

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

YEAR ENDED DECEMBER 31, 2012

## **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, 2012**



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

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

ORGANIZATION  
2012

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Kenneth Koenen	January 2013
2nd District	Jeffrey Lopez	January 2013
3rd District	Dennis Anderson	January 2013
4th District	Jim Dahlvang*	January 2013
5th District	David Lieser	January 2014
<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	Tim Kolhei	Indefinite
Family Services Director	Betty Christensen	Indefinite
Data Processing	KenMenning	Indefinite

\*Chair 2012

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Chippewa County

#### **Report on the Financial Statements**

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa County's basic financial statements. The supplementary information as listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, 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* in considering Chippewa County's internal control over financial reporting and compliance.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2013

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

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2012  
(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, 2012. 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, 2012) by \$63,563,751 (net position). Of this amount, \$14,002,669 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net position increased by \$1,414,834. The increase is from additional capital assets.
- As of the close of the 2012 fiscal year, Chippewa County's governmental funds' ending fund balances were \$14,100,674 compared to \$14,980,744 in 2011. Approximately 23.2 percent of the amount (\$3,268,014) is available for spending at Chippewa County's discretion (unassigned 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 position presents information on all of Chippewa County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 statement 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
- 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 statements 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 through B-2 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$63,563,751 on December 31, 2012.

Capital assets of \$48,872,167 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net position (76.9 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 position represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$14,002,669) may be used to meet the government's ongoing obligations to citizens and creditors.

### Net Position

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 16,730,571	\$ 17,163,588
Capital assets	<u>48,872,167</u>	<u>46,951,818</u>
Total Assets	<u>\$ 65,602,738</u>	<u>\$ 64,115,406</u>
Liabilities		
Other liabilities	\$ 566,265	\$ 590,916
Long-Term Liabilities	<u>1,472,722</u>	<u>1,375,573</u>
Total Liabilities	<u>\$ 2,038,987</u>	<u>\$ 1,966,489</u>
Net Position		
Investment in capital assets	\$ 48,872,167	\$ 46,951,818
Restricted	688,915	801,092
Unrestricted	<u>14,002,669</u>	<u>14,396,007</u>
Total Net Position	<u>\$ 63,563,751</u>	<u>\$ 62,148,917</u>

Unrestricted net position at December 31, 2012--the part of net position 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--is 22.0 percent of the net position.

## Governmental Activities

The County's activities increased net position by 2.3 percent (\$63,563,751 for 2012 compared to \$62,148,917 for 2011). Key elements in this increase in net position are as follows:

<b>Changes in Net Position</b>		
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 2,175,929	\$ 1,899,783
Operating grants and contributions	6,496,715	6,279,753
Capital grants and contributions	288,234	209,809
General revenues		
Property taxes	7,874,698	7,074,280
Other	1,361,279	1,644,509
<b>Total Revenues</b>	<u>\$ 18,196,855</u>	<u>\$ 17,108,134</u>
<b>Expenses</b>		
General government	\$ 3,308,058	\$ 3,499,501
Public safety	1,941,041	2,150,456
Highways and streets	4,443,128	4,274,206
Sanitation	225,690	208,961
Human services	4,799,961	4,283,482
Health	121,367	107,463
Culture and recreation	423,256	395,746
Conservation of natural resources	1,455,025	1,712,283
Economic development	50,720	50,472
Interest	13,775	11,101
<b>Total Expenses</b>	<u>\$ 16,782,021</u>	<u>\$ 16,693,671</u>
<b>Increase in Net Position</b>	\$ 1,414,834	\$ 414,463
<b>Net Position - January 1</b>	<u>62,148,917</u>	<u>61,734,454</u>
<b>Net Position - December 31</b>	<u>\$ 63,563,751</u>	<u>\$ 62,148,917</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, unrestricted 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 \$14,100,674, a decrease of \$880,070 or 5.9 percent, in comparison with the prior year. Of the combined ending fund balances, \$13,200,530 represents unrestricted fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$900,144, is either nonspendable or is restricted 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 2012, it had an unrestricted fund balance of \$3,268,014. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 40.9 percent of total General Fund expenditures. During 2012, the ending fund balance decreased by \$422,357. Examples of contributing factors to this decline are lower than expected interest earned on investments due to the erosion of investment rates experienced during 2012 and the purchases of equipment for the installation of the 800 MHz radio system for the Sheriff's Department that were planned in large part to come from cash on hand.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,502,795 at the end of 2012, representing 68.3 percent of its annual expenditures. The ending fund balance decreased by \$434,262, during 2012, primarily due to the construction of a new joint shop facility in Clara City between Chippewa County and the City of Clara City of approximately \$675,000. There was a lower than anticipated number of County road projects that enabled the fund balance reduction to be lower than anticipated.

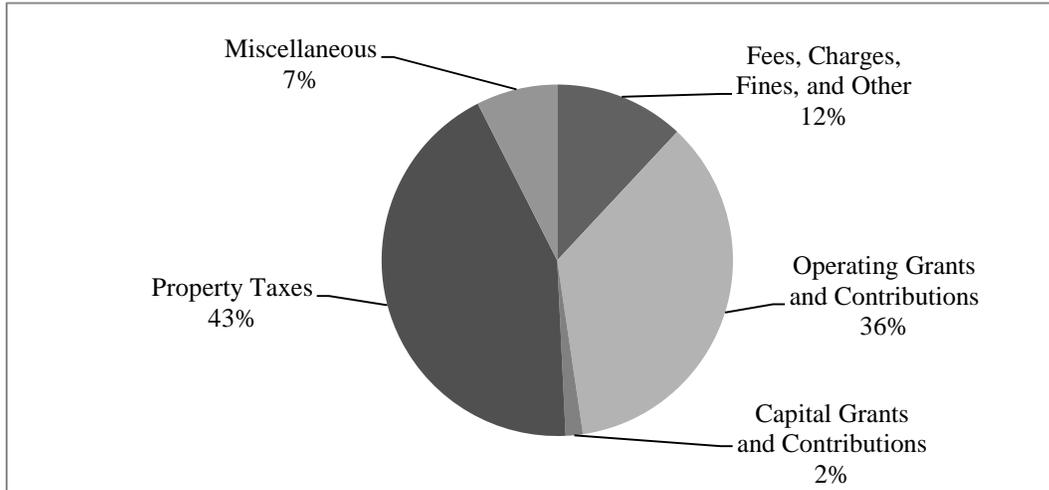
The Family Services Special Revenue Fund had an unrestricted fund balance of \$3,738,556 at the end of 2012, representing 76.5 percent of its annual expenditures. The ending fund balance decreased by \$78,788 during 2012. The decrease was largely due to expenditures relative to the renovation project that was begun in 2012 and will be completed in 2013.

The Ditch Revenue Special Revenue Fund has an unrestricted fund balance of \$2,691,165 at the end of 2012. The ending fund balance increased by \$55,337 during 2012, primarily due to the increase in revenues received from ditch liens assessed during 2012.

