

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2007

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**

For the Year Ended December 31, 2007



**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
2007

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Koenen ¹	January 2009
2nd District	Jeffrey Lopez	January 2009
3rd District	Mark Dahl	January 2011
4th District	Jim Dahlvang	January 2009
5th District	Gene Van Binsbergen ²	January 2011
Officers		
Elected		
Attorney	Dwayne Knutsen	January 2011
Auditor/Treasurer	Jon Clauson	January 2011
Coroner	Erik Shelstad, M.D.	January 2011
County Recorder and Registrar of Titles	Diane Ketelsen	January 2011
Sheriff	Stacy Tufto	January 2011
Appointed		
Assessor	Carol Schultz	Indefinite
Community Corrections	Midge Christianson	Indefinite
Deputy Register	Sandra Hodge	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Land and Resource	Scott Williams	Indefinite
Management		
Veterans Service Officer	Dennis Anderson	Indefinite
Family Services Director	Betty Christensen	Indefinite
Data Processing	Kathy Leindecker	Indefinite

¹Chair 2006

²Chair 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County

We have audited the 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, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic 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, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Chippewa County. The statements and schedule listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Chippewa County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2009, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 25, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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, 2007) by \$57,813,161 (net assets). Of this amount, \$15,409,794 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net assets increased by \$1,397,649. The increase is a combination of additional capital assets and budget savings from operations.
- As of the close of the 2007 fiscal year, Chippewa County's governmental funds' ending fund balances were \$15,349,703, compared to \$13,566,110 in 2006. Approximately 37.5 percent of the amount (\$5,757,959) is available for spending at Chippewa County's discretion (unreserved, undesignated fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

Within the governmental funds, Chippewa County maintains two fund types: General and Special Revenue. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, and Ditch 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, and
- Ditch 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 Statements 1 through 3 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$57,813,161 on December 31, 2007.

Capital assets of \$41,965,310 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (72.59 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Less than one percent of Chippewa County's net assets represent resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$15,409,794) may be used to meet the government's ongoing obligations to citizens and creditors.

	Net Assets	
	Governmental Activities	
	2007	2006
Assets		
Current and other assets	\$ 17,008,724	\$ 16,139,435
Capital assets	<u>41,965,310</u>	<u>41,994,602</u>
Total Assets	<u>\$ 58,974,034</u>	<u>\$ 58,134,037</u>
Liabilities		
Long-term liabilities	\$ 804,760	\$ 728,967
Other liabilities	<u>356,113</u>	<u>989,558</u>
Total Liabilities	<u>\$ 1,160,873</u>	<u>\$ 1,718,525</u>
Net Assets		
Invested in capital assets	\$ 41,965,310	\$ 41,994,602
Restricted	438,057	407,968
Unrestricted	<u>15,409,794</u>	<u>14,012,942</u>
Total Net Assets	<u>\$ 57,813,161</u>	<u>\$ 56,415,512</u>

Unrestricted net assets at December 31, 2007--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 27 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 2.48 percent (\$57,813,161 for 2007, compared to \$56,415,512 for 2006). Key elements in this increase in net assets are as follows:

Changes in Net Assets		
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 1,467,262	\$ 1,355,717
Operating grants and contributions	4,491,694	5,447,844
Capital grants and contributions	1,409,214	1,321,928
General revenues		
Property taxes	5,571,678	5,305,620
Other	2,459,652	2,441,473
Total Revenues	<u>\$ 15,399,500</u>	<u>\$ 15,872,582</u>
Expenses		
General government	\$ 2,661,313	\$ 2,684,429
Public safety	1,912,283	1,873,313
Highways and streets	2,964,231	3,573,382
Sanitation	235,774	208,853
Human services	4,536,148	4,134,855
Health	134,138	107,463
Culture and recreation	376,564	371,007
Conservation of natural resources	968,684	1,419,203
Economic development	208,104	148,705
Interest	4,612	2,108
Total Expenses	<u>\$ 14,001,851</u>	<u>\$ 14,523,318</u>
Increase in Net Assets	\$ 1,397,649	\$ 1,349,264
Net Assets - January 1	<u>56,415,512</u>	<u>55,066,248</u>
Net Assets - December 31	<u>\$ 57,813,161</u>	<u>\$ 56,415,512</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of \$15,349,703, an increase of \$1,783,593, or 13.15 percent, in comparison with the prior year. Of the combined ending fund balances, \$14,610,443 represents unreserved fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$739,260, is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2007, it had an unreserved fund balance of \$4,466,526. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 72.65 percent of total General Fund expenditures. During 2007, the ending fund balance increased by \$585,157. The primary reasons for the increase were higher than anticipated revenues in the areas of intergovernmental, charges for services, interest earnings, and miscellaneous revenues. There were also budget savings in several departments.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$4,275,172 at the end of 2007, representing 142.06 percent of its annual expenditures. The ending fund balance increased by \$1,115,528 during 2007, primarily due to intergovernmental revenues that were significantly greater than anticipated and expenditures in the areas of maintenance and construction that were less than budgeted.

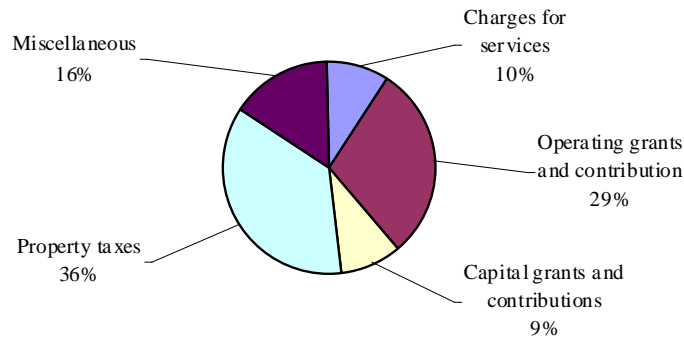
The Family Services Special Revenue Fund had an unreserved fund balance of \$2,831,465 at the end of 2007, representing 60.98 percent of its annual expenditures. The ending fund balance decreased by \$171,065 during 2007, primarily due to expenditures for social services exceeding the amount budgeted.

The Ditch Special Revenue Fund has an unreserved fund balance of \$3,037,280 at the end of 2007. The ending fund balance increased by \$253,973 during 2007, primarily due to greater than anticipated interest earnings and budget savings.

