STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

Year Ended December 31, 2011

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

ORGANIZATION
2011

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Koenen*	January 2013
2nd District	Jeffrey Lopez	January 2013
3rd District	Dennis Anderson	January 2013
4th District	Jim Dahlvang	January 2013
5th District	David Lieser	January 2014
Officers		
Elected		
Attorney	David Gilbertson	January 2015
Auditor/Treasurer	Jon Clauson	January 2015
Coroner	Erik Shelstad, M.D.	January 2015
County Recorder and Registrar of Titles	Diane Ketelsen	January 2015
Sheriff	Stacy Tufto	January 2015
Appointed		
Assessor	Carol Schultz	Indefinite
Community Corrections	Midge Christianson	Indefinite
Deputy Registrar	Sandra Hodge	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Land and Resource Management	Scott Williams	Indefinite
Veterans Service Officer	Tim Kolhei	Indefinite
Family Services Director	Betty Christensen	Indefinite
Data Processing	KenMenning	Indefinite

*Chair 2011

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Chippewa County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2011, 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.

As discussed in Note 1.D.9. to the financial statements, Chippewa County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 27, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(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, 2011. 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, 2011) by $62,148,917 (net assets). Of this amount, $14,396,007 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

- Chippewa County's total net assets increased by $414,463. The increase is from additional capital assets.

- As of the close of the 2011 fiscal year, Chippewa County's governmental funds' ending fund balances were $14,980,744 compared to $14,998,858 in 2010. Approximately 23.8 percent of the amount ($3,567,765) is available for spending at Chippewa County's discretion (unrestricted 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 Fund, Family Services Fund, and Ditch Revenue Fund, all of which are considered to be major funds.

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary statements referred to earlier in connection with the major governmental funds are presented immediately following the notes to the financial statements. Combining statements can be found on Exhibits B-1 through D-2 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 $62,148,917 on December 31, 2011.

Capital assets of $46,951,818 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (75.6 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

1.3 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 ($14,396,007) may be used to meet the government's ongoing obligations to citizens and creditors.

Net Assets

	Governmental Activities	
	2011	2010
Assets		
Current and other assets	$ 17,163,588	18,022,066
Capital assets	46,951,818	46,648,571
Total Assets	$ 64,115,406	64,670,637
Liabilities		
Other liabilities	$ 590,916	1,686,074
Long-Term Liabilities	1,375,573	1,250,109
Total Liabilities	$ 1,966,489	2,936,183
Net Assets		
Invested in capital assets	$ 46,951,818	46,648,571
Restricted	801,092	398,540
Unrestricted	14,396,007	14,687,343
Total Net Assets	$ 62,148,917	61,734,454

Unrestricted net assets at December 31, 2011--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 23.1 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 0.6 percent ($62,148,917 for 2011 compared to $61,734,454 for 2010). Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2011	2010
Revenues		
Program revenues		
Charges for services	$ 1,899,783	$ 1,765,485
Operating grants and contributions	6,279,753	6,104,646
Capital grants and contributions	209,809	864,896
General revenues		
Property taxes	7,074,280	6,814,866
Other	1,644,509	1,666,064
Total Revenues	$ 17,108,134	$ 17,215,957
Expenses		
General government	$ 3,499,501	$ 2,820,407
Public safety	2,150,456	2,309,103
Highways and streets	4,274,206	3,607,715
Sanitation	208,961	205,077
Human services	4,283,482	4,293,068
Health	107,463	107,463
Culture and recreation	395,746	383,838
Conservation of natural resources	1,712,283	1,444,148
Economic development	50,472	133,958
Interest	11,101	7,670
Total Expenses	$ 16,693,671	$ 15,312,447
Increase in Net Assets	$ 414,463	$ 1,903,510
Net Assets - January 1	61,734,454	59,830,944
Net Assets – December 31	$ 62,148,917	$ 61,734,454

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of $14,980,744, a decrease of $18,114 or .01 percent, in comparison with the prior year. Of the combined ending fund balances, $13,895,706 represents unrestricted fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, $1,085,038 is restricted to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2011, it had an unrestricted fund balance of $3,567,765. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 48.9 percent of total General Fund expenditures. During 2011, the ending fund balance decreased by $105,399. Examples of contributing factors to this decline are lower than expected interest earned on investments due to the erosion of investment rates experienced during 2011 and the initial purchases of equipment for the installation of the 800 mhz radio system for the Sheriff's Department.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of $3,875,108 at the end of 2011, representing 86.2 percent of its annual expenditures. The ending fund balance increased by $304,048, during 2011, primarily due to advancing of state funds to enable highway projects to be completed in 2010 that would otherwise not have been completed. Advanced funds are shown as a liability until the year that they were originally planned for distribution to the county.

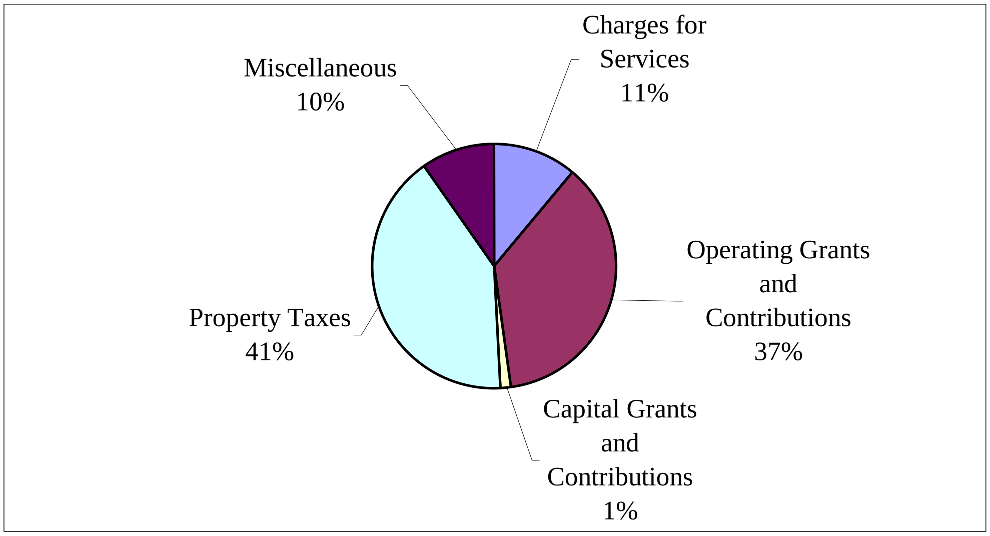
The Family Services Special Revenue Fund had an unrestricted fund balance of $3,817,005 at the end of 2011, representing 87.2 percent of its annual expenditures. The ending fund balance increased by $156,706 during 2011. Out-of-home placements has been one of the most volatile expenditures for Family Services. In 2011, expenditures were $130,000, well below the budgeted $500,000 amount, which is a difference of $370,000. There were several other programs where state and federal reimbursements were reduced significantly shifting costs of program administration to the County.