## GOVERNMENTAL ACTIVITIES

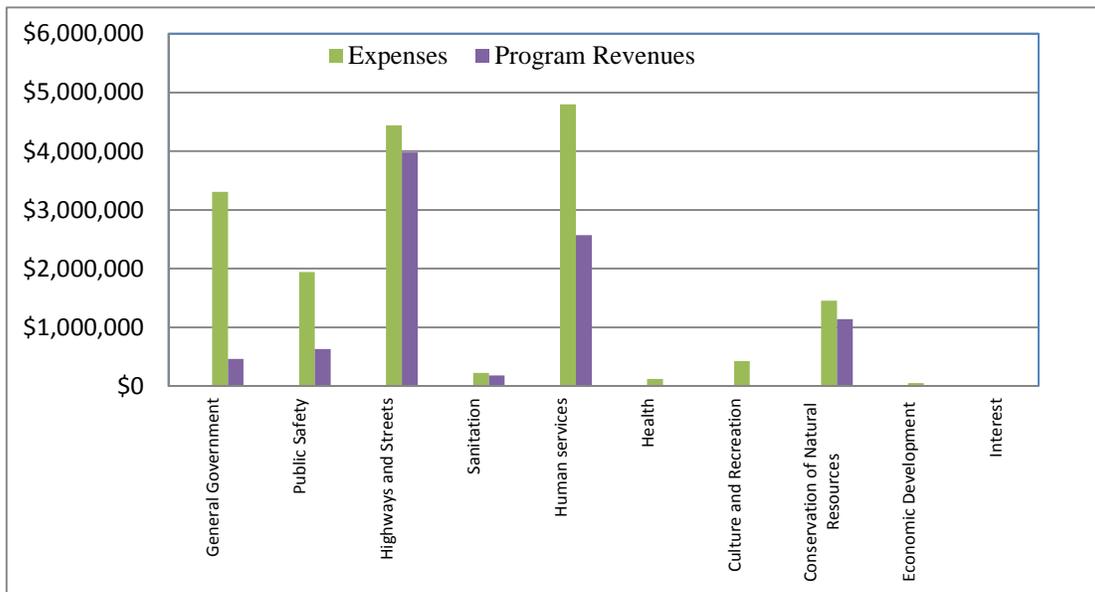
The County's total revenues were \$18,196,855. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2012.

**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 2012 was \$16,782,021. 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 \$7,821,143 because some of the cost was paid by those who directly benefited from the programs (\$2,175,929) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,784,949). The County paid for the remaining “public benefit” portion of governmental activities with \$9,235,977 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>2012</u>	Net Cost of Services <u>2012</u>
General government	\$ 3,308,058	\$ (2,847,819)
Public safety	1,941,041	(1,308,476)
Highways and streets	4,443,128	(464,994)
Sanitation	225,690	(47,458)
Human services	4,799,961	(2,227,153)
Health	121,367	(121,367)
Culture and recreation	423,256	(423,256)
Conservation of natural resources	1,455,025	(316,125)
Economic development	50,720	(50,720)
Interest	13,775	(13,775)
Totals	<u>\$ 16,782,021</u>	<u>\$ (7,821,143)</u>

### **General Fund Budgetary Highlights**

Actual revenues exceeded budgeted revenues by \$478,247. Items contributing to this were septic system loan payments, state tax credits, pass through environmental grants, in lieu of tax payments, insurance trust dividends, higher than anticipated tipping fees at the landfill, and ARMER grants.

Over the course of the year, the County Board increased the General Fund Expenditure Budget by \$755,150. The actual charges to appropriations (expenditures) were \$251,145 over the approved budget amounts. Several factors affecting those budget variances were:

Building Repair and Maintenance	\$ 20,746	Elevator upgrade
Septic Loan Grant	94,049	Pass-through not included in budget
Elections	19,197	State Senate special election
Airport	61,087	County share of runway reconstruction
Snowmobile Grant	48,717	Pass-through not included in budget
Dispatch/E-911	106,880	LETG software purchase
Other General Government	142,206	Health insurance increase

Weakness in the overall economy except agricultural-related activities and lower than anticipated interest rates continue to increase pressure on County resources.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The County's capital assets for its governmental activities at December 31, 2012, totaled \$48,872,167 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,920,349 or 4.1 percent from the previous year. The major capital asset event was the purchase of radios and the construction of radio towers for the 800 MHz radio system for the Sheriff's Department.

#### Capital Assets at Year-End Net of Depreciation

	2012	2011
Land and right-of-way	\$ 1,692,312	\$ 1,648,932
Infrastructure	41,165,233	41,041,318
Buildings	3,139,968	2,169,692
Machinery and equipment	2,809,892	2,008,122
Construction in progress	64,762	83,754
Total	<u>\$ 48,872,167</u>	<u>\$ 46,951,818</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 debt 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 2013 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2012 was 5.1 percent. This compares with the state unemployment rate of 5.4 percent and national unemployment rate of 7.8 percent. This shows a moderate decrease from the County's 5.4 percent rate of one year ago. The economic recovery continues, however, at a very slow rate.
- 2013 property tax levy for the County increased 2.0 percent (\$161,777) from 2012. The increase is due to several factors: reductions in interest earnings; increases in civil commitment costs, personal services, and capital outlay costs to maintain aging county buildings (Courthouse and Community Services Center).

## **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 POSITION  
GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

**Assets**

Cash and pooled investments	\$ 7,941,739
Investments	6,116,278
Receivables - net	2,524,126
Inventories	132,013
Prepaid items	16,415
Capital assets	
Non-depreciable capital assets	1,757,074
Depreciable capital assets - net of accumulated depreciation	47,115,093
	<hr/>
<b>Total Assets</b>	<b>\$ 65,602,738</b>

**Liabilities**

Accounts payable and other current liabilities	\$ 561,513
Unearned revenue	4,752
Long-term liabilities	
Due within one year	128,534
Due in more than one year	1,344,188
	<hr/>
<b>Total Liabilities</b>	<b>\$ 2,038,987</b>

