,016,650	\$ 830,756	\$ 185,894
Engineering/construction	3,284,100	4,084,100	4,278,538	(194,438)
Administration	250,750	250,750	183,781	66,969
Equipment and shop	449,150	449,150	381,097	68,053
<b>Total highways and streets</b>	<b>\$ 5,000,650</b>	<b>\$ 5,800,650</b>	<b>\$ 5,674,172</b>	<b>\$ 126,478</b>
<b>Intergovernmental</b>				
Highways and streets	283,500	283,500	290,328	(6,828)
<b>Total Expenditures</b>	<b>\$ 5,284,150</b>	<b>\$ 6,084,150</b>	<b>\$ 5,964,500</b>	<b>\$ 119,650</b>
<b>Net Change in Fund Balance</b>	<b>\$ (46,500)</b>	<b>\$ (846,500)</b>	<b>\$ (557,545)</b>	<b>\$ 288,955</b>
<b>Fund Balance - January 1</b>	<b>4,341,431</b>	<b>4,341,431</b>	<b>4,341,431</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(13,741)</b>	<b>(13,741)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,294,931</b>	<b>\$ 3,494,931</b>	<b>\$ 3,770,145</b>	<b>\$ 275,214</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,016,096	\$ 2,016,096	\$ 1,976,719	\$ (39,377)
Intergovernmental	2,114,886	2,114,886	2,361,087	246,201
Charges for services	179,984	179,984	229,255	49,271
Gifts and contributions	9,000	9,000	16,258	7,258
Investment earnings	150	150	111	(39)
Miscellaneous	96,900	96,900	141,819	44,919
<b>Total Revenues</b>	<b>\$ 4,417,016</b>	<b>\$ 4,417,016</b>	<b>\$ 4,725,249</b>	<b>\$ 308,233</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,341,272	\$ 1,341,272	\$ 1,393,940	\$ (52,668)
Social services	3,124,181	3,124,181	2,843,753	280,428
<b>Total human services</b>	<b>\$ 4,465,453</b>	<b>\$ 4,465,453</b>	<b>\$ 4,237,693</b>	<b>\$ 227,760</b>
<b>Intergovernmental</b>				
Health	107,463	107,463	107,463	-
<b>Total Expenditures</b>	<b>\$ 4,572,916</b>	<b>\$ 4,572,916</b>	<b>\$ 4,345,156</b>	<b>\$ 227,760</b>
<b>Net Change in Fund Balance</b>	<b>\$ (155,900)</b>	<b>\$ (155,900)</b>	<b>\$ 380,093</b>	<b>\$ 535,993</b>
<b>Fund Balance - January 1</b>	<b>3,303,384</b>	<b>3,303,384</b>	<b>3,303,384</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,147,484</b>	<b>\$ 3,147,484</b>	<b>\$ 3,683,477</b>	<b>\$ 535,993</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT A-5*

**BUDGETARY COMPARISON SCHEDULE  
DITCH REVENUE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 100	\$ 100	\$ 79	\$ (21)
Special assessments	100,000	100,000	111,625	11,625
Intergovernmental	-	-	50,290	50,290
Charges for services	100,000	100,000	49,419	(50,581)
Investment earnings	60,000	60,000	14,002	(45,998)
Miscellaneous	-	-	9,283	9,283
<b>Total Revenues</b>	<b>\$ 260,100</b>	<b>\$ 260,100</b>	<b>\$ 234,698</b>	<b>\$ (25,402)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	260,100	401,600	322,911	78,689
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (141,500)</b>	<b>\$ (88,213)</b>	<b>\$ 53,287</b>
<b>Fund Balance - January 1</b>	<b>3,097,510</b>	<b>3,097,510</b>	<b>3,097,510</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,097,510</b>	<b>\$ 2,956,010</b>	<b>\$ 3,009,297</b>	<b>\$ 53,287</b>

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and the special revenue funds. The expenditure budget is approved at the fund level. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is at the fund level.

The budgets may be amended or modified at any time by the County Board. Comparisons of final budgeted revenues and expenditures to actual are presented in required supplementary information for the General Fund and special revenue funds.

Budget Amendment

Fund	Revenues		
	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 6,296,079	\$ -	\$ 6,296,079
Road and Bridge Fund	5,237,650	-	5,237,650
Ditch Revenue Fund	260,100	-	260,100

Fund	Expenditures		
	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 7,056,345	\$ 701,775	\$ 7,758,120
Road and Bridge Fund	5,284,150	800,000	6,084,150
Ditch Revenue Fund	260,100	141,500	401,600

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2010, expenditures did not exceed appropriations in any funds.

3. Budget Basis of Accounting

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Other Postemployment Benefits

The Schedule of Funding Progress - Other Postemployment Benefits does not contain multi-year trend information as 2008 was the first year of implementation of GASB Statement 45.

**SUPPLEMENTARY INFORMATION**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**FIDUCIARY FUNDS**

Investment Trust Funds

Pooled - to account for pooled investment assets held by the County for the Chippewa County-Montevideo Hospital, a legally separate entity, that is not part of the County's financial reporting entity.