GOVERNMENTAL ACTIVITIES

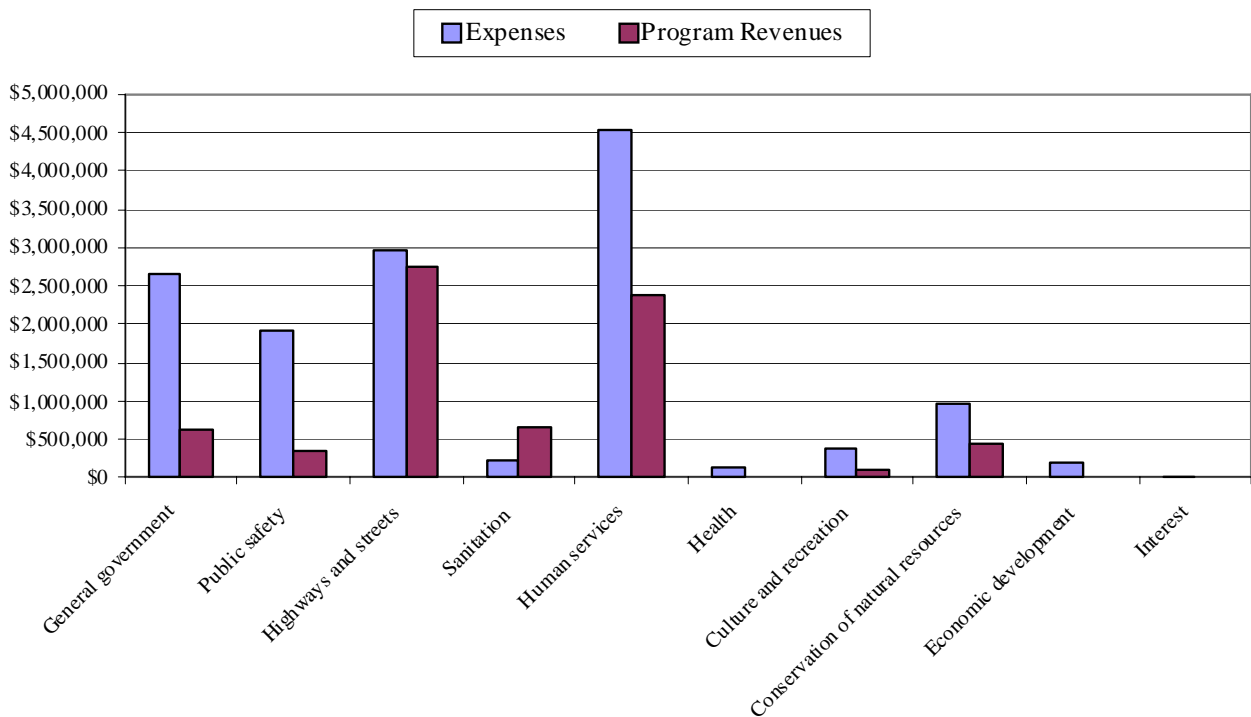
The County's total revenues were \$15,399,500. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2007.

**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 Revenues**



The cost of all governmental activities in 2007 was \$14,001,851. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes was \$5,571,678 because some of the cost was paid by those who directly benefited from the programs (\$1,467,262) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,900,908). The County paid for the remaining “public benefit” portion of governmental activities with \$8,031,330 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>2007</u>	Net Cost of Services <u>2007</u>
General government	\$ 2,661,313	\$ 2,031,330
Public safety	1,912,283	1,554,383
Highways and streets	2,964,231	207,123
Sanitation	235,774	(441,307)
Human services	4,536,148	2,154,690
Health	134,138	134,138
Culture and recreation	376,564	265,815
Conservation of natural resources	968,684	514,793
Economic development	208,104	208,104
Interest	4,612	4,612
Totals	<u>\$ 14,001,851</u>	<u>\$ 6,633,681</u>

General Fund Budgetary Highlights

Over the course of the year, the County Board increased the General Fund budget by \$491,055. The actual charges to appropriations (expenditures) were \$318,867 under the approved budget amounts. Several factors affecting those budget variances were:

- Purchase of a replacement bus used to transport veterans to and from medical facilities (\$56,892). Funds were received from contributions and state grants (\$39,988). Neither the receipts nor disbursements were included in the 2007 budget.

- Water Planning (\$29,039) reported as current conservation of natural resources expenditures. Several environmental grant programs are received and disbursed through the Water Planning Budget item; the receipt and disbursement of funds were not reflected in the 2007 budget. Examples of grant programs are: Water Quality, 2004 Challenge Grant, 2005 Local Water Plan Management Practices Base Grant, 2005 Shoreland Grant, 2005 Individual Septic Treatment Grant, 2006 Local Water Plan Management Practices Base Grant, and 2006 Wetlands Conservation Act Grant.
- Land and Resource Management (\$115,836) reported as current conservation of natural resources expenditures. Grant funds are received and disbursed through the Land and Resource Management Department budget. Examples are the Hawk Creek Septic System Loan program and the Chippewa River Septic Loan program. The receipt and disbursement of funds were not reflected in the 2007 budget.

Resources available for appropriation were \$884,158 above the budgeted amount. Significant positive variances are listed below.

<u>Department</u>	<u>Amount</u>	<u>Reason</u>
Data Processing	\$ 37,679	Computer usage revenues not included in budget
Recorder	45,593	Higher than anticipated revenues
Sheriff	81,901	Police state aid not included in 2007 budget
Jail	64,402	Higher than anticipated revenues
911 Dispatchers	88,476	Higher than anticipated revenues
County Farm	190,997	Funds received from the Minnesota Department of Transportation for sale of real estate
Interest Income	162,993	Higher than anticipated investment revenue
In Lieu of Tax	107,995	Payment in lieu of tax revenues not included in budget

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2007, totaled \$41,965,310 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets decreased \$29,292, or less than one percent from the previous year. The major capital asset events were:

Construction of highways and streets	\$	971,170
Purchase of highway equipment		433,120

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

	2007	2006
Land and right-of-way	\$ 1,428	\$ 1,428
Infrastructure	36,366	36,342
Buildings	2,205	2,372
Machinery and equipment	1,765	1,728
Construction in progress	201	124
Total	\$ 41,965	\$ 41,994