**Net Position**

Investment in capital assets	\$ 48,872,167
Restricted for	
General government	423,380
Public safety	46,564
Human services	22,839
Conservation of natural resources	196,132
Unrestricted	14,002,669
	<hr/>
<b>Total Net Position</b>	<b>\$ 63,563,751</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Functions/Programs</b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 3,308,058	\$ 451,611	\$ 8,628	\$ -	\$ (2,847,819)
Public safety	1,941,041	170,204	462,361	-	(1,308,476)
Highways and streets	4,443,128	212,036	3,477,864	288,234	(464,994)
Sanitation	225,690	178,232	-	-	(47,458)
Human services	4,799,961	406,712	2,166,096	-	(2,227,153)
Health	121,367	-	-	-	(121,367)
Culture and recreation	423,256	-	-	-	(423,256)
Conservation of natural resources	1,455,025	757,134	381,766	-	(316,125)
Economic development	50,720	-	-	-	(50,720)
Interest	13,775	-	-	-	(13,775)
<b>Total Governmental Activities</b>	<b>\$ 16,782,021</b>	<b>\$ 2,175,929</b>	<b>\$ 6,496,715</b>	<b>\$ 288,234</b>	<b>\$ (7,821,143)</b>
<b>General Revenues</b>					
Property taxes					\$ 7,874,698
Mortgage registry and deed tax					8,798
Other tax					3
Payments in lieu of tax					165,055
Grants and contributions not restricted to specific programs					759,482
Unrestricted investment income					29,548
Miscellaneous					390,309
Gain on disposal of capital assets					8,084
<b>Total general revenues</b>					<b>\$ 9,235,977</b>
<b>Change in net position</b>					<b>\$ 1,414,834</b>
<b>Net Position - Beginning</b>					<b>62,148,917</b>
<b>Net Position - Ending</b>					<b>\$ 63,563,751</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, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,438,493	\$ 444,263	\$ 3,717,530	\$ 206,318	\$ 7,806,604
Undistributed cash in agency funds	70,467	17,025	31,372	1,146	120,010
Petty cash and change funds	2,100	100	100	-	2,300
Departmental cash	12,825	-	-	-	12,825
Investments	515,346	3,100,932	-	2,500,000	6,116,278
Taxes receivable					
Prior	63,788	16,469	31,192	-	111,449
Special assessments receivable					
Prior	28,954	-	-	-	28,954
Noncurrent	408,553	-	-	458,216	866,769
Accounts receivable	6,700	603	19,080	5,647	32,030
Loans receivable	62,801	-	-	-	62,801
Accrued interest receivable	5,511	2,709	-	-	8,220
Due from other governments	66,127	1,069,574	278,202	-	1,413,903
Inventories	-	132,013	-	-	132,013
Prepaid items	11,292	5,123	-	-	16,415
<b>Total Assets</b>	<b>\$ 4,692,957</b>	<b>\$ 4,788,811</b>	<b>\$ 4,077,476</b>	<b>\$ 3,171,327</b>	<b>\$ 16,730,571</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<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	\$ 113,599	\$ 29,423	\$ 126,481	\$ 7,888	\$ 277,391
Salaries payable	13,813	1,032	512	-	15,357
Contracts payable	-	53,650	-	-	53,650
Due to other governments	52,915	645	153,144	8,411	215,115
Deferred revenue - unavailable	504,447	1,064,130	31,192	463,863	2,063,632
Deferred revenue - unearned	-	-	4,752	-	4,752
<b>Total Liabilities</b>	<b>\$ 684,774</b>	<b>\$ 1,148,880</b>	<b>\$ 316,081</b>	<b>\$ 480,162</b>	<b>\$ 2,629,897</b>
<b>Fund Balances</b>					
Nonspendable					
Prepaid items	\$ 11,292	\$ 5,123	\$ -	\$ -	\$ 16,415
Loans receivable	62,801	-	-	-	62,801
Inventories	-	132,013	-	-	132,013
Restricted for					
Missing heirs	21,908	-	-	-	21,908
Law library	71,671	-	-	-	71,671
Enhanced 911	40,905	-	-	-	40,905
Sheriff's contingency	1,107	-	-	-	1,107
Boat and water safety	104	-	-	-	104
Recorder's technology fund	189,522	-	-	-	189,522
Recorder's compliance fund	130,696	-	-	-	130,696
Drug task force forfeitures	4,294	-	-	-	4,294
Attorney's forfeited property	9,583	-	-	-	9,583
Unclaimed property	154	-	-	-	154
Septic/sewer loans	196,132	-	-	-	196,132
Unspent grant monies	-	-	22,839	-	22,839
Assigned for					
Road and bridge	-	2,906,148	-	-	2,906,148
Capital land	-	68,379	-	-	68,379
Capital equipment	-	528,268	-	-	528,268
Conservation of natural resources	-	-	-	2,691,165	2,691,165
Human services	-	-	2,913,556	-	2,913,556
Capital expenditures	-	-	100,000	-	100,000
Out-of-home care	-	-	500,000	-	500,000
Out-of-home prevention services	-	-	125,000	-	125,000
Children's mental health	-	-	100,000	-	100,000
Unassigned	3,268,014	-	-	-	3,268,014
<b>Total Fund Balances</b>	<b>\$ 4,008,183</b>	<b>\$ 3,639,931</b>	<b>\$ 3,761,395</b>	<b>\$ 2,691,165</b>	<b>\$ 14,100,674</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,692,957</b>	<b>\$ 4,788,811</b>	<b>\$ 4,077,476</b>	<b>\$ 3,171,327</b>	<b>\$ 16,730,571</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2012**

<b>Fund balance - total governmental funds (Exhibit 3)</b>	<b>\$ 14,100,674</b>
Amounts reported for governmental activities in the statement of net position 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.	48,872,167
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,063,632
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	\$ (668,122)
OPEB liability	(188,908)
Compensated absences	(615,692)
	<u>(1,472,722)</u>
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b><u><u>\$ 63,563,751</u></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, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 4,629,336	\$ 1,148,714	\$ 2,114,035	\$ 2,025	\$ 7,894,110
Special assessments	207,070	-	-	518,941	726,011
Licenses and permits	9,341	14,500	-	-	23,841
Intergovernmental	1,545,713	3,316,652	2,278,259	-	7,140,624
Charges for services	612,302	71,332	229,347	139,015	1,051,996
Gifts and contributions	4,463	-	8,246	-	12,709
Investment earnings	18,004	10,691	-	3,767	32,462
Miscellaneous	437,693	197,060	177,365	23,196	835,314
<b>Total Revenues</b>	<b><u>\$ 7,463,922</u></b>	<b><u>\$ 4,758,949</u></b>	<b><u>\$ 4,807,252</u></b>	<b><u>\$ 686,944</u></b>	<b><u>\$ 17,717,067</u></b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 3,455,367	\$ -	\$ -	\$ -	\$ 3,455,367
Public safety	2,752,849	-	-	-	2,752,849
Highways and streets	-	4,799,526	-	-	4,799,526
Sanitation	223,777	-	-	-	223,777
Human services	-	-	4,764,673	-	4,764,673
Culture and recreation	404,801	-	-	-	404,801
Conservation of natural resources	588,638	-	-	631,607	1,220,245
Economic development	50,720	-	-	-	50,720
<b>Intergovernmental</b>	<b>421,769</b>	<b>330,927</b>	<b>121,367</b>	<b>-</b>	<b>874,063</b>
<b>Debt service</b>					
Principal	80,274	-	-	-	80,274
Interest	13,775	-	-	-	13,775
<b>Total Expenditures</b>	<b><u>\$ 7,991,970</u></b>	<b><u>\$ 5,130,453</u></b>	<b><u>\$ 4,886,040</u></b>	<b><u>\$ 631,607</u></b>	<b><u>\$ 18,640,070</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>\$ (528,048)</u></b>	<b><u>\$ (371,504)</u></b>	<b><u>\$ (78,788)</u></b>	<b><u>\$ 55,337</u></b>	<b><u>\$ (923,003)</u></b>
<b>Other Financing Sources (Uses)</b>					
Loans issued	\$ 98,291	\$ -	\$ -	\$ -	\$ 98,291
Sale of capital assets	7,400	3,084	-	-	10,484
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ 105,691</u></b>	<b><u>\$ 3,084</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 108,775</u></b>
<b>Net Change in Fund Balances</b>	<b><u>\$ (422,357)</u></b>	<b><u>\$ (368,420)</u></b>	<b><u>\$ (78,788)</u></b>	<b><u>\$ 55,337</u></b>	<b><u>\$ (814,228)</u></b>
<b>Fund Balances - January 1</b>	<b>4,430,540</b>	<b>4,074,193</b>	<b>3,840,183</b>	<b>2,635,828</b>	<b>14,980,744</b>
<b>Increase (decrease) in inventories</b>	<b><u>-</u></b>	<b><u>(65,842)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(65,842)</u></b>
<b>Fund Balances - December 31</b>	<b><u>\$ 4,008,183</u></b>	<b><u>\$ 3,639,931</u></b>	<b><u>\$ 3,761,395</u></b>	<b><u>\$ 2,691,165</u></b>	<b><u>\$ 14,100,674</u></b>