Investments - to account for specific investment assets held by the County for the Chippewa County-Montevideo Hospital, a legally separate entity, that is not part of the County's financial reporting entity.

Agency Funds

Community Corrections - to account for the collection and payment of funds of the Community Corrections joint venture.

State Revenue - to account for the collection and disbursement of the state's share of fees collected by the County.

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

Southern Prairie Purchasing - to account for the collection and payment of funds of the Southern Prairie Purchasing joint venture.

Mental Health - to account for the collection and payment of funds of the Mental Health Collaborative joint venture.

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT B-1*

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
DECEMBER 31, 2010**

	<b>Pooled</b>	<b>Investments</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,080,747	\$ 1,106,790	\$ 2,187,537
Investments	-	12,649,178	12,649,178
Accrued interest	1,401	20,591	21,992
<b>Total Assets</b>	<b>\$ 1,082,148</b>	<b>\$ 13,776,559</b>	<b>\$ 14,858,707</b>
<b><u>Net Assets</u></b>			
Net assets, held in trust	<b>\$ 1,082,148</b>	<b>\$ 13,776,559</b>	<b>\$ 14,858,707</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Pooled</b>	<b>Investments</b>	<b>Total</b>
<b><u>Additions</u></b>			
Contributions from participants	\$ 36,935,488	\$ 20,446,213	\$ 57,381,701
Investment earnings	18,187	103,940	122,127
<b>Total Additions</b>	<b>\$ 36,953,675</b>	<b>\$ 20,550,153</b>	<b>\$ 57,503,828</b>
<b><u>Deductions</u></b>			
Distributions to participants	39,088,738	17,141,631	56,230,369
<b>Change in Net Assets</b>	<b>\$ (2,135,063)</b>	<b>\$ 3,408,522</b>	<b>\$ 1,273,459</b>
<b>Net Assets - Beginning of the Year</b>	<b>3,217,211</b>	<b>10,368,037</b>	<b>13,585,248</b>
<b>Net Assets - End of the Year</b>	<b>\$ 1,082,148</b>	<b>\$ 13,776,559</b>	<b>\$ 14,858,707</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>COMMUNITY CORRECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 291,298	\$ 1,382,349	\$ 1,356,909	\$ 316,738
Investments	-	20,295	-	20,295
<b>Total Assets</b>	<b>\$ 291,298</b>	<b>\$ 1,402,644</b>	<b>\$ 1,356,909</b>	<b>\$ 337,033</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 291,298</b>	<b>\$ 1,402,644</b>	<b>\$ 1,356,909</b>	<b>\$ 337,033</b>
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 48,761</b>	<b>\$ 264,318</b>	<b>\$ 251,495</b>	<b>\$ 61,584</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 48,761</b>	<b>\$ 264,318</b>	<b>\$ 251,495</b>	<b>\$ 61,584</b>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 152,069</b>	<b>\$ 16,602,776</b>	<b>\$ 16,567,798</b>	<b>\$ 187,047</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 152,069</b>	<b>\$ 16,602,776</b>	<b>\$ 16,567,798</b>	<b>\$ 187,047</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT C-1  
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>SOUTHERN PRAIRIE PURCHASING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>49,489</u>	\$ <u>949</u>	\$ <u>825</u>	\$ <u>49,613</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>49,489</u>	\$ <u>949</u>	\$ <u>825</u>	\$ <u>49,613</u>
 <b><u>MENTAL HEALTH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>299,104</u>	\$ <u>46,226</u>	\$ <u>115,912</u>	\$ <u>229,418</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>299,104</u>	\$ <u>46,226</u>	\$ <u>115,912</u>	\$ <u>229,418</u>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 840,721	\$ 18,296,618	\$ 18,292,939	\$ 844,400
Investments	<u>-</u>	<u>20,295</u>	<u>-</u>	<u>20,295</u>
<b>Total Assets</b>	<b>\$ <u>840,721</u></b>	<b>\$ <u>18,316,913</u></b>	<b>\$ <u>18,292,939</u></b>	<b>\$ <u>864,695</u></b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>840,721</u>	\$ <u>18,316,913</u>	\$ <u>18,292,939</u>	\$ <u>864,695</u>

## **OTHER SCHEDULES**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**Shared Revenue**

**State**

Highway users tax	\$ 3,671,689
Market value credit	377,372
PERA rate reimbursement	22,736
Disparity reduction aid	69,225
County program aid	492,985
Police aid	72,802
Enhanced 911	93,704
	93,704

**Total shared revenue** **\$ 4,800,513**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 453,495
	453,495

**Payments**

**Local**

Local grants	\$ 99,749
Payments in lieu of taxes	129,443
	129,443

**Total payments** **\$ 229,192**

**Grants**

**State**

Minnesota Department/Board of	
Crime Victim Services	\$ 37,472
Public Safety	995
Transportation	4,047
Natural Resources	70,049
Human Services	647,891
Veterans Affairs	2,800
Water and Soil Resources	52,718
Pollution Control Agency	252,161
	252,161