Additional information about the County’s capital assets can be found in Note 3.A.3. 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 2008 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2007 was 4.9 percent. This compares with the state unemployment rate of 4.9 percent and shows an increase from the County’s 4.0 percent rate of one year ago. This could impact the level of services requested by County residents.
- The 2008 property tax levy for the County increased 7.99 percent (\$494,638) from 2007. The increase is due to several factors: reductions in state aids and reserve fund use; and increases in courtroom security, civil commitment costs, personal services, other services, and capital outlay.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Assets

Cash and pooled investments	\$ 7,510,167
Investments	7,509,838
Receivables - net	1,843,452
Inventories	134,085
Prepaid items	11,182
Capital assets	
Non-depreciable capital assets	1,628,810
Depreciable capital assets - net of accumulated depreciation	40,336,500
	<hr/>
Total Assets	\$ 58,974,034

Liabilities

Accounts payable and other current liabilities	\$ 348,141
Unearned revenue	7,972
Long-term liabilities	
Due within one year	62,220
Due in more than one year	742,540
	<hr/>
Total Liabilities	\$ 1,160,873

Net Assets

Invested in capital assets	\$ 41,965,310
Restricted for	
Highways and streets	198,104
Public safety	20,092
Conservation of natural resources	25,759
Other purposes	194,102
Unrestricted	15,409,794
	<hr/>
Total Net Assets	\$ 57,813,161

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs						
Governmental activities						
General government	\$ 2,661,313	\$ 539,412	\$ 90,571	\$ -	\$ (2,031,330)	
Public safety	1,912,283	142,484	215,416	-	(1,554,383)	
Highways and streets	2,964,231	90,748	1,343,450	1,322,910	(207,123)	
Sanitation	235,774	204,724	386,053	86,304	441,307	
Human services	4,536,148	262,596	2,118,862	-	(2,154,690)	
Health	134,138	-	-	-	(134,138)	
Culture and recreation	376,564	16	110,733	-	(265,815)	
Conservation of natural resources	968,684	227,282	226,609	-	(514,793)	
Economic development	208,104	-	-	-	(208,104)	
Interest	4,612	-	-	-	(4,612)	
Total Governmental Activities	\$ 14,001,851	\$ 1,467,262	\$ 4,491,694	\$ 1,409,214	\$ (6,633,681)	
General revenues						
Property taxes					\$ 5,571,678	
Mortgage registry and deed tax					7,674	
Payments in lieu of tax					116,117	
Grants and contributions not restricted to specific programs					1,321,237	
Unrestricted investment earnings					733,920	
Miscellaneous					274,284	
Gain on disposal of capital assets					6,420	
Total general revenues					\$ 8,031,330	
Change in net assets					\$ 1,397,649	
Net Assets - Beginning					56,415,512	
Net Assets - Ending					\$ 57,813,161	

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, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 4,135,507	\$ 284,296	\$ 2,690,869	\$ 301,304	\$ 7,411,976
Undistributed cash in agency funds	49,213	10,851	22,710	3,148	85,922
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	10,069	-	-	-	10,069
Investments	513,786	4,245,052	6,000	2,745,000	7,509,838
Taxes receivable					
Prior	52,174	13,745	29,477	-	95,396
Special assessments receivable					
Prior	7,914	-	-	95	8,009
Noncurrent	339,012	-	-	623,822	962,834
Accounts receivable	7,191	257	27,699	2,180	37,327
Accrued interest receivable	80,245	45,237	71	77	125,630
Loans receivable	115,534	-	-	-	115,534
Due from other funds	374	4,300	-	-	4,674
Due from other governments	51,618	163,080	257,969	26,055	498,722
Inventories	-	134,085	-	-	134,085
Prepaid items	7,962	3,220	-	-	11,182
Total Assets	<u>\$ 5,372,599</u>	<u>\$ 4,904,223</u>	<u>\$ 3,034,895</u>	<u>\$ 3,701,681</u>	<u>\$ 17,013,398</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 118,103	\$ 19,964	\$ 119,878	\$ 2,493	\$ 260,438
Salaries payable	10,874	1,117	5,219	-	17,210
Contracts payable	-	25,088	-	-	25,088
Due to other funds	4,300	135	-	239	4,674
Due to other governments	19,050	1,754	15,048	9,553	45,405
Deferred revenue - unavailable	451,920	169,318	29,554	652,116	1,302,908
Deferred revenue - unearned	-	-	7,972	-	7,972
Total Liabilities	\$ 604,247	\$ 217,376	\$ 177,671	\$ 664,401	\$ 1,663,695
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 276,995	\$ -	\$ -	\$ 276,995
Inventories	-	134,085	-	-	134,085
Prepaid items	7,962	-	-	-	7,962
Missing heirs	20,347	-	-	-	20,347
Recorder's technology fund	73,277	-	-	-	73,277
Recorder's compliance fund	79,878	-	-	-	79,878
Boat and water	880	-	-	-	880
Sheriff's contingency	6,755	-	-	-	6,755
Sheriff's forfeited property	4,294	-	-	-	4,294
Attorney's forfeited property	13,230	-	-	-	13,230
Unclaimed property	154	-	-	-	154
Gun permit fees	8,163	-	-	-	8,163
Highway allotments	-	595	-	-	595
Septic/sewer loans	79,516	-	-	-	79,516
Election equipment grant	7,370	-	-	-	7,370
Unspent grant monies	-	-	25,759	-	25,759
Unreserved					
Designated for future expenditures	4,466,526	2,375,900	1,400,000	-	8,242,426
Designated for capital expenditures	-	-	100,000	-	100,000
Designated for out-of-home care	-	-	500,000	-	500,000
Designated for caregiver program	-	-	10,058	-	10,058
Undesignated	-	1,899,272	821,407	3,037,280	5,757,959
Total Fund Balances	\$ 4,768,352	\$ 4,686,847	\$ 2,857,224	\$ 3,037,280	\$ 15,349,703
Total Liabilities and Fund Balances	\$ 5,372,599	\$ 4,904,223	\$ 3,034,895	\$ 3,701,681	\$ 17,013,398