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

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**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, 2012**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (814,228)**

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

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

Deferred revenue - December 31	\$ 2,063,632	
Deferred revenue - January 1	(1,591,928)	471,704

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 3,734,005	
Net book value of disposed assets	(27,704)	
Current year depreciation	(1,785,952)	1,920,349

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

Principal repayments		
Loans payable		80,274

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

Debt issued		
Loans issued		(98,291)

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	\$ (65,842)	
Change in OPEB liability	(36,453)	
Change in compensated absences	(42,679)	(144,974)

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,414,834**

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

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**FIDUCIARY FUNDS**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2012**

	<b>Investment Trusts</b>	<b>Agency</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 1,520,073	\$ 996,541
Investments	16,671,225	20,603
Accrued interest	41,746	-
<b>Total Assets</b>	<b>\$ 18,233,044</b>	<b>\$ 1,017,144</b>
<b><u>Liabilities</u></b>		
Due to other governments	-	<b>\$ 1,017,144</b>
<b><u>Net Position</u></b>		
Net position, held in trust	<b>\$ 18,233,044</b>	

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Investment Trusts</u>
<b><u>Additions</u></b>	
Contributions from participants	\$ 51,111,449
Interest	<u>32,963</u>
<b>Total Additions</b>	<b>\$ 51,144,412</b>
<b><u>Deductions</u></b>	
Distribution to participants	<u>49,692,465</u>
<b>Change in net position</b>	<b>\$ 1,451,947</b>
<b>Net Position - Beginning of the Year</b>	<b><u>16,781,097</u></b>
<b>Net Position - End of the Year</b>	<b><u><u>\$ 18,233,044</u></u></b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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 position 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 position, 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 position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. 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 accounts for restricted revenues from the federal and state governments, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund accounts for restricted revenue resources from federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Revenue Special Revenue Fund accounts 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 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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 Position 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, 2012, 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 2012 were \$18,004.

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).

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

The investment in the pool is measured at the net asset value per share provided by the pool.

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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

4. Capital Assets (Continued)

assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value to 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 Position 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 position.

At December 31, 2012, Chippewa County reported no bonded debt.

8. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets net of accumulated depreciation.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund classifications could be used.

10. 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.

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 position		
Governmental activities		
Cash and pooled investments	\$	7,941,739
Investments		6,116,278
Statement of fiduciary net position		
Cash and pooled investments		2,516,614
Investments		16,691,828
		<hr/>
Total Cash and Investments	\$	33,266,459
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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Checking	\$ 2,086,746
Petty cash and change funds	2,300
Departmental cash	12,825
Savings	1,037,635
Money market	11,573,611
Certificates of deposit	13,693,949
Investments	<u>4,859,393</u>
Total Cash and Investments	<u>\$ 33,266,459</u>

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 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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

compliance with state law and perfected security interest under federal law. As of December 31, 2012, 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;
- (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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2012, 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	\$ 4,859,393	\$ -	\$ 1,254,773	\$ 3,604,620
MAGIC Fund	11,573,611	11,573,611	-	-
<b>Total Investments</b>	<b>\$ 16,433,004</b>	<b>\$ 11,573,611</b>	<b>\$ 1,254,773</b>	<b>\$ 3,604,620</b>

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, 2012, is as follows:

	<u>S &amp; P Rating</u>	<u>Fair Value</u>
U.S. government agency securities	AAA	\$ 4,859,393
MAGIC Fund	N/R	11,573,611
<b>Total</b>		<b>\$ 16,433,004</b>

N/R - Not rated

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2012, \$4,859,393 of Federal Home Loan Bank Bonds and Federal National Mortgage Bonds owned by the County were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that 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, 2012, by issuer, not including negotiable certificates of deposit:

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 3,103,950
Federal National Mortgage Association	1,755,443
MAGIC Fund	11,573,611

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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	\$ 7,941,639
Held in trust for the Hospital	<u>1,520,073</u>
Total Cash and Pooled Investments	<u>\$ 9,461,712</u>

2. Receivables

Receivables as of December 31, 2012, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 111,449	\$ -
Special assessments	895,723	866,769
Accounts	32,030	-
Interest	8,220	-
Loans	62,801	50,253
Due from other governments	<u>1,413,903</u>	<u>-</u>
Total Receivables - Net	<u>\$ 2,524,126</u>	<u>\$ 917,022</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,157,439	\$ 43,380	\$ -	\$ 1,200,819
Right-of-way	491,493	-	-	491,493
Construction in progress	83,754	21,030	40,022	64,762
Total capital assets not depreciated	<u>\$ 1,732,686</u>	<u>\$ 64,410</u>	<u>\$ 40,022</u>	<u>\$ 1,757,074</u>
Capital assets depreciated				
Buildings	\$ 9,214,554	\$ 1,181,945	\$ 113,933	\$ 10,282,566
Machinery and equipment	5,817,178	1,262,002	227,064	6,852,116
Infrastructure	57,256,132	1,265,670	-	58,521,802
Total capital assets depreciated	<u>\$ 72,287,864</u>	<u>\$ 3,709,617</u>	<u>\$ 340,997</u>	<u>\$ 75,656,484</u>
Less: accumulated depreciation for				
Buildings	\$ 7,044,862	\$ 211,669	\$ 113,933	\$ 7,142,598
Machinery and equipment	3,809,056	432,528	199,360	4,042,224
Infrastructure	16,214,814	1,141,755	-	17,356,569
Total accumulated depreciation	<u>\$ 27,068,732</u>	<u>\$ 1,785,952</u>	<u>\$ 313,293</u>	<u>\$ 28,541,391</u>
Total capital assets depreciated, net	<u>\$ 45,219,132</u>	<u>\$ 1,923,665</u>	<u>\$ 27,704</u>	<u>\$ 47,115,093</u>
Capital Assets, Net	<u><u>\$ 46,951,818</u></u>	<u><u>\$ 1,988,075</u></u>	<u><u>\$ 67,726</u></u>	<u><u>\$ 48,872,167</u></u>

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

General government	\$ 166,254
Public safety	141,130
Highways and streets, including depreciation of infrastructure assets	1,396,480
Sanitation	1,848
Human services	26,268
Culture and recreation	18,455
Conservation of natural resources	35,517
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,785,952</u></u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	Governmental Activities
Accounts	\$ 277,391
Salaries	15,357
Contracts	53,650
Due to other governments	215,115
Total Payables	\$ 561,513