The Ditch Revenue Special Revenue Fund has an unrestricted fund balance of $2,635,828 at the end of 2011. The ending fund balance decreased by $373,469 during 2011, primarily due to expenditures for a significant repair project on Joint County Ditch #1 of Chippewa and Renville Counties that was partially completed by the end of 2011 without the opportunity to file repair liens until the project is completed in 2012.

GOVERNMENTAL ACTIVITIES

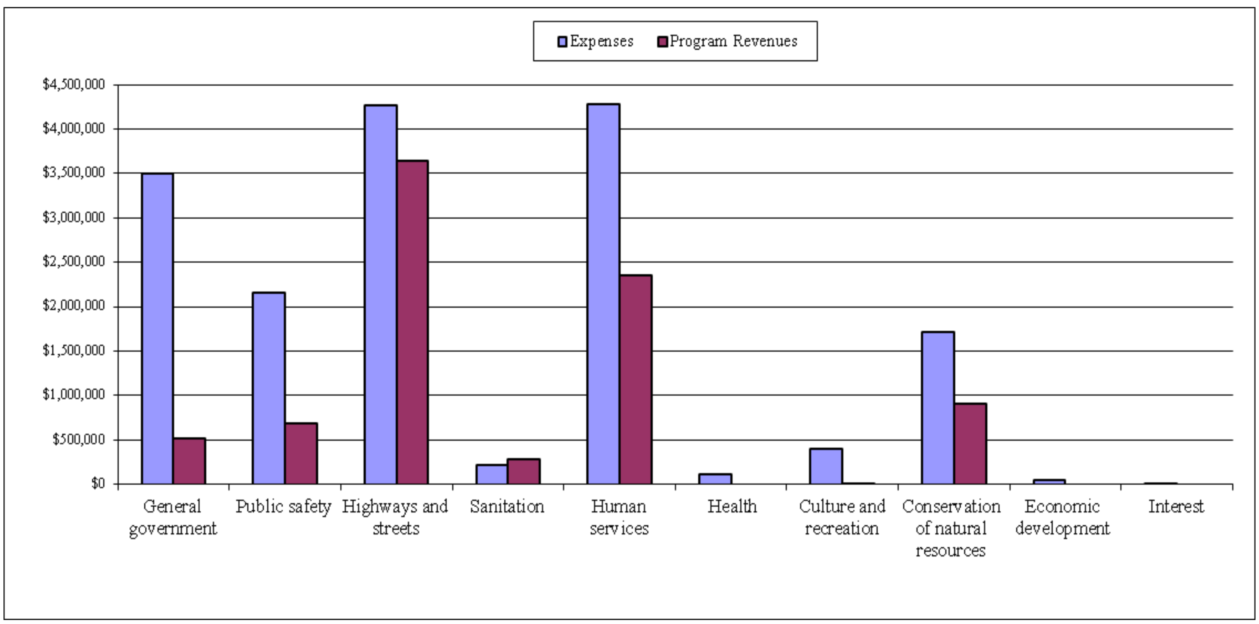
The County's total revenues were $17,108,134. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2011.

Table 1
Revenues by Source



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

Table 2
Expenses and Program Revenue



The cost of all governmental activities in 2011 was $16,693,671. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes and non-program revenues was only $8,304,326 because some of the cost was paid by those who directly benefited from the programs $1,899,783 or by other governments and organizations that subsidized certain programs with grants and contributions $6,489,562. The County paid for the remaining "public benefit" portion of governmental activities with $8,718,789 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 2011	Net Cost of Services 2011
General government	$ 3,499,501	$ (2,978,904)
Public safety	2,150,456	(1,468,541)
Highways and streets	4,274,206	(629,153)
Sanitation	208,961	74,736
Human services	4,283,482	(1,932,237)
Health	107,463	(107,463)
Culture and recreation	395,746	(390,738)
Conservation of natural resources	1,712,283	(810,453)
Economic development	50,472	(50,472)
Interest	11,101	(11,101)
Totals	$ 16,693,671	$ (8,304,326)

General Fund Budgetary Highlights

Over the course of the year, the County Board increased the General Fund Expenditure Budget by $1,132,820. The actual charges to appropriations (expenditures) were $653,012 under the approved budget amounts. Several factors affecting those budget variances were:

- There were several grant programs where the County served as fiscal agent that had funds that were received and then passed on to other agencies or departments. Examples include the purchase of new sirens for Emergency Management, the Water Quality grant, and the Greater Milan Initiative. The expenditures of these programs were offset by grant funds that pass through the county. Neither the revenue nor the expenditures were reflected in the original 2011 budget.

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

- The Jail experienced lower than anticipated expenditures due to the lower number of prisoners being boarded in the Yellow Medicine County Jail and reduced expenditures due to the reduced number of inmate meals and medication expenditures in the Chippewa County Jail.

- Expenditures to the Minnesota Sex Offender Program (MSOP), previously paid by the State of Minnesota, have now been passed down to counties for the treatment costs related to civilly committed sex offenders. This continues to add additional pressure to County budgets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled $46,951,818 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $303,247, or 0.6 percent, from the previous year. The major capital asset event was the purchase of machinery, vehicles, furniture, and equipment for $319,037.

Capital Assets at Year-End
Net of Depreciation

	2011	2010
Land and right-of-way	$ 1,648,932	$ 1,594,159
Infrastructure	41,041,318	40,890,358
Buildings	2,169,692	2,236,138
Machinery and equipment	2,008,122	1,689,085
Construction in progress	83,754	238,831
Total	$ 46,951,818	$ 46,648,571

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

Long-Term Debt

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's officials considered many factors when setting the 2011 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2011 was 5.4 percent. This compares with the state unemployment rate of 5.4 percent and national unemployment rate of 8.3 percent. This shows a moderate decrease from the County's 6.5 percent rate of one year ago. The economic recovery continues, however at a very slow rate.