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)	\$ 15,349,703
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	41,965,310
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,302,908
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (435,955)
Loans payable	(368,805)
	<hr/>
Net Assets of Governmental Activities (Exhibit 1)	<u>\$ 57,813,161</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Road and Bridge	Family Services	Ditch	Total Governmental Funds
Revenues					
Taxes	\$ 3,098,568	\$ 806,665	\$ 1,683,465	\$ 61	\$ 5,588,759
Special assessments	141,793	-	-	163,047	304,840
Licenses and permits	13,211	-	-	-	13,211
Intergovernmental	1,769,135	3,027,688	2,519,268	-	7,316,091
Charges for services	611,729	30,618	57,573	-	699,920
Gifts and contributions	44,194	-	6,640	-	50,834
Investment earnings	392,993	210,897	577	135,723	740,190
Miscellaneous	566,924	91,612	205,023	-	863,559
Total Revenues	\$ 6,638,547	\$ 4,167,480	\$ 4,472,546	\$ 298,831	\$ 15,577,404
Expenditures					
Current					
General government	\$ 2,639,204	\$ -	\$ -	\$ -	\$ 2,639,204
Public safety	1,728,768	-	-	-	1,728,768
Highways and streets	-	2,768,971	-	-	2,768,971
Sanitation	233,376	-	-	-	233,376
Human services	-	-	4,536,148	-	4,536,148
Culture and recreation	113,675	-	-	-	113,675
Conservation of natural resources	513,353	-	-	44,858	558,211
Economic development	208,104	-	-	-	208,104
Intergovernmental	682,209	240,355	107,463	-	1,030,027
Debt service					
Principal	24,854	-	-	-	24,854
Interest	4,612	-	-	-	4,612
Total Expenditures	\$ 6,148,155	\$ 3,009,326	\$ 4,643,611	\$ 44,858	\$ 13,845,950
Excess of Revenues Over (Under) Expenditures	\$ 490,392	\$ 1,158,154	\$ (171,065)	\$ 253,973	\$ 1,731,454
Other Financing Sources (Uses)					
Loans issued	94,765	-	-	-	94,765
Net Change in Fund Balances	\$ 585,157	\$ 1,158,154	\$ (171,065)	\$ 253,973	\$ 1,826,219
Fund Balances - January 1	4,183,195	3,571,319	3,028,289	2,783,307	13,566,110
Increase (decrease) in reserved for inventories	-	(42,626)	-	-	(42,626)
Fund Balances - December 31	\$ 4,768,352	\$ 4,686,847	\$ 2,857,224	\$ 3,037,280	\$ 15,349,703

**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, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,826,219

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 revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 1,302,908	
Deferred revenue - January 1	<u>(1,583,767)</u>	(280,859)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 1,491,550	
Current year depreciation	<u>(1,520,842)</u>	(29,292)

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

Principal repayments		
Loans payable		24,854

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

Debt issued		
Loans issued		(94,765)

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

Change in compensated absences	\$ (5,882)	
Change in inventories	<u>(42,626)</u>	<u>(48,508)</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,397,649

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FIDUCIARY FUNDS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 1,502,534	\$ 884,708
Investments	35,116,185	-
Accrued interest receivable	325,635	-
Total Assets	\$ 36,944,354	\$ 884,708
<u>Liabilities</u>		
Due to other governments	-	\$ 884,708
<u>Net Assets</u>		
Net assets held in trust for pool participant	\$ 36,944,354	

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Investment Trust
<u>Additions</u>	
Contributions from participants	\$ 127,908,568
Investment earnings	946,197
Total Additions	\$ 128,854,765
<u>Deductions</u>	
Distributions to participants	103,420,119
Change in Net Assets	\$ 25,434,646
Net Assets - Beginning of the Year	11,509,708
Net Assets - End of the Year	\$ 36,944,354

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

The County participates in several joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County has no proprietary funds.

Additionally, the County reports the following fund types:

Fiduciary Funds

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$740,190.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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 (FIFO) 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide 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**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

At December 31, 2007, Chippewa County reports no bonded debt.

8. Fund Equity

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

9. Use of Estimates

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Family Service Special Revenue Fund	\$ 4,643,611	\$ 4,398,246	\$ 245,365

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$	7,510,167
Investments		7,509,838
Statement of fiduciary net assets		
Cash and pooled investments		2,387,242
Investments		35,116,185
		<u>52,523,432</u>
Total Cash and Investments	\$	<u>52,523,432</u>
Checking	\$	2,249,023
Petty cash and change funds		2,200
Departmental cash		10,069
Savings		1,278,274
Money market		2,857,843
Certificates of deposit		3,500,000
Investments		42,626,023
		<u>52,523,432</u>
Total Cash and Investments	\$	<u>52,523,432</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, 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 compliance with state law and perfected security interest under federal law. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (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.

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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

At December 31, 2007, 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	\$ 25,247,800	\$ 22,612,800	\$ 2,635,000	\$ -
MAGIC Fund	5,264,203	5,264,203	-	-
Negotiable certificates of deposit	8,721,579	7,306,579	1,415,000	-
Commercial paper	3,392,441	3,392,441	-	-
Total Investments	<u>\$ 42,626,023</u>	<u>\$ 38,576,023</u>	<u>\$ 4,050,000</u>	<u>\$ -</u>

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, 2007, is as follows:

	<u>S & P Rating</u>	<u>Fair Value</u>
U.S. government agency securities	AAA	\$ 25,247,800
MAGIC Fund	N/R	5,264,203
Negotiable certificates of deposit	N/A	8,721,579
Commercial paper	A-1+	3,392,441
Total		<u>\$ 42,626,023</u>

N/R - Not rated
N/A - Not applicable

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. 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) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2007, \$28,640,241 of Federal Home Loan Bank Bonds held by the County were subject to custodial credit risk.