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, 2012
Hawk Creek Loan (SRF0074)	2014	\$ 13,921	2.0	\$ 125,605	\$ 20,471
Hawk Creek Continuation Loan (SRF0119)	2016	8,024	2.0	72,398	30,700
Chippewa River Watershed Continuation Loan (SRF0122)	2016	7,521	2.0	67,862	28,775
Hawk Creek Watershed Loan (SRF0158)	2020	27,956	2.0	252,241	193,805
Chippewa River Watershed Loan (SRF0159)	2019	22,889	2.0	206,522	158,677
Chippewa River Continuation Loan (SRF0207)	2023	11,745	2.0	105,970	96,296
Hawk Creek Watershed Continuation Loan (SRF0231)	2023	19,595	2.0	176,800	71,784
Chippewa River Watershed Loan (SRF0232)	2021	11,526	2.0	208,000	67,614
Total				\$ 1,215,398	\$ 668,122

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

B. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 650,105	\$ 98,291	\$ 80,274	\$ 668,122	\$ 81,889
Compensated absences	573,013	42,679	-	615,692	46,645
Net OPEB liability	152,455	36,453	-	188,908	-
Long-Term Liabilities	<u>\$ 1,375,573</u>	<u>\$ 177,423</u>	<u>\$ 80,274</u>	<u>\$ 1,472,722</u>	<u>\$ 128,534</u>

4. Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2013	\$ 81,889	\$ 10,167
2014	76,574	8,521
2015	71,083	7,052
2016	72,512	5,623
2017	58,347	4,243
2018 - 2021	168,319	5,772
Total	<u>\$ 528,724</u>	<u>\$ 41,378</u>

Clean water loans (Hawk Creek Watershed and Chippewa River Watershed) in the amount of \$139,398 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,

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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2. Detailed Notes on All Funds

B. Liabilities

5. Conduit Debt (Continued)

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, 2012, the outstanding principal amount payable was \$35,655,000.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. 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 member's first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description (Continued)

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.

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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description (Continued)

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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](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.

2. 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 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 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 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

2. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2012	2011	2010
General Employees Retirement Fund	\$ 282,061	\$ 277,872	\$ 262,990
Public Employees Police and Fire Fund	91,238	89,909	81,824
Public Employees Correctional Fund	39,299	38,223	36,624

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

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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	Employee	Employer
Contribution amount	\$ 7,927	\$ 7,927
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.

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 2012, there were approximately 130 participants in the plan.

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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	82,617
Interest on net OPEB obligation		6,860
Adjustment to ARC		(9,394)
		80,083
Annual OPEB cost (expense)	\$	80,083
Contributions made		(43,630)
		36,453
Increase in net OPEB obligation	\$	36,453
Net OPEB Obligation - Beginning of Year		152,455
		188,908
Net OPEB Obligation - End of Year	\$	188,908

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2010	\$ 82,869	\$ 57,962	69.9%	\$ 104,654
December 31, 2011	80,913	33,112	40.9	152,455
December 31, 2012	80,083	43,630	54.5	188,908

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$649,979 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$649,979. The covered payroll (annual payroll of active employees covered by the plan) was \$5,309,097, and the ratio of the UAAL to the covered payroll was 12.24 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

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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 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, 2011, 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years.

The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

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.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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

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 \$121,367 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's contribution of \$209,507 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  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Montevideo-Chippewa Airport Commission (Continued)

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.

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.

Complete financial information can be obtained from the PLYP office, P. O. Box 894, Willmar, Minnesota 56201.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

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 Basin 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 2012.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Board (Continued)

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.

D. Jointly-Governed Organization

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.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-1**

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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%
January 1, 2011	-	649,979	649,979	0.0	5,309,097	12.24

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, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,658,849	\$ 4,658,849	\$ 4,629,336	\$ (29,513)
Special assessments	90,500	90,500	207,070	116,570
Licenses and permits	8,300	8,300	9,341	1,041
Intergovernmental	1,352,790	1,346,187	1,545,713	199,526
Charges for services	494,209	497,143	612,302	115,159
Gifts and contributions	-	-	4,463	4,463
Investment earnings	70,005	70,005	18,004	(52,001)
Miscellaneous	311,022	314,691	437,693	123,002
<b>Total Revenues</b>	<b>\$ 6,985,675</b>	<b>\$ 6,985,675</b>	<b>\$ 7,463,922</b>	<b>\$ 478,247</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 253,013	\$ 253,013	\$ 250,312	\$ 2,701
Courts	5,000	5,000	-	5,000
Law library	38,000	38,000	22,559	15,441
County auditor/treasurer	433,725	448,725	435,895	12,830
Deputy registrar - License Bureau	169,751	169,751	167,769	1,982
Accounting and auditing	40,000	40,000	31,536	8,464
County assessor	291,760	291,760	288,706	3,054
Elections	40,000	40,000	59,197	(19,197)
Data processing	240,382	246,882	264,209	(17,327)
Central services	82,600	82,600	97,238	(14,638)
Attorney	374,374	386,374	391,937	(5,563)
Recorder	276,448	318,448	315,623	2,825
Buildings and plant	446,514	606,514	627,260	(20,746)
Veterans service officer	161,875	169,875	175,130	(5,255)
Geographic information systems	45,500	45,500	39,440	6,060
Other general government	129,800	146,350	288,556	(142,206)
<b>Total general government</b>	<b>\$ 3,028,742</b>	<b>\$ 3,288,792</b>	<b>\$ 3,455,367</b>	<b>\$ (166,575)</b>
<b>Public safety</b>				
Sheriff	\$ 1,420,084	\$ 1,422,184	\$ 1,412,663	\$ 9,521
Safety management	6,725	8,225	8,261	(36)
Boat and water safety	585	10,735	11,065	(330)
D.A.R.E. program	1,800	1,800	1,965	(165)
Coroner	12,700	29,700	25,853	3,847
Dispatch	152,550	152,550	259,430	(106,880)
Jail	838,575	953,575	945,852	7,723
Victim witness program	57,242	57,242	54,784	2,458
Emergency management	43,811	50,811	32,976	17,835
<b>Total public safety</b>	<b>\$ 2,534,072</b>	<b>\$ 2,686,822</b>	<b>\$ 2,752,849</b>	<b>\$ (66,027)</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, 2012**