- 2011 property tax levy for the County increased 3.26 percent ($240,191) from 2010. The increase is due to several factors: reductions in interest earnings, state aids; increases in civil commitment costs, personal services, other services, reserve fund use 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, 2011

Assets		
Cash and pooled investments	$	7,821,003
Investments		6,615,372
Receivables - net		2,517,897
Inventories		197,855
Prepaid items		11,461
Capital assets		
Non-depreciable capital assets		1,732,686
Depreciable capital assets - net of accumulated depreciation		45,219,132
Total Assets	**$**	**64,115,406**
Liabilities		
Accounts payable and other current liabilities	$	586,164
Unearned revenue		4,752
Long-term liabilities		
Due within one year		119,136
Due in more than one year		1,256,437
Total Liabilities	**$**	**1,966,489**
Net Assets		
Invested in capital assets	$	46,951,818
Restricted for		
General government		401,504
Public safety		200,741
Human services		23,178
Conservation of natural resources		175,669
Unrestricted		14,396,007
Total Net Assets	**$**	**62,148,917**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 3,499,501	$ 476,993	$ 43,604	$ -	$ (2,978,904)
Public safety	2,150,456	187,174	494,741	-	(1,468,541)
Highways and streets	4,274,206	285,253	3,149,991	209,809	(629,153)
Sanitation	208,961	283,697	-	-	74,736
Human services	4,283,482	322,726	2,028,519	-	(1,932,237)
Health	107,463	-	-	-	(107,463)
Culture and recreation	395,746	5,008	-	-	(390,738)
Conservation of natural resources	1,712,283	338,932	562,898	-	(810,453)
Economic development	50,472	-	-	-	(50,472)
Interest	11,101	-	-	-	(11,101)
Total Governmental Activities	**$ 16,693,671**	**$ 1,899,783**	**$ 6,279,753**	**$ 209,809**	**$ (8,304,326)**

General Revenues	
Property taxes	$ 7,074,280
Mortgage registry and deed tax	7,019
Other tax	1,050
Payments in lieu of tax	158,940
Grants and contributions not restricted to specific programs	1,021,489
Unrestricted investment income	62,766
Miscellaneous	378,578
Gain on disposal of capital assets	14,667
Total general revenues	**$ 8,718,789**
Change in net assets	**$ 414,463**
Net Assets - Beginning	**61,734,454**
Net Assets - Ending	**$ 62,148,917**

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, 2011

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Assets					
Cash and pooled investments	$ 3,584,320	$ 238,286	$ 3,732,633	$ 111,835	$ 7,667,074
Undistributed cash in agency funds	81,337	20,138	37,502	247	139,224
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	12,505	-	-	-	12,505
Investments	515,285	3,600,087	-	2,500,000	6,615,372
Taxes receivable					
Prior	69,135	18,084	34,841	-	122,060
Special assessments receivable					
Prior	27,326	-	-	-	27,326
Noncurrent	533,967	-	-	407,693	941,660
Accounts receivable	6,777	8,744	19,958	-	35,479
Loans receivable	74,630	-	-	-	74,630
Accrued interest receivable	8,001	4,530	-	14	12,545
Due from other governments	281,226	574,379	205,395	243,197	1,304,197
Inventories	-	197,855	-	-	197,855
Prepaid items	10,231	1,230	-	-	11,461
Total Assets	**$ 5,206,740**	**$ 4,663,433**	**$ 4,030,429**	**$ 3,262,986**	**$ 17,163,588**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 100,182	$ 54,422	$ 103,764	$ 219,451	$ 477,819
Salaries payable	16,900	358	3,661	-	20,919
Contracts payable	-	23,628	-	-	23,628
Due to other governments	20,400	170	43,228	-	63,798
Deferred revenue - unavailable	638,718	510,662	34,841	407,707	1,591,928
Deferred revenue - unearned	-	-	4,752	-	4,752
Total Liabilities	**$ 776,200**	**$ 589,240**	**$ 190,246**	**$ 627,158**	**$ 2,182,844**
Fund Balances					
Nonspendable					
Prepaid items	$ 10,231	$ 1,230	$ -	$ -	$ 11,461
Loans receivable	74,630	-	-	-	74,630
Inventories	-	197,855	-	-	197,855
Restricted for					
Missing heirs	21,847	-	-	-	21,847
Law library	64,122	-	-	-	64,122
Enhanced 911	194,093	-	-	-	194,093
Sheriff's contingency	2,245	-	-	-	2,245
Boat and water safety	109	-	-	-	109
Recorder's technology fund	171,216	-	-	-	171,216
Recorder's compliance fund	134,803	-	-	-	134,803
Drug task force forfeitures	4,294	-	-	-	4,294
Attorney's forfeited property	9,322	-	-	-	9,322
Unclaimed property	194	-	-	-	194
Septic/sewer loans	175,669	-	-	-	175,669
Unspent grant monies	-	-	23,178	-	23,178
Assigned for					
Road and bridge	-	2,754,108	-	-	2,754,108
Capital land	-	742,500	-	-	742,500
Capital equipment	-	378,500	-	-	378,500
Conservation of natural resources	-	-	-	2,635,828	2,635,828
Human services	-	-	3,217,005	-	3,217,005
Capital expenditures	-	-	100,000	-	100,000
Out-of-home care	-	-	500,000	-	500,000
Unassigned	3,567,765	-	-	-	3,567,765
Total Fund Balances	**$ 4,430,540**	**$ 4,074,193**	**$ 3,840,183**	**$ 2,635,828**	**$ 14,980,744**
Total Liabilities and Fund Balances	**$ 5,206,740**	**$ 4,663,433**	**$ 4,030,429**	**$ 3,262,986**	**$ 17,163,588**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2011