<u>Issuer</u>	<u>Carrying (Fair) Value</u>
Federal Home Loan Bank	\$ 14,215,343
Federal Home Loan Mortgage Corporation	3,572,034
Federal National Mortgage Association	7,460,423
Commercial paper	3,392,441
Total	<u>\$ 28,640,241</u>

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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

The following table presents the County's investment balances at December 31, 2007, by issuer, not including negotiable certificates of deposit:

Issuer	Reported Amount
Federal Home Loan Bank	\$ 14,215,343
Federal Home Loan Mortgage Corporation	3,572,034
Federal National Mortgage Association	7,460,423
MAGIC Fund	5,264,203
Commercial Paper	3,392,441

c. External Investment Pool

Chippewa County sponsors an external investment pool where cash belonging to the Chippewa County-Montevideo Hospital is pooled with the County's cash and invested. 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	\$ 7,510,167
Held in trust for the Hospital	1,356,307
Total Cash and Pooled Investments	\$ 8,866,474

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2007, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 95,396	\$ -
Special assessments	970,843	962,834
Accounts	37,327	-
Interest	125,630	-
Loans	115,534	106,196
Due from other governments	498,722	-
Total Receivables - Net	\$ 1,843,452	\$ 1,069,030

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 936,647	\$ -	\$ -	\$ 936,647
Right-of-way	491,493	-	-	491,493
Construction in progress	123,527	98,296	21,153	200,670
Total capital assets not depreciated	\$ 1,551,667	\$ 98,296	\$ 21,153	\$ 1,628,810
Capital assets depreciated				
Buildings	\$ 8,540,669	\$ 10,117	\$ -	\$ 8,550,786
Machinery and equipment	4,248,814	433,120	117,556	4,564,378
Infrastructure	47,396,891	971,170	-	48,368,061
Total capital assets depreciated	\$ 60,186,374	\$ 1,414,407	\$ 117,556	\$ 61,483,225

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 6,168,563	\$ 177,057	\$ -	\$ 6,345,620
Machinery and equipment	2,520,331	396,429	117,556	2,799,204
Infrastructure	11,054,545	947,356	-	12,001,901
Total accumulated depreciation	<u>\$ 19,743,439</u>	<u>\$ 1,520,842</u>	<u>\$ 117,556</u>	<u>\$ 21,146,725</u>
Total capital assets depreciated, net	<u>\$ 40,442,935</u>	<u>\$ (106,435)</u>	<u>\$ -</u>	<u>\$ 40,336,500</u>
Capital Assets, Net	<u><u>\$ 41,994,602</u></u>	<u><u>\$ (8,139)</u></u>	<u><u>\$ 21,153</u></u>	<u><u>\$ 41,965,310</u></u>

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

General government	\$ 140,086
Public safety	103,214
Highways and streets, including depreciation of infrastructure assets	1,213,658
Sanitation	1,848
Human services	33,938
Culture and recreation	23,333
Conservation of natural resources	4,765
Total Depreciation Expense - Governmental Activities	<u>\$ 1,520,842</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund Ditch Special Revenue Fund	\$ 135 239
Total General Fund		<u>\$ 374</u>
Road and Bridge Special Revenue Fund	General Fund	<u>4,300</u>
Total Due To/From Other Funds		<u><u>\$ 4,674</u></u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

Due To/From Other Funds (Continued)

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

	Governmental Activities
Accounts	\$ 260,438
Salaries	17,210
Contracts	25,088
Due to other governments	45,405
Total Payables	\$ 348,141

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Vehicle purchases	\$ 41,314	\$ -
Roads and bridges	476,668	25,088

3. 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt--Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
Hawk Creek Loan	2014	\$ 13,921	2%	\$ 125,605	\$ 84,456
Hawk Creek Continuation Loan	2016	8,024	2%	72,398	65,790
Chippewa River Watershed Continuation Loan	2016	6,153	2%	67,862	61,667
Chippewa Watershed Loan	-	-	-	62,126	62,126
Loan Additions					
Hawk Creek Watershed Project	-	-	-	22,860	22,860
Chippewa River Watershed Project	-	-	-	71,906	71,906
Total				<u>\$ 422,757</u>	<u>\$ 368,805</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 298,894	\$ 94,765	\$ 24,854	\$ 368,805	\$ 25,354
Compensated absences	430,073	5,882	-	435,955	36,866
Long-Term Liabilities	<u>\$ 728,967</u>	<u>\$ 100,647</u>	<u>\$ 24,854</u>	<u>\$ 804,760</u>	<u>\$ 62,220</u>

5. Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2008	\$ 25,354	\$ 4,112
2009	25,864	3,603
2010	26,384	3,083
2011	26,914	2,552
2012	27,455	2,011
2013 - 2016	79,942	3,119
Total	<u>\$ 211,913</u>	<u>\$ 18,480</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Clean water loans in the amount of \$156,892 are not included in the debt service requirements because a fixed repayment schedule is not available.

6. 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 are payable solely from revenues of the Hospital. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2007, the outstanding principal amount payable was \$36,565,000. The first principal payment is due in 2011.

4. Employee Retirement Systems and Pension Plans

A. Defined 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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

A. Defined Benefit Plans

1. Plan Description (Continued)

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.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

A. Defined 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; 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.0 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. 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 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

A. Defined Benefit Plans

2. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2007	2006	2005
Public Employees Retirement Fund	\$ 257,684	\$ 204,889	\$ 186,155
Public Employees Police and Fire Fund	66,583	51,951	40,812
Public Employees Correctional Fund	24,865	24,302	24,799

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 in accordance with Minn. Stat. ch. 353D. 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. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the 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**

4. Employee Retirement Systems and Pension Plan

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, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,455	\$ 6,455
Percentage of covered payroll	5%	5%

Required contribution rates were five percent.

5. 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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For 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 \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Countryside Public Health Service

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

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

Region 6W Community Corrections

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Region 6W Community Corrections (Continued)

Chippewa County's contribution of \$116,725 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Montevideo-Chippewa Airport Commission

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

Chippewa County's contribution of \$7,963 to the Montevideo-Chippewa Airport Commission is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of the City of Montevideo, which include the Montevideo-Chippewa Airport Commission, can be obtained at Benson Road, Montevideo, Minnesota 56265.

Chippewa County-Montevideo Hospital

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. The County made no contributions to the Project in 2007.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made no contributions to the Board in 2007.