	<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	\$ 44,000	\$ 66,000	\$ 84,583	\$ (18,583)
Recycling	123,320	134,820	134,951	(131)
Hazardous waste	3,000	4,500	4,243	257
<b>Total sanitation</b>	<b>\$ 170,320</b>	<b>\$ 205,320</b>	<b>\$ 223,777</b>	<b>\$ (18,457)</b>
<b>Culture and recreation</b>				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Regional library	295,952	295,952	253,784	42,168
Parks	30,000	30,000	12,902	17,098
Fairgrounds	47,000	47,100	47,028	72
Airport	-	-	61,087	(61,087)
<b>Total culture and recreation</b>	<b>\$ 402,952</b>	<b>\$ 403,052</b>	<b>\$ 404,801</b>	<b>\$ (1,749)</b>
<b>Conservation of natural resources</b>				
Extension	\$ 115,788	\$ 115,788	\$ 125,265	\$ (9,477)
Soil and water conservation	72,000	72,000	72,000	-
Weed control	63,014	109,514	47,328	62,186
Water planning	11,445	34,195	43,365	(9,170)
Land resource management	180,772	373,272	300,400	72,872
County farm	2,000	2,000	280	1,720
<b>Total conservation of natural resources</b>	<b>\$ 445,019</b>	<b>\$ 706,769</b>	<b>\$ 588,638</b>	<b>\$ 118,131</b>
<b>Economic development</b>				
Community development	\$ -	\$ -	\$ 16,066	\$ (16,066)
Prairie Five	-	-	9,911	(9,911)
Other	25,630	25,630	24,743	887
<b>Total economic development</b>	<b>\$ 25,630</b>	<b>\$ 25,630</b>	<b>\$ 50,720</b>	<b>\$ (25,090)</b>
<b>Intergovernmental</b>				
General government	\$ 210,590	\$ 210,590	\$ 208,202	\$ 2,388
Conservation of natural resources	168,350	213,850	213,567	283
<b>Total intergovernmental</b>	<b>\$ 378,940</b>	<b>\$ 424,440</b>	<b>\$ 421,769</b>	<b>\$ 2,671</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ -	\$ -	\$ 80,274	\$ (80,274)
Interest	-	-	13,775	(13,775)
<b>Total debt service</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,049</u>	<u>\$ (94,049)</u>
<b>Total Expenditures</b>	<u>\$ 6,985,675</u>	<u>\$ 7,740,825</u>	<u>\$ 7,991,970</u>	<u>\$ (251,145)</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ -</u>	<u>\$ (755,150)</u>	<u>\$ (528,048)</u>	<u>\$ 227,102</u>
<b>Other Financing Sources (Uses)</b>				
Loans issued	\$ -	\$ -	\$ 98,291	\$ 98,291
Proceeds from the sale of capital assets	-	-	7,400	7,400
<b>Total Other Financing Sources (Uses)</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,691</u>	<u>\$ 105,691</u>
<b>Net Change in Fund Balance</b>	<u>\$ -</u>	<u>\$ (755,150)</u>	<u>\$ (422,357)</u>	<u>\$ 332,793</u>
<b>Fund Balance - January 1</b>	<u>4,430,540</u>	<u>4,430,540</u>	<u>4,430,540</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 4,430,540</u>	<u>\$ 3,675,390</u>	<u>\$ 4,008,183</u>	<u>\$ 332,793</u>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,174,391	\$ 1,174,391	\$ 1,148,714	\$ (25,677)
Licenses and permits	-	-	14,500	14,500
Intergovernmental	2,608,659	2,608,659	3,316,652	707,993
Charges for services	-	-	71,332	71,332
Investment earnings	90,000	90,000	10,691	(79,309)
Miscellaneous	140,000	140,000	197,060	57,060
<b>Total Revenues</b>	<b>\$ 4,013,050</b>	<b>\$ 4,013,050</b>	<b>\$ 4,758,949</b>	<b>\$ 745,899</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Maintenance	\$ 1,390,000	\$ 1,390,000	\$ 1,125,524	\$ 264,476
Engineering/construction	1,514,950	2,236,950	2,249,782	(12,832)
Administration	266,900	266,900	261,120	5,780
Equipment and shop	436,650	1,205,700	1,163,100	42,600
<b>Total highways and streets</b>	<b>\$ 3,608,500</b>	<b>\$ 5,099,550</b>	<b>\$ 4,799,526</b>	<b>\$ 300,024</b>
<b>Intergovernmental</b>				
Highways and streets	340,000	340,000	330,927	9,073
<b>Total Expenditures</b>	<b>\$ 3,948,500</b>	<b>\$ 5,439,550</b>	<b>\$ 5,130,453</b>	<b>\$ 309,097</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 64,550</b>	<b>\$ (1,426,500)</b>	<b>\$ (371,504)</b>	<b>\$ 1,054,996</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from the sale of capital assets	-	-	3,084	3,084
<b>Net Change in Fund Balance</b>	<b>\$ 64,550</b>	<b>\$ (1,426,500)</b>	<b>\$ (368,420)</b>	<b>\$ 1,058,080</b>
<b>Fund Balance - January 1</b>	<b>4,074,193</b>	<b>4,074,193</b>	<b>4,074,193</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(65,842)</b>	<b>(65,842)</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,138,743</b>	<b>\$ 2,647,693</b>	<b>\$ 3,639,931</b>	<b>\$ 992,238</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,106,320	\$ 2,106,320	\$ 2,114,035	\$ 7,715
Intergovernmental	2,174,129	2,174,129	2,278,259	104,130
Charges for services	256,484	256,484	229,347	(27,137)
Gifts and contributions	11,000	11,000	8,246	(2,754)
Investment earnings	100	100	-	(100)
Miscellaneous	95,550	95,550	177,365	81,815
<b>Total Revenues</b>	<b>\$ 4,643,583</b>	<b>\$ 4,643,583</b>	<b>\$ 4,807,252</b>	<b>\$ 163,669</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,502,209	\$ 1,662,999	\$ 1,567,356	\$ 95,643
Social services	3,348,483	3,570,527	3,197,317	373,210
<b>Total human services</b>	<b>\$ 4,850,692</b>	<b>\$ 5,233,526</b>	<b>\$ 4,764,673</b>	<b>\$ 468,853</b>
<b>Intergovernmental</b>				
Health	119,403	119,403	121,367	(1,964)
<b>Total Expenditures</b>	<b>\$ 4,970,095</b>	<b>\$ 5,352,929</b>	<b>\$ 4,886,040</b>	<b>\$ 466,889</b>
<b>Net Change in Fund Balance</b>	<b>\$ (326,512)</b>	<b>\$ (709,346)</b>	<b>\$ (78,788)</b>	<b>\$ 630,558</b>
<b>Fund Balance - January 1</b>	<b>3,840,183</b>	<b>3,840,183</b>	<b>3,840,183</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,513,671</b>	<b>\$ 3,130,837</b>	<b>\$ 3,761,395</b>	<b>\$ 630,558</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT A-5*

**BUDGETARY COMPARISON SCHEDULE  
DITCH REVENUE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 2,025	\$ 1,925
Special assessments	150,000	150,000	518,941	368,941
Charges for services	100,000	100,000	139,015	39,015
Investment earnings	10,000	10,000	3,767	(6,233)
Miscellaneous	5,000	5,000	23,196	18,196
<b>Total Revenues</b>	<b>\$ 265,100</b>	<b>\$ 265,100</b>	<b>\$ 686,944</b>	<b>\$ 421,844</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	721,600	721,600	631,607	89,993
<b>Net Change in Fund Balance</b>	<b>\$ (456,500)</b>	<b>\$ (456,500)</b>	<b>\$ 55,337</b>	<b>\$ 511,837</b>
<b>Fund Balance - January 1</b>	<b>2,635,828</b>	<b>2,635,828</b>	<b>2,635,828</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,179,328</b>	<b>\$ 2,179,328</b>	<b>\$ 2,691,165</b>	<b>\$ 511,837</b>

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

<u>Fund</u>	<u>Revenues</u>		
	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 6,985,675	\$ -	\$ 6,985,675
Road and Bridge Fund	4,013,050	-	4,013,050
Family Services Fund	4,643,583	-	4,643,583

<u>Fund</u>	<u>Expenditures</u>		
	<u>Original Budget</u>	<u>Increase (Decrease)</u>	<u>Final Budget</u>
General Fund	\$ 6,985,675	\$ 775,150	\$ 7,740,825
Road and Bridge Fund	3,948,500	1,491,050	5,439,550
Family Services Fund	4,970,095	382,834	5,352,929

2. Excess of Expenditures Over Appropriations

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 7,991,970	\$ 7,740,825	\$ 251,145