Fund balance - total governmental funds (Exhibit 3)		**$ 14,980,744**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		46,951,818
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,591,928
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	$ (650,105)	
OPEB liability	(152,455)	
Compensated absences	(573,013)	(1,375,573)
Net Assets of Governmental Activities (Exhibit 1)		**$ 62,148,917**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Revenues					
Taxes	$ 4,102,790	$ 1,044,217	$ 1,942,447	$ 114	$ 7,089,568
Special assessments	185,041	-	-	211,584	396,625
Licenses and permits	9,365	14,500	-	-	23,865
Intergovernmental	1,643,661	3,284,577	2,257,652	243,197	7,429,087
Charges for services	658,142	107,777	210,478	51,143	1,027,540
Gifts and contributions	7,128	-	10,950	-	18,078
Investment earnings	31,674	18,327	66	17,033	67,100
Miscellaneous	427,569	236,993	112,248	10,000	786,810
Total Revenues	**$ 7,065,370**	**$ 4,706,391**	**$ 4,533,841**	**$ 533,071**	**$ 16,838,673**
Expenditures					
Current					
General government	$ 3,161,713	$ -	$ -	$ -	$ 3,161,713
Public safety	2,402,346	-	-	-	2,402,346
Highways and streets	-	4,176,512	-	-	4,176,512
Sanitation	205,266	-	-	-	205,266
Human services	-	-	4,269,672	-	4,269,672
Culture and recreation	389,335	-	-	-	389,335
Conservation of natural resources	550,783	-	-	906,540	1,457,323
Economic development	50,472	-	-	-	50,472
Intergovernmental	443,961	314,711	107,463	-	866,135
Debt service					
Principal	69,210	-	-	-	69,210
Interest	11,101	-	-	-	11,101
Total Expenditures	**$ 7,284,187**	**$ 4,491,223**	**$ 4,377,135**	**$ 906,540**	**$ 17,059,085**
Excess of Revenues Over (Under) Expenditures	**$ (218,817)**	**$ 215,168**	**$ 156,706**	**$ (373,469)**	**$ (220,412)**
Other Financing Sources (Uses)					
Loans issued	$ 113,418	$ -	$ -	$ -	$ 113,418
Sale of capital assets	-	14,667	-	-	14,667
Total Other Financing Sources (Uses)	**$ 113,418**	**$ 14,667**	**$ -**	**$ -**	**$ 128,085**
Net Change in Fund Balances	**$ (105,399)**	**$ 229,835**	**$ 156,706**	**$ (373,469)**	**$ (92,327)**
Fund Balances - January 1	**4,535,939**	**3,770,145**	**3,683,477**	**3,009,297**	**14,998,858**
Increase (decrease) in inventories	**-**	**74,213**	**-**	**-**	**74,213**
Fund Balances - December 31	**$ 4,430,540**	**$ 4,074,193**	**$ 3,840,183**	**$ 2,635,828**	**$ 14,980,744**

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

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, 2011

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (92,327)**
Amounts reported for governmental activities in the statement of activities are different because:		
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.		
Deferred revenue - December 31	$ 1,591,928	
Deferred revenue - January 1	(1,337,134)	254,794
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.		
Expenditures for general capital assets and infrastructure	$ 2,101,469	
Current year depreciation	(1,798,222)	303,247
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		69,210
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		(113,418)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in inventories	$ 74,213	
Change in OPEB liability	(47,801)	
Change in compensated absences	(33,455)	(7,043)
Change in Net Assets of Governmental Activities (Exhibit 2)		**$ 414,463**

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

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FIDUCIARY FUNDS

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	Investment Trusts	Agency
Assets		
Cash and pooled investments	$ 1,549,879	$ 889,888
Investments	15,202,976	20,463
Accrued interest	28,242	-
Total Assets	**$ 16,781,097**	**$ 910,351**
Liabilities		
Due to other governments	**$ -**	**$ 910,351**
Net Assets		
Net assets, held in trust	**$ 16,781,097**	

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

		Investment Trusts
Additions		
Contributions from participants	$	57,815,044
Interest		78,194
Total Additions	**$**	**57,893,238**
Deductions		
Distribution to participants		55,970,848
Change in net assets	**$**	**1,922,390**
Net Assets - Beginning of the Year		**14,858,707**
Net Assets - End of the Year	**$**	**16,781,097**

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

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

      2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state governments, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

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

The County has no proprietary funds.

Additionally, the County reports the following fund types:

Fiduciary Funds

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Assets, Liabilities, and Net 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, 2011, 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 2011 were $31,674.

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).

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, and Net Assets or Equity

      1. Deposits and Investments (Continued)

         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 method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

      4. Capital Assets

         Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

The costs of normal maintenance and repairs that do not add to the value 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:

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

5. Compensated Absences

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

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, 2011, Chippewa County reported no bonded debt.

      8. Classification of Net Assets

         Net assets in the government-wide financial statements are classified in the following categories:

         - Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

         - Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

1. Summary of Significant Accounting Policies

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

      9. Classification of Fund Balances

In 2011, the County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change.

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

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

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

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

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

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

10. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	$	7,821,003
Investments		6,615,372
Statement of fiduciary net assets		
Cash and pooled investments		2,439,767
Investments		15,223,439
Total Cash and Investments	$	32,099,581

Checking	$	2,222,601
Petty cash and change funds		2,200
Departmental cash		12,506
Savings		1,036,453
Money market		12,220,964
Certificates of deposit		10,615,749
Investments		5,989,108
Total Cash and Investments	$	32,099,581

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(4) Bankers' acceptances of United States banks;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

At December 31, 2011, the County had the following investments:

	Fair Value	Less Than 1 Year	1 - 5 Years	5+ Years
U.S. agency securities	$ 5,989,108	$ -	$ 4,236,178	$ 1,752,930
MAGIC Fund	12,220,964	12,220,964	-	-
Total Investments	$ 18,210,072	$ 12,220,964	$ 4,236,178	$ 1,752,930

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. The County's exposure to credit risk at December 31, 2011, is as follows:

	S & P Rating	Fair Value
U.S. government agency securities	AAA	$ 5,989,108
MAGIC Fund	N/R	12,220,964
Total		$ 18,210,072

N/R - Not rated

Custodial Credit Risk

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

Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, $5,989,108 of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association Bonds held by the County were subject to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2011, by issuer, not including negotiable certificates of deposit:

Issuer	Reported Amount
Federal Home Loan Bank	$ 2,626,864
Federal Home Loan Mortgage Corporation	2,354,544
Federal National Mortgage Association	1,007,700
MAGIC Fund	12,220,963

c. External Investment Pool

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

Cash and pooled investments	
Belonging to the County	$ 7,821,003
Held in trust for the Hospital	1,549,820
Total Cash and Pooled Investments	$ 9,370,823

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 122,060	$ -
Special assessments	968,986	941,660
Accounts	35,479	-
Interest	12,545	-
Loans	74,630	-
Due from other governments	1,304,197	-
Total Receivables - Net	$ 2,517,897	$ 941,660

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,102,666	$ 54,773	$ -	$ 1,157,439
Right-of-way	491,493	-	-	491,493
Construction in progress	238,831	27,108	182,185	83,754
Total capital assets not depreciated	$ 1,832,990	$ 81,881	$ 182,185	$ 1,732,686
Capital assets depreciated				
Buildings	$ 9,101,385	$ 113,169	$ -	$ 9,214,554
Machinery and equipment	5,225,591	819,843	228,256	5,817,178
Infrastructure	55,984,986	1,271,146	-	57,256,132
Total capital assets depreciated	$ 70,311,962	$ 2,204,158	$ 228,256	$ 72,287,864

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 6,865,247	$ 179,615	$ -	$ 7,044,862
Machinery and equipment	3,536,506	498,421	225,871	3,809,056
Infrastructure	15,094,628	1,120,186	-	16,214,814
Total accumulated depreciation	$ 25,496,381	$ 1,798,222	$ 225,871	$ 27,068,732
Total capital assets depreciated, net	$ 44,815,581	$ 405,936	$ 2,385	$ 45,219,132
Capital Assets, Net	$ 46,648,571	$ 487,817	$ 184,570	$ 46,951,818