**Total state** **\$ 1,068,133**

**Federal**

Department of	
Agriculture	\$ 128,890
Commerce	154,063
Transportation	265,975
Energy	80,616
Health and Human Services	913,558
Homeland Security	34,214
Environmental Protection Agency	88,782
	88,782

**Total federal** **\$ 1,666,098**

**Total state and federal grants** **\$ 2,734,231**

**Total Intergovernmental Revenue** **\$ 8,217,431**

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster		
State Administrative Matching Grants for SNAP	10.561	\$ 126,798
State Administrative Matching Grants for SNAP - ARRA	10.561	2,092
<b>Total U.S. Department of Agriculture</b>		<b>\$ 128,890</b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety Applied Meteorological Research	11.468	<b>\$ 154,063</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 257,649
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	2,272
Safety Belt Performance Grant	20.609	5,725
Minimum Penalties for Repeat Offenders for DWI	20.608	329
<b>Total U.S. Department of Transportation</b>		<b>\$ 265,975</b>
<b>U.S. Environmental Protection Agency</b>		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	<b>\$ 88,782</b>
<b>U.S. Department of Energy</b>		
Passed Through Minnesota Department of Commerce Energy Efficiency and Conservation Block Grant - ARRA	81.128	<b>\$ 80,616</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 6,087
Temporary Assistance for Needy Families	93.558	141,983
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	286,227
Child Support Enforcement - ARRA	93.563	20,382
Refugee and Entrant Assistance - State-Administered Programs	93.566	162
Child Care Mandatory and Matching Funds	93.596	2,677
Foster Care Title IV-E	93.658	26,890
Social Services Block Grant	93.667	98,580
Children's Health Insurance Program	93.767	196
Medical Assistance Program	93.778	330,374
		<hr/>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 913,558</b>
<b>U.S. Department of Homeland Security</b>		
Direct		
Emergency Food and Shelter National Board Program	97.024	\$ 2,544
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	13,199
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	2,105
Emergency Management Performance Grants	97.042	16,366
		<hr/>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 34,214</b>
		<hr/>
<b>Total Federal Awards</b>		<b>\$ 1,666,098</b>

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Chippewa County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Chippewa County, it is not intended to and does not present the financial position or changes in net assets of Chippewa County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2010 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Chippewa County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Chippewa County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Chippewa County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Chippewa County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grant for SNAP	CFDA #10.561
State Administrative Matching Grant for SNAP - ARRA	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
Child Support Enforcement Cluster	
Child Support Enforcement	CDFR #93.563
Child Support Enforcement - ARRA	CFDA #93.563
Medical Assistance Program	CFDA #93.778

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Chippewa County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

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

We recommend that County management implement oversight procedures to ensure internal control policies and procedures are being followed by staff.

Client's Response:

*The County is cognizant that due to limited staffing levels, sufficient levels of segregation of duties is difficult to attain. In April of 2008, the County Board approved an Accounting Policies and Procedures Manual to better define accounting procedures to address the segregation of duties issue.*

09-1 Documenting and Monitoring Internal Controls

County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information of the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

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

Client's Response:

*The Accounting Policies and Procedures Manual does document significant internal controls. The Auditor/Treasurer's Office staff will conduct an internal control self-assessment during 2011, to determine if additional policies or enhancements are warranted for internal controls in the Accounting Policies and Procedures Manual.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Financial Reporting (06-6)**

The County had relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process.

**Resolution**

The County completed its own basic financial statements for 2010.

**Audit Adjustments (06-7)**

The previous audit found several material adjustments that resulted in significant changes to the County's financial statements.

**Resolution**

No material adjustments were found in the current audit.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

PREVIOUSLY REPORTED ITEM RESOLVED

**Identification and Classification of Federal Financial Assistance  
(CFDA Nos. 10.561 and 93.563)**

The County did not adequately identify all of its federal financial assistance either as to amount, source, or correct CFDA number in the general ledger as required under OMB Circular A-133 and the American Recovery and Reinvestment Act of 2009 (ARRA).

**Resolution**

The County created separate account codes for ARRA funding and properly recorded them in its financial statements and on its Schedule of Expenditures of Federal Awards (SEFA).

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### OTHER ITEM FOR CONSIDERATION

##### GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Chippewa County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

##### Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;

- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if Chippewa County's Board of Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

#### Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;

- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
  - if yes, the fund may continue to be classified as a special revenue fund;
  - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

[http://www.auditor.state.mn.us/other/Statements/fundbalances\\_postGASB54\\_1012\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf).



REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 28, 2011. 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.

### Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Coses as items 99-1 and 09-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* 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 study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing.

The results of our tests indicate that, for the items tested, Chippewa County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Chippewa County's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 28, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Chippewa County

### Compliance

We have audited Chippewa County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Chippewa County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

#### Internal Control Over Compliance

Management of Chippewa County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 28, 2011