3. Budget Basis of Accounting

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

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**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 POSITION  
INVESTMENT TRUST FUNDS  
DECEMBER 31, 2012**

	<b>Pooled</b>	<b>Investments</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,520,073	\$ -	\$ 1,520,073
Investments	-	16,671,225	16,671,225
Accrued interest	520	41,226	41,746
<b>Total Assets</b>	<b>\$ 1,520,593</b>	<b>\$ 16,712,451</b>	<b>\$ 18,233,044</b>
<b><u>Net Position</u></b>			
Net position, held in trust	<b>\$ 1,520,593</b>	<b>\$ 16,712,451</b>	<b>\$ 18,233,044</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Pooled</b>	<b>Investments</b>	<b>Total</b>
<b><u>Additions</u></b>			
Contributions from participants	\$ 37,246,444	\$ 13,865,005	\$ 51,111,449
Investment earnings	1,537	31,426	32,963
<b>Total Additions</b>	<b>\$ 37,247,981</b>	<b>\$ 13,896,431</b>	<b>\$ 51,144,412</b>
<b><u>Deductions</u></b>			
Distributions to participants	37,277,443	12,415,022	49,692,465
<b>Change in Net Position</b>	<b>\$ (29,462)</b>	<b>\$ 1,481,409</b>	<b>\$ 1,451,947</b>
<b>Net Position - Beginning of the Year</b>	<b>1,550,055</b>	<b>15,231,042</b>	<b>16,781,097</b>
<b>Net Position - End of the Year</b>	<b>\$ 1,520,593</b>	<b>\$ 16,712,451</b>	<b>\$ 18,233,044</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, 2012**

	<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	\$ 325,432	\$ 1,422,609	\$ 1,390,821	\$ 357,220
Investments	20,463	140	-	20,603
<b>Total Assets</b>	<b>\$ 345,895</b>	<b>\$ 1,422,749</b>	<b>\$ 1,390,821</b>	<b>\$ 377,823</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 345,895</b>	<b>\$ 1,422,749</b>	<b>\$ 1,390,821</b>	<b>\$ 377,823</b>
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 49,079</b>	<b>\$ 336,172</b>	<b>\$ 302,381</b>	<b>\$ 82,870</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 49,079</b>	<b>\$ 336,172</b>	<b>\$ 302,381</b>	<b>\$ 82,870</b>
 <b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<b>\$ 247,322</b>	<b>\$ 19,463,101</b>	<b>\$ 19,474,262</b>	<b>\$ 236,161</b>
<b><u>Liabilities</u></b>				
Due to other governments	<b>\$ 247,322</b>	<b>\$ 19,463,101</b>	<b>\$ 19,474,262</b>	<b>\$ 236,161</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, 2012**

	<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	\$ 41,371	\$ 594,922	\$ 505,921	\$ 130,372
<b><u>Liabilities</u></b>				
Due to other governments	\$ 41,371	\$ 594,922	\$ 505,921	\$ 130,372
 <b><u>MENTAL HEALTH</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 226,684	\$ 42,589	\$ 79,355	\$ 189,918
<b><u>Liabilities</u></b>				
Due to other governments	\$ 226,684	\$ 42,589	\$ 79,355	\$ 189,918
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 889,888	\$ 21,859,393	\$ 21,752,740	\$ 996,541
Investments	20,463	140	-	20,603
<b>Total Assets</b>	<b>\$ 910,351</b>	<b>\$ 21,859,533</b>	<b>\$ 21,752,740</b>	<b>\$ 1,017,144</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 910,351	\$ 21,859,533	\$ 21,752,740	\$ 1,017,144

## **OTHER SCHEDULES**

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**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT D-1**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Shared Revenue**

**State**

Highway users tax	\$ 3,209,945
Market value credit	111,397
PERA rate reimbursement	22,735
Disparity reduction aid	76,316
County program aid	492,985
Police aid	58,253
Enhanced 911	84,345
	<u>84,345</u>

**Total shared revenue** **\$ 4,055,976**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 368,823
	<u>368,823</u>

**Payments**

**Local**

Local grants	\$ 59,749
Payments in lieu of taxes	165,055
	<u>165,055</u>

**Total payments** **\$ 224,804**

**Grants**

**State**

Minnesota Department/Board of	
Crime Victim Services	\$ 53,463
Public Safety	24,971
Natural Resources	35,297
Human Services	568,402
Water and Soil Resources	66,126
Pollution Control Agency	269,517
	<u>269,517</u>

**Total state** **\$ 1,017,776**

**Federal**

Department of	
Agriculture	\$ 161,470
Health and Human Services	1,058,531
Homeland Security	253,244
	<u>253,244</u>

**Total federal** **\$ 1,473,245**

**Total state and federal grants** **\$ 2,491,021**

**Total Intergovernmental Revenue** **\$ 7,140,624**

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**EXHIBIT D-2**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<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	10.561	<b>\$ 161,470</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	\$ 2,675
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	229,310
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	2,676
Child Support Enforcement	93.563	292,602
Refugee and Entrant Assistance - State Administered Programs	93.566	102
Child Care and Development Block Grant	93.575	3,016
Refugee and Entrant Assistance - Discretionary Grants	93.576	152
Stephanie Tubbs Jones Child Welfare Services Program	93.645	669
Foster Care - Title IV-E	93.658	35,546
Social Services Block Grant	93.667	98,182
Children's Health Insurance Program	93.767	34
Medical Assistance Program	93.778	393,567
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,058,531</b>
<b>U.S. Department of Homeland Security</b>		
Direct Emergency Food and Shelter National Board Program	97.024	\$ 1,089
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	10,826
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	15,828
Passed Through Lyon County, Minnesota Homeland Security Grant Program	97.067	225,501
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 253,244</b>
<b>Total Federal Awards</b>		<b>\$ 1,473,245</b>

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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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, 2012. 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 position 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$	231,986
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5. Subrecipients

During 2012, the County did not pass any federal money to subrecipients.

**CHIPPEWA COUNTY  
MONTEVIDEO, MINNESOTA**

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6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (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, 2012**

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

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Chippewa County qualified as a low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

##### 99-1 Internal Accounting Controls

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

**Context:** 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.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure internal control policies and procedures are being followed by staff to the extent possible.

#### Client's Response:

*The County is cognizant that due to limited staffing levels, sufficient level of segregation of duties is difficult to attain. In April 2008, the County Board approved an Accounting Policies and Procedures Manual to better define accounting procedures to address the segregation of duties issue. Management continues to monitor internal controls and looks for processes to strengthen internal controls.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Documenting and Monitoring Internal Controls (09-1)**

A risk assessment of existing controls over significant functions of the accounting system used to produce financial information had not been completed.

**Resolution**

A risk assessment was completed and documented by the County in December 2012.

**Audit Adjustment (11-1)**

A material adjustment was identified that resulted in a significant change to the County's financial statements.

**Resolution**

No material audit adjustments were identified during the 2012 audit.

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

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

11-2 Identification of Federal Awards

**Program:** U.S. Department of Homeland Security's Homeland Security Grant Program (CFDA No. 97.067)

**Pass-Through Agency:** Lyon County, Minnesota

**Criteria:** OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received and preparation of the Schedule of Expenditures of Federal Awards (SEFA).