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

General government	$ 171,664
Public safety	147,605
Highways and streets, including depreciation of infrastructure assets	1,386,240
Sanitation	1,848
Human services	25,988
Culture and recreation	28,414
Conservation of natural resources	36,463
Total Depreciation Expense - Governmental Activities	$ 1,798,222

B. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Activities
Accounts	$ 477,819
Salaries	20,919
Contracts	23,628
Due to other governments	63,798
Total Payables	$ 586,164

2. Detailed Notes on All Funds

B. Liabilities (Continued)

2. Long-Term Debt--Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Hawk Creek Loan (SRF0074)	2014	$ 13,921	2.0	$ 125,605	$ 33,782
Hawk Creek Continuation Loan (SRF0119)	2016	8,024	2.0	72,398	38,000
Chippewa River Watershed Continuation Loan (SRF0122)	2016	7,521	2.0	67,862	35,618
Hawk Creek Watershed Loan (SRF0158)	2020	27,956	2.0	252,241	217,528
Chippewa River Watershed Loan (SRF0159)	2019	22,889	2.0	206,522	178,101
Chippewa River Continuation Loan (SRF0207)	2023	23,023	2.0	208,000	105,247
Hawk Creek Watershed Continuation Loan (SRF0231)	2023	19,595	2.0	176,800	35,629
Chippewa River Watershed Loan (SRF0232)	2021	11,526	2.0	208,000	6,200
Total				$ 1,317,428	$ 650,105

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	$ 605,897	$ 113,418	$ 69,210	$ 650,105	$ 70,602
Compensated absences	539,558	33,455	-	573,013	48,534
Net OPEB liability	104,654	47,801	-	152,455	-
Long-Term Liabilities	$ 1,250,109	$ 194,674	$ 69,210	$ 1,375,573	$ 119,136

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Debt Service Requirements

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2012	$ 70,602	$ 9,739
2013	72,021	8,290
2014	66,508	6,843
2015	60,815	5,575
2016	62,037	4,353
2017 - 2020	171,046	6,910
Total	$ 503,029	$ 41,710

Clean water loans (Chippewa River Continuation, Hawk Creek Watershed, and Chippewa River Watershed) in the amount of $147,076 are not included in the debt service requirements because a fixed repayment schedule is not available.

5. Conduit Debt

In 2007, Chippewa County issued $36,565,000 of Gross Revenue Hospital Bonds to provide financial assistance to the Montevideo Hospital for the acquisition, construction, and equipping of a new hospital located in the City. The bonds are secured by the property. They are financed and payable solely from revenues of the Hospital. Neither the County, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2011, the outstanding principal amount payable was $36,165,000.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

Plan Description

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

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

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

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

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

Plan Description (Continued)

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; 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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2011	2010	2009
General Employees Retirement Fund	$ 277,872	$ 262,990	$ 247,006
Public Employees Police and Fire Fund	89,909	81,824	78,998
Public Employees Correctional Fund	38,223	36,624	31,909

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

3. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	Employee	Employer
Contribution amount	$ 7,642	$ 7,642
Percentage of covered payroll	5 %	5 %

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Chippewa County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were approximately 125 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	82,617
Interest on net OPEB obligation		4,709
Adjustment to ARC		(6,413)
Annual OPEB cost (expense)	$	80,913
Contributions made		(33,112)
Increase in net OPEB obligation	$	47,801
Net OPEB Obligation - Beginning of Year		104,654
Net OPEB Obligation - End of Year	$	152,455

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	$ 82,869	$ 50,793	61.3%	$ 79,747
December 31, 2010	82,869	57,962	69.9	104,654
December 31, 2011	80,913	33,112	40.9	152,455

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $649,979 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $649,979. The covered payroll (annual payroll of active employees covered by the plan) was $5,309,097, and the ratio of the UAAL to the covered payroll was 12.2 percent.

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

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Chippewa County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years.

The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

with coverage at $450,000 per claim in 2011 and $460,000 per claim in 2012. 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.

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.

4. Summary of Significant Contingencies and Other Items

   C. Joint Ventures (Continued)

      Region 6W Community Corrections

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

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

      Chippewa County's contribution of $202,567 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 $5,841 to the Montevideo-Chippewa Airport Commission is shown as an expenditure in the General Fund. Complete financial statements of the City of Montevideo, which include the Montevideo-Chippewa Airport Commission, can be obtained at Benson Road, Montevideo, Minnesota 56265.

      Chippewa County-Montevideo Hospital

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

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

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Minnesota River Board

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

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

Financing is provided by a contribution from each member county based on its share of the annual budget. Chippewa County paid dues in the amount of $1,313 in 2011.

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

D. Jointly-Governed Organizations

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

Pioneerland Library System

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

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REQUIRED SUPPLEMENTARY INFORMATION

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	-	$ 692,892	$ 692,892	0.0%	$ 4,902,246	14.13%
January 1, 2011	-	649,979	649,979	0.0	5,309,097	12.24

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 4,381,343	$ 4,381,343	$ 4,102,790	$ (278,553)
Special assessments	90,500	90,500	185,041	94,541
Licenses and permits	8,300	8,300	9,365	1,065
Intergovernmental	1,156,209	1,156,209	1,643,661	487,452
Charges for services	508,714	508,714	658,142	149,428
Gifts and contributions	-	-	7,128	7,128
Investment earnings	125,005	125,005	31,674	(93,331)
Miscellaneous	289,181	289,181	427,569	138,388
Total Revenues	**$ 6,559,252**	**$ 6,559,252**	**$ 7,065,370**	**$ 506,118**
Expenditures				
Current				
General government				
Commissioners	$ 253,067	$ 260,167	$ 245,786	$ 14,381
Courts	5,000	5,000	-	5,000
Law library	30,500	30,500	29,018	1,482
County auditor/treasurer	427,393	437,393	431,415	5,978
Deputy registrar - License Bureau	166,121	168,121	165,847	2,274
Accounting and auditing	45,000	45,000	46,599	(1,599)
County assessor	291,205	291,205	282,840	8,365
Elections	20,000	20,000	11,642	8,358
Data processing	241,905	296,905	283,281	13,624
Central services	71,100	71,100	60,106	10,994
Attorney	374,374	374,374	354,976	19,398
Recorder	272,711	278,376	280,152	(1,776)
Buildings and plant	432,889	600,099	597,700	2,399
Veterans service officer	175,442	175,442	129,266	46,176
Geographic information systems	45,500	82,750	83,181	(431)
Other general government	135,150	162,845	159,904	2,941
Total general government	**$ 2,987,357**	**$ 3,299,277**	**$ 3,161,713**	**$ 137,564**
Public safety				
Sheriff	$ 991,201	$ 1,455,701	$ 1,382,952	$ 72,749
Safety management	6,725	7,725	7,576	149
Boat and water safety	1,200	6,700	6,168	532
D.A.R.E. program	1,800	1,800	1,929	(129)
Coroner	13,700	16,700	16,574	126
Dispatch	66,050	66,050	20,537	45,513
Jail	984,227	984,227	861,391	122,836
Victim witness program	56,426	56,426	54,800	1,626
Emergency management	42,154	45,154	50,419	(5,265)
Total public safety	**$ 2,163,483**	**$ 2,640,483**	**$ 2,402,346**	**$ 238,137**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-2
(Continued)

BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	$ 63,000	$ 63,000	$ 60,245	$ 2,755
Recycling	123,320	140,320	140,077	243
Hazardous waste	3,000	5,000	4,944	56
Total sanitation	**$ 189,320**	**$ 208,320**	**$ 205,266**	**$ 3,054**
Health				
Ambulance	**$ 5,000**	**$ 5,000**	**$ -**	**$ 5,000**
Culture and recreation				
Historical society	$ 30,000	$ 33,605	$ 33,604	$ 1
Regional library	242,903	292,903	269,735	23,168
Parks	48,000	48,000	33,244	14,756
Fairgrounds	47,150	47,150	46,911	239
Airport	-	-	5,841	(5,841)
Total culture and recreation	**$ 368,053**	**$ 421,658**	**$ 389,335**	**$ 32,323**
Conservation of natural resources				
Extension	$ 114,573	$ 114,573	$ 111,963	$ 2,610
Soil and water conservation	72,000	72,000	72,000	-
Agricultural inspector	-	15,000	(295)	15,295
Weed control	85,166	85,166	14,914	70,252
Water planning	11,115	63,990	57,570	6,420
Land resource management	193,326	374,626	294,141	80,485
County farm	2,000	2,000	490	1,510
Total conservation of natural resources	**$ 478,180**	**$ 727,355**	**$ 550,783**	**$ 176,572**
Economic development				
Community development	$ 28,000	$ 28,000	$ 17,760	$ 10,240
Prairie Five	7,000	7,000	7,000	-
Other	26,630	48,750	25,712	23,038
Total economic development	**$ 61,630**	**$ 83,750**	**$ 50,472**	**$ 33,278**
Intergovernmental				
General government	$ 202,568	$ 202,568	$ 202,567	$ 1
Conservation of natural resources	348,788	348,788	241,394	107,394
Total intergovernmental	$ **551,356**	$ **551,356**	$ **443,961**	$ **107,395**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-2
(Continued)

BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures (Continued)				
Debt service				
Principal	$ -	$ -	$ 69,210	$ (69,210)
Interest	-	-	11,101	(11,101)
Total debt service	$ -	$ -	$ **80,311**	$ **(80,311)**
Total Expenditures	**$ 6,804,379**	**$ 7,937,199**	**$ 7,284,187**	**$ 653,012**
Excess of Revenues Over (Under) Expenditures	**$ (245,127)**	**$ (1,377,947)**	**$ (218,817)**	**$ 1,159,130**
Other Financing Sources (Uses)				
Loans issued	-	-	113,418	113,418
Net Change in Fund Balance	**$ (245,127)**	**$ (1,377,947)**	**$ (105,399)**	**$ 1,272,548**
Fund Balance - January 1	**4,535,939**	**4,535,939**	**4,535,939**	**-**
Fund Balance - December 31	**$ 4,290,812**	**$ 3,157,992**	**$ 4,430,540**	**$ 1,272,548**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,129,023	$ 1,129,023	$ 1,044,217	$ (84,806)
Licenses and permits	-	-	14,500	14,500
Intergovernmental	1,614,377	1,614,377	3,284,577	1,670,200
Charges for services	-	-	107,777	107,777
Investment earnings	100,000	100,000	18,327	(81,673)
Miscellaneous	140,000	140,000	236,993	96,993
Total Revenues	**$ 2,983,400**	**$ 2,983,400**	**$ 4,706,391**	**$ 1,722,991**
Expenditures				
Current				
Highways and streets				
Maintenance	$ 1,572,750	$ 1,572,750	$ 1,530,515	$ 42,235
Engineering/construction	1,878,100	1,878,100	1,855,179	22,921
Administration	257,800	257,800	270,306	(12,506)
Equipment and shop	488,350	488,350	520,512	(32,162)
Total highways and streets	**$ 4,197,000**	**$ 4,197,000**	**$ 4,176,512**	**$ 20,488**
Intergovernmental				
Highways and streets	313,000	313,000	314,711	(1,711)
Total Expenditures	**$ 4,510,000**	**$ 4,510,000**	**$ 4,491,223**	**$ 18,777**
Net Change in Fund Balance	**$ (1,526,600)**	**$ (1,526,600)**	**$ 229,835**	**$ 1,756,435**
Fund Balance - January 1	**3,770,145**	**3,770,145**	**3,770,145**	**-**
Increase (decrease) in inventories	**-**	**-**	**74,213**	**74,213**
Fund Balance - December 31	**$ 2,243,545**	**$ 2,243,545**	**$ 4,074,193**	**$ 1,830,648**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,031,117	$ 2,031,117	$ 1,942,447	$ (88,670)
Intergovernmental	2,247,536	2,247,536	2,257,652	10,116
Charges for services	254,484	254,484	210,478	(44,006)
Gifts and contributions	9,000	9,000	10,950	1,950
Investment earnings	200	200	66	(134)
Miscellaneous	89,100	89,100	112,248	23,148
Total Revenues	**$ 4,631,437**	**$ 4,631,437**	**$ 4,533,841**	**$ (97,596)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,422,247	$ 1,422,247	$ 1,424,091	$ (1,844)
Social services	3,294,085	3,294,085	2,845,581	448,504
Total human services	**$ 4,716,332**	**$ 4,716,332**	**$ 4,269,672**	**$ 446,660**
Intergovernmental				
Health	107,463	107,463	107,463	-
Total Expenditures	**$ 4,823,795**	**$ 4,823,795**	**$ 4,377,135**	**$ 446,660**
Net Change in Fund Balance	**$ (192,358)**	**$ (192,358)**	**$ 156,706**	**$ 349,064**
Fund Balance - January 1	**3,683,477**	**3,683,477**	**3,683,477**	**-**
Fund Balance - December 31	**$ 3,491,119**	**$ 3,491,119**	**$ 3,840,183**	**$ 349,064**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-5

BUDGETARY COMPARISON
DITCH REVENUE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 100	$ 100	$ 114	$ 14
Special assessments	100,000	100,000	211,584	111,584
Intergovernmental	-	-	243,197	243,197
Charges for services	100,000	100,000	51,143	(48,857)
Investment earnings	60,000	60,000	17,033	(42,967)
Miscellaneous	-	-	10,000	10,000
Total Revenues	**$ 260,100**	**$ 260,100**	**$ 533,071**	**$ 272,971**
Expenditures				
Current				
Conservation of natural resources				
Other	260,100	565,600	906,540	(340,940)
Net Change in Fund Balance	**$ -**	**$ (305,500)**	**$ (373,469)**	**$ (67,969)**
Fund Balance - January 1	**3,009,297**	**3,009,297**	**3,009,297**	**-**
Fund Balance - December 31	**$ 3,009,297**	**$ 2,703,797**	**$ 2,635,828**	**$ (67,969)**

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

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

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

Budget Amendment

	Revenues		
Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 6,559,252	$ -	$ 6,559,252
Ditch Revenue Fund	260,100	-	260,100

	Expenditures		
Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 6,804,379	$ 1,132,820	$ 7,937,199
Ditch Revenue Fund	260,100	305,500	565,600

2. Excess of Expenditures Over Appropriations

Fund	Expenditures	Final Budget	Excess
Ditch Revenue Fund	$ 906,540	$ 565,600	$ 340,940

3. Budget Basis of Accounting

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

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SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT B-1

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
DECEMBER 31, 2011

	Pooled	Investments	Total
Assets			
Cash and pooled investments	$ 1,549,820	$ 59	$ 1,549,879
Investments	-	15,202,976	15,202,976
Accrued interest	235	28,007	28,242
Total Assets	**$ 1,550,055**	**$ 15,231,042**	**$ 16,781,097**
Net Assets			
Net assets, held in trust	**$ 1,550,055**	**$ 15,231,042**	**$ 16,781,097**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT B-2

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Pooled	Investments	Total
Additions			
Contributions from participants	$ 38,112,338	$ 19,702,706	$ 57,815,044
Investment earnings	4,515	73,679	78,194
Total Additions	**$ 38,116,853**	**$ 19,776,385**	**$ 57,893,238**
Deductions			
Distributions to participants	37,648,946	18,321,902	55,970,848
Change in Net Assets	**$ 467,907**	**$ 1,454,483**	**$ 1,922,390**
Net Assets - Beginning of the Year	**1,082,148**	**13,776,559**	**14,858,707**
Net Assets - End of the Year	**$ 1,550,055**	**$ 15,231,042**	**$ 16,781,097**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
COMMUNITY CORRECTIONS				
Assets				
Cash and pooled investments	$ 316,738	$ 1,415,172	$ 1,406,478	$ 325,432
Investments	20,295	168	-	20,463
Total Assets	$ **337,033**	$ **1,415,340**	$ **1,406,478**	$ **345,895**
Liabilities				
Due to other governments	$ **337,033**	$ **1,415,340**	$ **1,406,478**	$ **345,895**
STATE REVENUE				
Assets				
Cash and pooled investments	$ **61,584**	$ **265,728**	$ **278,233**	$ **49,079**
Liabilities				
Due to other governments	$ **61,584**	$ **265,728**	$ **278,233**	$ **49,079**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	$ **187,047**	$ **17,600,742**	$ **17,540,467**	$ **247,322**
Liabilities				
Due to other governments	$ **187,047**	$ **17,600,742**	$ **17,540,467**	$ **247,322**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT C-1
(Continued)

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Balance January 1	Additions	Deductions	Balance December 31
SOUTHERN PRAIRIE PURCHASING				
Assets				
Cash and pooled investments	$ **49,613**	$ **3,052**	$ **11,294**	$ **41,371**
Liabilities				
Due to other governments	$ **49,613**	$ **3,052**	$ **11,294**	$ **41,371**
MENTAL HEALTH				
Assets				
Cash and pooled investments	**$ 229,418**	**$ 77,603**	**$ 80,337**	**$ 226,684**
Liabilities				
Due to other governments	**$ 229,418**	**$ 77,603**	**$ 80,337**	**$ 226,684**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 844,400	$ 19,362,297	$ 19,316,809	$ 889,888
Investments	20,295	168	-	20,463
Total Assets	**$ 864,695**	**$ 19,362,465**	**$ 19,316,809**	**$ 910,351**
Liabilities				
Due to other governments	$ **864,695**	$ **19,362,465**	$ **19,316,809**	$ **910,351**

OTHER SCHEDULES

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011

Shared Revenue		
State		
Highway users tax	$	2,969,079
Market value credit		380,450
PERA rate reimbursement		22,736
Disparity reduction aid		69,269
County program aid		492,985
Police aid		59,869
Enhanced 911		86,496
Total shared revenue	**$**	**4,080,884**
Reimbursement for Services		
State		
Minnesota Department of Human Services	**$**	**377,689**
Payments		
Local		
Local grants	$	59,749
Payments in lieu of taxes		158,940
Total payments	**$**	**218,689**
Grants		
State		
Minnesota Department/Board of		
Crime Victim Services	$	33,216
Public Safety		88,066
Natural Resources		26,222
Human Services		585,079
Veterans Affairs		33,000
Water and Soil Resources		46,004
Pollution Control Agency		297,344
Total state	**$**	**1,108,931**
Federal		
Department of		
Agriculture	$	156,990
Transportation		175,113
Health and Human Services		898,215
Homeland Security		412,576
Total federal	**$**	**1,642,894**
Total state and federal grants	**$**	**2,751,825**
Total Intergovernmental Revenue	**$**	**7,429,087**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number		Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	**$**	**156,990**
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation			
Highway Planning and Construction	20.205	$	167,895
Passed Through Minnesota Department of Public Safety			
State and Community Highway Safety	20.600		2,218
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		5,000
Total U.S. Department of Transportation		**$**	**175,113**
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	$	3,500
Temporary Assistance for Needy Families (TANF) Cluster			
Temporary Assistance for Needy Families	93.558		103,937
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714		9,728
Child Support Enforcement	93.563		277,102
Child Care and Development Block Grant	93.575		4,311
Stephanie Tubbs Jones Child Welfare Services Program	93.645		5,341
Foster Care Title IV-E	93.658		32,322
Social Services Block Grant	93.667		98,298
Children's Health Insurance Program	93.767		85
Medical Assistance Program	93.778		361,229
Block Grants for Community Mental Health Services	93.958		2,362
Total U.S. Department of Health and Human Services		**$**	**898,215**
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012	$	6,253
Passed Through Minnesota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		187,075
Emergency Management Performance Grants	97.042		8,334
Homeland Security Grant Program	97.067		210,914
Total U.S. Department of Homeland Security		**$**	**412,576**
Total Federal Awards		**$**	**1,642,894**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Chippewa County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Chippewa County, it is not intended to and does not present the financial position or changes in net assets of Chippewa County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	$113,665

5. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

6. American Recovery and Reinvestment Act

   The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

Management and
Compliance Section

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	CFDA #10.561
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778
Homeland Security Grant Program	CFDA #97.067

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

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

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

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

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

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

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

Client's Response:

The County is cognizant that due to limited staffing levels, sufficient levels of segregation of duties are 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 issues.

09-1 Documenting and Monitoring Internal Controls

Criteria: County management is responsible for establishing and maintaining effective internal control over financial reporting.

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

Context: The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Effect: Weaknesses in internal control could go undetected, which could affect the County's ability to detect material misstatements in the financial statements.

Cause: The County has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend that County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

The Accounting Policies and Procedures Manual does document significant internal controls. The Auditor/Treasurer's Office staff will conduct an internal control self-assessment during 2012/13 to determine if additional policies or enhancements are warranted for internal controls in the Accounting Policies and Procedures Manual.

ITEM ARISING THIS YEAR

11-1 Audit Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified a material adjustment that resulted in a significant change to the County's financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: A material audit adjustment was necessary to decrease deferred revenue and increase intergovernmental revenue in the Ditch Revenue Special Revenue Fund.

Cause: County staff inadvertently deferred an amount that was received within the first 60 days of the next year.

Recommendation: We recommend that the County designate a person to review the trial balances and journal entries in detail once they are complete.

Client's Response:

The adjustment was completed as part of the 2011 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-2 Identification of Federal Awards

Program: Homeland Security Grant Program (CFDA No. 97.067)

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

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

- The County did not identify $210,914 as federal Homeland Security Grant Program (CFDA No. 97.067).

Questioned Costs: None.

Context: In 2011, the County expended $1,642,894 in federal awards.

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

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

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

<u>Corrective Action Plan:</u>

<u>Name of Contact Person Responsible for Corrective Action:</u>

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

<u>Corrective Action Planned:</u>

Classify as receivable.

<u>Anticipated Completion Date:</u>

September 1, 2012

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

Programs: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561), Child Support Enforcement (CFDA No. 93.563), and Medical Assistance Program (CFDA No. 93.778)

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

Condition: Of the 40 expenditures tested, two invoices were initiated and approved by the same individual and two timesheets of a department supervisor were not approved by a second person.

Questioned Costs: None.

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

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

Cause: The transactions were initiated and approved by a department supervisor. The County Policy does not document who should approve expenditures when the department supervisor initiates the transaction.

Recommendation: We recommend the County review and update its policy on approving claims and timesheets to document the process for approving expenditures initiated by a department supervisor.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Betty Christensen, Director/Jon Clauson, Auditor/Treasurer

Corrective Action Planned:

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

Anticipated Completion Date:

September 1, 2012

11-4 Eligibility – Intake Function

Programs: Medical Assistance Program (CFDA No. 93.778)

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

Condition: During our testing of controls over the Medical Assistance Program case files, we noted active case files were not reviewed by a program supervisor. A review of 20 closed cases was completed for the months of September and October.

Questioned Costs: None.

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

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

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

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

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

Corrective Action Planned:

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

Anticipated Completion Date:

October 1, 2012

11-5 Equipment and Real Property Management

Program: Homeland Security Grant Program (CFDA No. 97.067)

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include maintaining internal controls over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

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

Questioned Costs: None.

Context: For dispositions of capital assets acquired under federal awards the county may be required to reimburse the awarding agency for the federal portion of net sales or fair market value at the time of disposition.

Effect: There is a risk that internal controls would fail to identify those assets that were purchased using federal funds.

Cause: The staff person working with capital assets was not aware of the federal requirements.

Recommendation: We recommend the County develop a system and written policies and procedures to establish internal controls to ensure that capital assets purchased with federal funds can be identified.

<u>Corrective Action Plan:</u>

<u>Name of Contact Person Responsible for Corrective Action:</u>

Jon Clauson, Auditor/Treasurer

<u>Corrective Action Planned:</u>

Add an additional column to the fixed asset report indicating items purchased with federal grant dollars.

<u>Anticipated Completion Date:</u>

September 12, 2012

11-6 <u>Reporting – Review Process</u>

Program: Medical Assistance Program (CFDA No. 93.778)

Criteria: Standard internal control procedures should include a review and approval process for reports to ensure the reports submitted to the State of Minnesota are accurate and meet reporting requirements.

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

Questioned Costs: None.

Context: The County reports expenditures incurred for administering the grants to DHS on a monthly basis for the Medical Access Report for MN-ITS.

Effect: The lack of periodic review of reports by a supervisory level individual increases the risk that reports submitted will not be correct.

Cause: The County does not have adequate procedures in place to ensure that reports submitted are reviewed.

Recommendation: We recommend the County document supervisory review of the monthly reports submitted to the Minnesota Department of Human Services to ensure the reports are accurate and meet reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Betty Christensen, Director

Corrective Action Planned:

The Family Services Director will review the Medical Access Report for MN-ITS on a monthly basis.

Anticipated Completion Date:

September 1, 2012

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

11-7 Contracts

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

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

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

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

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

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

Client's Response:

Language will be added to ditch fund contracts pursuant to MS 471.425, subd. 4a.

11-8 IC-134 Withholding Affidavit:

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

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

Context: The form was obtained for the highway construction contracts, but was not obtained for the maintenance contracts or for contracts for the ditch fund.

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

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

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

Client's Response:

Form IC-134 will be sent to all contractors whether sole proprietor or not for completion.

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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, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. 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

Management of Chippewa County is responsible for establishing and maintaining effective 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of

Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs, as item 11-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, as items 99-1 and 09-1 to be significant deficiencies.

<u>Compliance and Other Matters</u>

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.*

<u>Minnesota Legal Compliance</u>

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because the County does not have any tax increment financing.

The results of our tests indicate that, for the items tested, Chippewa County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 11-7 and 11-8.

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

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 27, 2012

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

Board of County Commissioners
Chippewa County

Compliance

We have audited Chippewa County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Chippewa County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 through 11-6. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention to those charged with governance.

Chippewa County's corrective action plans to the federal awards findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans 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 the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 27, 2012