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 \$232,906 to Pioneerland Library System is shown as an intergovernmental expenditure in the General Fund.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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

E. Agriculture Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and two local lending institutions to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,417,157	\$ 3,417,157	\$ 3,098,568	\$ (318,589)
Special assessments	85,000	85,000	141,793	56,793
Licenses and permits	7,625	7,625	13,211	5,586
Intergovernmental	958,602	1,200,952	1,769,135	568,183
Charges for services	498,987	498,987	611,729	112,742
Gifts and contributions	12,500	12,500	44,194	31,694
Investment earnings	230,000	230,000	392,993	162,993
Miscellaneous	297,178	302,168	566,924	264,756
Total Revenues	\$ 5,507,049	\$ 5,754,389	\$ 6,638,547	\$ 884,158
Expenditures				
Current				
General government				
Commissioners	\$ 226,230	\$ 226,230	\$ 230,415	\$ (4,185)
Law library	50,700	55,950	50,824	5,126
Auditor/treasurer	365,330	365,330	347,480	17,850
License center	129,869	133,549	133,603	(54)
Assessor	246,849	246,849	225,270	21,579
Elections	20,440	20,440	10,359	10,081
Accounting and auditing	25,000	45,000	44,545	455
Data processing	254,635	254,635	220,665	33,970
Central services	35,000	35,285	35,965	(680)
Attorney	313,910	313,910	305,533	8,377
Recorder	236,212	236,212	247,862	(11,650)
Geographic information systems	1,000	7,655	7,651	4
Buildings and plant	447,210	449,555	440,077	9,478
Veterans service officer	148,708	148,708	203,525	(54,817)
County car	2,860	7,180	7,234	(54)
Cafeteria	18,200	20,755	20,766	(11)
Other general government	125,200	125,200	107,430	17,770
Total general government	\$ 2,647,353	\$ 2,692,443	\$ 2,639,204	\$ 53,239
Public safety				
Sheriff	\$ 815,851	\$ 815,851	\$ 817,490	\$ (1,639)
Boat and water safety	1,276	2,226	2,225	1
Dispatch	203,088	203,088	179,318	23,770
Safety management	6,500	6,500	6,472	28
Victim witness program	50,758	51,118	51,184	(66)
Coroner	10,287	11,237	11,235	2
Jail	726,616	726,616	619,773	106,843
DARE program	2,650	2,650	1,373	1,277
Civil defense	24,863	25,818	30,833	(5,015)
Other public safety	7,000	8,825	8,865	(40)
Total public safety	\$ 1,848,889	\$ 1,853,929	\$ 1,728,768	\$ 125,161

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 46,050	\$ 68,660	\$ 66,899	\$ 1,761
Recycling	123,320	154,380	154,377	3
Hazardous waste	3,000	12,170	12,100	70
Total sanitation	\$ 172,370	\$ 235,210	\$ 233,376	\$ 1,834
Health				
Ambulance	\$ 5,000	\$ 5,000	\$ -	\$ 5,000
Culture and recreation				
Historical society	\$ 20,250	\$ 20,250	\$ 20,250	\$ -
Fairgrounds	18,000	18,000	18,000	-
Airport	20,000	20,000	11,484	8,516
Parks	8,000	8,000	4,887	3,113
Regional library	302,327	302,327	58,204	244,123
Other	-	-	850	(850)
Total culture and recreation	\$ 368,577	\$ 368,577	\$ 113,675	\$ 254,902
Conservation of natural resources				
Extension	\$ 105,839	\$ 105,839	\$ 98,752	\$ 7,087
Soil and water conservation	66,000	66,000	66,000	-
Agricultural inspection	57,267	62,257	780	61,477
Weed control	60,097	60,097	56,711	3,386
County farm	11,400	11,400	586	10,814
Water planning	9,450	11,710	61,972	(50,262)
Land resource management	158,965	158,965	228,552	(69,587)
Total conservation of natural resources	\$ 469,018	\$ 476,268	\$ 513,353	\$ (37,085)
Economic development				
Community development	\$ 35,000	\$ 35,000	\$ 27,529	\$ 7,471
Prairie Five	6,000	6,000	3,819	2,181
Other	82,035	210,520	176,756	33,764
Total economic development	\$ 123,035	\$ 251,520	\$ 208,104	\$ 43,416
Intergovernmental				
Public safety	\$ 116,725	\$ 116,725	\$ 116,725	\$ -
Culture and recreation	-	-	239,556	(239,556)
Conservation of natural resources	225,000	467,350	325,928	141,422
Total intergovernmental	\$ 341,725	\$ 584,075	\$ 682,209	\$ (98,134)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Debt service				
Principal	\$ -	\$ -	\$ 24,854	\$ (24,854)
Interest	-	-	4,612	(4,612)
Total debt service	\$ -	\$ -	\$ 29,466	\$ (29,466)
Total Expenditures	\$ 5,975,967	\$ 6,467,022	\$ 6,148,155	\$ 318,867
Excess of Revenues Over (Under) Expenditures	\$ (468,918)	\$ (712,633)	\$ 490,392	\$ 1,203,025
Other Financing Sources (Uses)				
Loans issued	-	-	94,765	94,765
Net Change in Fund Balance	\$ (468,918)	\$ (712,633)	\$ 585,157	\$ 1,297,790
Fund Balance - January 1	4,183,195	4,183,195	4,183,195	-
Fund Balance - December 31	\$ 3,714,277	\$ 3,470,562	\$ 4,768,352	\$ 1,297,790

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,004,300	\$ 1,004,300	\$ 806,665	\$ (197,635)
Intergovernmental	1,889,600	1,889,600	3,027,688	1,138,088
Charges for services	-	-	30,618	30,618
Investment earnings	175,000	175,000	210,897	35,897
Miscellaneous	175,000	175,000	91,612	(83,388)
Total Revenues	\$ 3,243,900	\$ 3,243,900	\$ 4,167,480	\$ 923,580
Expenditures				
Current				
Highways and streets				
Administration	\$ 242,800	\$ 242,800	\$ 158,987	\$ 83,813
Maintenance	1,070,417	1,070,417	949,131	121,286
Construction	1,544,839	1,544,839	1,318,482	226,357
Equipment and maintenance shops	404,044	404,044	342,371	61,673
Total highways and streets	\$ 3,262,100	\$ 3,262,100	\$ 2,768,971	\$ 493,129
Intergovernmental				
Highways and streets	240,500	240,500	240,355	145
Total Expenditures	\$ 3,502,600	\$ 3,502,600	\$ 3,009,326	\$ 493,274
Net Change in Fund Balance	\$ (258,700)	\$ (258,700)	\$ 1,158,154	\$ 1,416,854
Fund Balance - January 1	3,571,319	3,571,319	3,571,319	-
Increase (decrease) in reserved for inventories	-	-	(42,626)	(42,626)
Fund Balance - December 31	\$ 3,312,619	\$ 3,312,619	\$ 4,686,847	\$ 1,374,228

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,688,704	\$ 1,688,704	\$ 1,683,465	\$ (5,239)
Intergovernmental	2,441,380	2,441,380	2,519,268	77,888
Charges for services	50,062	50,062	57,573	7,511
Gifts and contributions	10,000	10,000	6,640	(3,360)
Investment earnings	300	300	577	277
Miscellaneous	81,500	81,500	205,023	123,523
Total Revenues	\$ 4,271,946	\$ 4,271,946	\$ 4,472,546	\$ 200,600
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,195,220	\$ 1,195,220	\$ 1,236,952	\$ (41,732)
Social services	3,095,563	3,095,563	3,299,196	(203,633)
Total human services	\$ 4,290,783	\$ 4,290,783	\$ 4,536,148	\$ (245,365)
Intergovernmental				
Health	107,463	107,463	107,463	-
Total Expenditures	\$ 4,398,246	\$ 4,398,246	\$ 4,643,611	\$ (245,365)
Net Change in Fund Balance	\$ (126,300)	\$ (126,300)	\$ (171,065)	\$ (44,765)
Fund Balance - January 1	3,028,289	3,028,289	3,028,289	-
Fund Balance - December 31	\$ 2,901,989	\$ 2,901,989	\$ 2,857,224	\$ (44,765)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 100	\$ 100	\$ 61	\$ (39)
Special assessments	167,000	167,000	163,047	(3,953)
Investment earnings	64,000	64,000	135,723	71,723
Total Revenues	\$ 231,100	\$ 231,100	\$ 298,831	\$ 67,731
Expenditures				
Current				
Conservation of natural resources				
Other	231,100	231,100	44,858	186,242
Net Change in Fund Balance	\$ -	\$ -	\$ 253,973	\$ 253,973
Fund Balance - January 1	2,783,307	2,783,307	2,783,307	-
Fund Balance - December 31	\$ 2,783,307	\$ 2,783,307	\$ 3,037,280	\$ 253,973

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007

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

Budget Amendment

Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 5,975,967	\$ 491,055	\$ 6,467,022

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
Family Service Special Revenue Fund	\$ 4,643,611	\$ 4,398,246	\$ 245,365

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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.

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
DECEMBER 31, 2007**

	Pooled	Investments	Total
<u>Assets</u>			
Cash and pooled investments	\$ 1,356,307	\$ 146,227	\$ 1,502,534
Investments	-	35,116,185	35,116,185
Accrued interest receivable	11,769	313,866	325,635
Total Assets	\$ 1,368,076	\$ 35,576,278	\$ 36,944,354
<u>Net Assets</u>			
Net assets held in trust for pool participant	\$ 1,368,076	\$ 35,576,278	\$ 36,944,354

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Pooled	Investments	Total
<u>Additions</u>			
Contributions from participants	\$ 53,957,939	\$ 73,950,629	\$ 127,908,568
Investment earnings	60,524	885,673	946,197
Total Additions	\$ 54,018,463	\$ 74,836,302	\$ 128,854,765
<u>Deductions</u>			
Distributions to participants	53,090,666	50,329,453	103,420,119
Change in Net Assets	\$ 927,797	\$ 24,506,849	\$ 25,434,646
Net Assets--Beginning of the Year	440,279	11,069,429	11,509,708
Net Assets--End of the Year	\$ 1,368,076	\$ 35,576,278	\$ 36,944,354

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 200,097	\$ 1,251,886	\$ 1,258,381	\$ 193,602
<u>Liabilities</u>				
Due to other governments	\$ 200,097	\$ 1,251,886	\$ 1,258,381	\$ 193,602
 <u>MENTAL HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 432,093	\$ 167,303	\$ 143,924	\$ 455,472
<u>Liabilities</u>				
Due to other governments	\$ 432,093	\$ 167,303	\$ 143,924	\$ 455,472
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,184	\$ 293,572	\$ 300,481	\$ 34,275
<u>Liabilities</u>				
Due to other governments	\$ 41,184	\$ 293,572	\$ 300,481	\$ 34,275

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 116,259	\$ 13,879,429	\$ 13,849,329	\$ 146,359
<u>Liabilities</u>				
Due to other governments	\$ 116,259	\$ 13,879,429	\$ 13,849,329	\$ 146,359
 <u>SOUTHERN PRAIRIE PURCHASING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 55,000	\$ -	\$ 55,000
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 55,000	\$ -	\$ 55,000
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 789,633	\$ 15,647,190	\$ 15,552,115	\$ 884,708
<u>Liabilities</u>				
Due to other governments	\$ 789,633	\$ 15,647,190	\$ 15,552,115	\$ 884,708

OTHER SCHEDULE

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$	2,832,992
County program aid		676,287
PERA rate reimbursement		22,736
Disparity reduction aid		84,730
Police aid		52,029
Enhanced 911		86,496
Market value credit		537,484
		537,484

Total Shared Revenue **\$ 4,292,754**

Reimbursement for Services

Minnesota Department of Human Services	\$	1,123,113
		1,123,113

Payments

Payments in lieu of taxes	\$	116,117
Local grants		162,568
		162,568

Total Payments **\$ 278,685**

Grants

State

Minnesota Department of		
Crime Victim Services	\$	43,582
Human Services		764,152
Natural Resources		7,798
Public Safety		3,558
Transportation		2,408
Veterans Affairs		6,308
Pollution Control Agency		376,526
		376,526

Total State **\$ 1,204,332**

Federal

Department of		
Agriculture	\$	2,141
Justice		20,094
Health and Human Services		264,321
Homeland Security		13,676
Environmental Protection Agency		116,975
		116,975

Total Federal **\$ 417,207**

Total State and Federal Grants **\$ 1,621,539**

Total Intergovernmental Revenue **\$ 7,316,091**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

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

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

Client's Response:

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

00-4 Annual Adopted Budget and Reporting

The County Board adopts its annual budget at the fund level. A budget document, upon which the fund level budget is based, contains the details of estimated revenues by source and budgeted expenditures by fund, function, and departments. This document is not adopted by the Board as part of the budget resolution.

We also note that amounts recorded in the original budget columns of the budgetary comparison schedules, contained in the County's annual financial report, represent preliminary budgets developed by individual departments, not the original budget adopted by the Board. The original budget columns are meant to show the original actions of the Board, not information from departments.

We recommend that, if the County Board chooses not to adopt a detailed budget by fund, reference be made in the Board minutes to the detailed budget document upon which the Board is basing its resolution. We also recommend that amounts reported in the original budget column on the budgetary comparison schedules in the financial report be based on the Board's original action to adopt the budget. Amounts in the final budget columns of the schedules should include the original approved budget and any additional modifications approved by the Board during the fiscal year.

Client's Response:

The County Board will approve a detailed revenue and expenditure budget along with approval of the final tax levy each year.

05-1 Travel Expenditure Reimbursements

The County's travel policy states that the County will reimburse its representatives and employees for ordinary and necessary expenses incurred while attending to official County business. During our previous audit, some expenditures were identified that did not have itemized receipts. Our current review found 6 of 28 expenditures examined did not contain support for the specific items purchased.

We again recommend that all County expenditures, including reimbursements for travel, be supported with proper documentation.

Client's Response:

During 2008, the use of purchasing cards was implemented for most employees that incur travel expenses. Detailed monthly reports and receipts are required as part of the payment for these expenses.

06-1 Adding New Vendors to the Accounting System

Our previous audit found the County did not have procedures for determining how new vendors were added to the accounts payable system or if the new vendors added were legitimate vendors. The following was recommended:

- The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. During our 2007 audit, we found that access to this process was now limited to two employees. As a result, this matter is resolved.
- Periodically, a report called “Vendors Added list by Number” should be reviewed by someone independent of the accounts payable system. That person should document his or her review of the report. This recommendation was not implemented during 2007, so the condition remains unresolved.
- When invoices are submitted by vendors who have not previously conducted business with the County, procedures should be required to verify whether the vendor is legitimate. This recommendation was not implemented during 2007, so the condition remains unresolved.
- Periodically, the vendor listing should be reviewed to determine if inactive accounts should be removed from the system. This process was completed during 2007 and is considered resolved.

Client’s Response:

The Auditor/Treasurer will review and document the “Vendors Added list by Number” report periodically.

06-3 Capital Assets Policies and Procedures

During the previous audit, it was noted that the capital assets policies utilized by the County in maintaining the capital assets system had not been approved by the County Board. In addition, a physical inventory of the capital assets has not been performed.

Our current review found that the capital assets policies and procedures were added to the new Accounting Policies and Procedures Manual that was approved by the County Board in April 2008. This portion of the comment is resolved.

We again recommend a physical inventory of capital assets be performed periodically. This can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years.

Client's Response:

County staff will conduct a physical inventory of capital assets beginning in 2009.

06-6 Financial Reporting

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal control over recording, processing, and summarizing accounting data (maintaining internal books and records) and preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the County's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation of financial statements in accordance with GAAP.

The County's accounting system has been upgraded to accommodate the modified accrual and full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments. During our audit, we noted several deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required.

Although Chippewa County has identified and has been training individuals to obtain the expertise to improve its preparation of financial statements, we recommend the County continue training individuals to internally prepare its annual financial statements in accordance with GAAP, including preparing and reporting appropriate government-wide and fund financial statements and the related notes to the financial statements. Also, this process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets.

Client's Response:

The County continues to transition from reliance on external auditors to prepare parts of the financial statements. Significant progress has been made, however there are tasks that remain to be dealt with during the next few years.

06-7 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. A control deficiency that typically is considered significant is the identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the County's financial statements. The adjustments included setting up a loan receivable from Region 6W Community Corrections, reclassifying certain grant funds from federal to state revenue, adjusting deferred revenue for interest received more than 60 days after year-end, adjusting receivables and deferred revenue relating to state highway allotments, and converting trial balances from the modified to full accrual basis.

We recommend that the County review internal controls currently in place, then design and implement procedures to improve internal controls over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by an individual qualified to identify potential misstatements.

Client's Response:

The County Board approved an Accounting Policies and Procedures Manual in April, 2008. This document is a living document that will require additional policies to address this issue. That work will be completed in 2009.

PREVIOUSLY REPORTED ITEMS RESOLVED

Controls Over the Accounting System Journal Entry Function (06-2)

Access to the County's journal entry function was not sufficiently restricted. Also, there was no review and approval process in place for processing journal entries.

Resolution

The County limited staff authorized to work with journal entries to two individuals. A process was started in October 2007 whereby the County Auditor/Treasurer prints a monthly report of all journal entries, reviews, and approves them by signing the report.

Computer System Controls (06-4)

The County was not maintaining error logs, requiring strong passwords, or updating its disaster recovery plan.

Resolution

In September 2007, the County began maintaining logs that contained information on software updates, errors, and file restorations. The format for passwords was updated in August 2007 to make them stronger. The disaster recovery plan was last reviewed and tested in October 2006, and the County feels it is adequate.

Accounting Policies and Procedures Manual (06-5)

The County did not have a current and comprehensive Accounting Policies and Procedures Manual.

Resolution

The County developed an Accounting Policies and Procedures Manual which was approved by the Board in April 2008.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Subrecipient Monitoring CFDA #66.460 (06-8)

The County passes federal non-point source management grant funds to a subrecipient, the Prairie Country Resource Conservation and Development Council. The County was not monitoring its subrecipient.

Resolution

The County reviewed financial and performance reports submitted by the Prairie Country Resource Conservation and Development Council in addition to its audit report.

III. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Depository Pledge Agreement (04-1)

The County's pledge agreements with its depositories omitted language requiring depositories to release funds "on demand" to the County in the event of a default, in accordance with Minn. Stat. § 118A.03, subd. 4.

Resolution

The security agreement was updated to include the language from Minn. Stat. § 118A.03, subd. 4.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and

reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under GASB Statement 45, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the County Board will need to address in order to comply with GASB Statement 45 are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;

Schedule 6
(Continued)

- if an OPEB trust will be established, the County Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

If applicable for Chippewa County, GASB Statement 45 would be implemented for the year ending December 31, 2008.

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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*

Board of County Commissioners
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2007, and have issued our report thereon dated March 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 99-1, 00-4, 05-1, 06-1, 06-3, 06-6, and 06-7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Chippewa County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 99-1, 00-4, 06-1, 06-6, and 06-7 to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

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

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this recommendation and information to be of benefit to Chippewa County and are reporting it for that purpose.

Chippewa County's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 25, 2009