**Condition:** The County did not adequately identify amounts received and expended for federal awards on the SEFA. The following item of improper classification and misidentification of federal awards was noted:

- The County did not identify \$225,501 as federal Homeland Security Grant Program (CFDA No. 97.067).

**Questioned Costs:** None.

**Context:** In 2012, the County expended \$1,473,245 in federal awards.

**Effect:** The inability to identify and track federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that the federal expenditures would not be fairly reported.

**Cause:** The County does not have adequate procedures in place to identify, classify, and track federal awards for reporting on the SEFA or in the financial statements.

**Recommendation:** We recommend County management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended. Procedures should include determination of the correct program CFDA number, revenue source, and program name.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Marv Garbe, Emergency Management Director  
Jon Clauson, Auditor/Treasurer*

Corrective Action Planned:

*Classify as receivable.*

Anticipated Completion Date:

*September 1, 2013.*

11-3 Activities Allowed or Unallowed and Allowable Costs\Cost Principles - Approval of Supporting Documentation

**Programs:** U.S. Department of Agriculture's State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561), U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563), and Medical Assistance Program (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** OMB Circular A-133 § .300(b) state that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

**Condition:** Of the 40 expenditures tested, two timesheets of a department supervisor were not approved by a second person.

**Questioned Costs:** None.

**Context:** A proper approval process helps ensure that payment is made only for valid and authorized services.

**Effect:** Payments for unauthorized services may be charged to a federal program.

**Cause:** The County Policy does not document who should approve timesheets of a department supervisor.

**Recommendation:** We recommend the County review and update its policy on timesheet processing.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Betty Christensen, Director  
Jon Clauson, County Auditor/Treasurer*

Corrective Action Planned:

*A secondary approval will be received on all invoices. The County Auditor will sign all timesheets for the Family Services Director.*

Anticipated Completion Date:

*September 1, 2013.*

11-4 Eligibility - Intake Function

**Programs:** U.S. Department of Health and Human Services' Medical Assistance Program (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Standard internal control procedures should include a review process for case files to ensure the intake function related to eligibility requirements is met.

**Condition:** During our testing of controls over the Medical Assistance Program case files, we noted active case files were not reviewed by a program supervisor.

**Questioned Costs:** None.

**Context:** The State of Minnesota contracts with the County Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

**Effect:** The lack of case file reviews increases the risk that clients will receive benefits when they are not eligible.

**Cause:** The County has not had the staffing resources available to complete the reviews.

**Recommendation:** We recommend that the County implement procedures for periodic supervisor case file reviews.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Barb DeBeer, Financial Assistance Supervisor II  
Betty Christensen, Director*

Corrective Action Planned:

*The FAS II does review all types of financial cases on a random basis. A plan will be created to ensure that Medical Assistance cases are included. Reviews will be completed at least six times per year.*

Anticipated Completion Date:

*October 1, 2013.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Equipment and Real Property Management (11-5)**

Based on our review of grant expenditures for the Homeland Security Grant Program (CFDA No. 97.067), dispatch center equipment and radios were purchased with federal funds of \$210,914; however, the equipment was not documented on the capital asset listing as being purchased with federal funds.

**Resolution**

The capital asset listing provided for the 2012 audit documented which assets were purchased with federal funds.

### **Reporting - Review Process (11-6)**

During our testing of controls over reporting for the County's Health and Human Services Department, we did not find a documented review process of reports submitted to the Minnesota Department of Human Services (DHS) by a supervisory-level individual independent of the individual who prepares the reports.

### **Resolution**

The reports are now being reviewed by a supervisory-level individual. The review is documented on the report.

## **IV. OTHER FINDINGS AND RECOMMENDATIONS**

### MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 11-7 Contracts

**Criteria:** The County is required by Minn. Stat. § 471.425, subd. 4a, in contracts between the County and a prime contractor, to state that the prime contractor must pay subcontractors within ten days of receipt of payment from the County or pay interest at the rate of one and one-half percent per month or any part of a month.

**Condition:** The County did not have this wording in two of four contracts tested.

**Context:** The statement was included in the highway construction contracts but was not included in the maintenance contracts or in contracts for the ditch fund.

**Effect:** The County is not in compliance with Minn. Stat. § 471.425, subd. 4a.

**Cause:** County management thought the wording was only needed for highway construction contracts and was not aware it was required for all contracts.

**Recommendation:** We recommend the County add the wording from Minn. Stat. § 471.425, subd. 4a, regarding payment of subcontractors to its contracts.

#### Client's Response:

*Language will be added to ditch fund contracts pursuant to Minn. Stat. § 471.425, subd. 4a.*

11-8 IC-134 Withholding Affidavit

**Criteria:** Minn. Stat. § 270C.66 states that before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

**Condition:** Final payment was made on one of two contracts tested without receiving the IC-134 Withholding Affidavit form.

**Context:** The form was obtained for the highway construction contract but was not obtained for a contract for the ditch fund.

**Effect:** The County is not in compliance with Minn. Stat. § 270C.66.

**Cause:** County management thought the IC-134 forms were only needed for highway construction contracts.

**Recommendation:** We recommend the County obtain an IC-134 Withholding Affidavit form for any contract requiring the employment of employees for wages by contractors or subcontractors.

Client's Response:

*The form IC-134 will be obtained from all contractors whether sole proprietor or not.*

ITEM ARISING THIS YEAR

12-1 Driver Awareness Class

**Criteria:** As stated in Minn. Stat. § 169.022, in part, “. . . Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalties provided for in this chapter for the same offense.”

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation

prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the statute.

**Condition:** Chippewa County has established a Driver Awareness Class option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff's Deputies have the discretion to offer traffic violators the option of attending the Driver Awareness Class in lieu of a citation. The course is two hours long and costs \$75, which is payable to the Chippewa County Sheriff.

**Context:** In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: "All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver's] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program." (Emphasis is that of the Attorney General.)

The Minnesota Supreme Court has stated, "[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy." *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), quoting *County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

**Effect:** The County's Driver Awareness Class is unauthorized and in violation of Minn. Stat. § 169.022.

**Cause:** We were informed by the County Sheriff that this diversion program was approved by the County Attorney.

**Recommendation:** We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999 (2009) or any subsequent legislation, by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

Client's Response:

*The Sheriff will review Minn. Stat. § 169.022, consult with the County Attorney, make adjustments to comply with Minn. Stat. § 169.022, and petition the court for the authority to continue the program.*

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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***

### Independent Auditor's Report

Board of County Commissioners  
Chippewa County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Chippewa County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control 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. 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 the attention by those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 99-1 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County does not have any tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Chippewa County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 11-7, 11-8 and 12-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## Other Matters

Chippewa County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2013

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REBECCA OTTO  
STATE AUDITOR

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Chippewa County

#### **Report on Compliance for Each Major Federal Program**

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 the County's major federal programs for the year ended December 31, 2012. 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.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Chippewa County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on Each Major Federal Program***

In our opinion, Chippewa County complied, in all material respects, with the types of compliance 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, 2012.

**Report on Internal Control Over Compliance**

Management of Chippewa County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 through 11-4, that we consider to be significant deficiencies.

Chippewa County's responses to the internal control findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Chippewa County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suited for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 27, 2013

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR