

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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, 2013



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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

ORGANIZATION
2013

Office	Name	Term Expires
Commissioners		
1st District	Matt Gilbertson	January 2015
2nd District	Jeffrey Lopez*	January 2017
3rd District	David Nordaune	January 2017
4th District	Jim Dahlvang	January 2017
5th District	David Lieser	January 2015
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	Bonnie Crosby	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	Ken Menning	Indefinite

*Chair 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chippewa County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chippewa County’s internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 16, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. 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, 2013) by \$64,745,002 (net position). Of this amount, \$13,345,527 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net position increased by \$1,181,251. The increase is from additional capital assets.
- As of the close of the 2013 fiscal year, Chippewa County's governmental funds' ending fund balances were \$14,346,287 compared to \$14,100,674 in 2012. Approximately 21.3 percent of the amount (\$3,051,658) is available for spending at Chippewa County's discretion (unassigned fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary 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 and B-2 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$64,745,002 on December 31, 2013.

Capital assets of \$50,229,964 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net position (77.6 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Of Chippewa County's net position, 1.8 percent represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$13,345,527) may be used to meet the government's ongoing obligations to citizens and creditors.

Net Position

	Governmental Activities	
	2013	2012
Assets		
Current and other assets	\$ 16,753,209	\$ 16,730,571
Capital assets	<u>50,229,964</u>	<u>48,872,167</u>
Total Assets	<u>\$ 66,983,173</u>	<u>\$ 65,602,738</u>
Liabilities		
Other liabilities	\$ 733,514	\$ 566,265
Long-term liabilities	<u>1,504,657</u>	<u>1,472,722</u>
Total Liabilities	<u>\$ 2,238,171</u>	<u>\$ 2,038,987</u>
Net Position		
Investment in capital assets	\$ 50,229,964	\$ 48,872,167
Restricted	1,169,511	688,915
Unrestricted	<u>13,345,527</u>	<u>14,002,669</u>
Total Net Position	<u>\$ 64,745,002</u>	<u>\$ 63,563,751</u>

Unrestricted net position at December 31, 2013--the part of net position that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 20.7 percent of the net position.

Governmental Activities

The County's activities increased net position by 1.9 percent (\$64,745,002) for 2013 compared to \$63,563,751 for 2012. Key elements in this increase in net position are as follows:

Changes in Net Position		
	<u>2013</u>	<u>2012</u>
Revenues		
Program revenues		
Charges for services	\$ 2,349,451	\$ 2,175,929
Operating grants and contributions	5,957,931	6,496,715
Capital grants and contributions	601,547	288,234
General revenues		
Property taxes	8,033,307	7,874,698
Other	1,299,412	1,361,279
Total Revenues	<u>\$ 18,241,648</u>	<u>\$ 18,196,855</u>
Expenses		
General government	\$ 3,777,792	\$ 3,308,058
Public safety	2,819,930	1,941,041
Highways and streets	3,470,757	4,443,128
Sanitation	270,931	225,690
Human services	4,860,088	4,799,961
Health	123,794	121,367
Culture and recreation	384,877	423,256
Conservation of natural resources	1,262,516	1,455,025
Economic development	79,545	50,720
Interest	10,167	13,775
Total Expenses	<u>\$ 17,060,397</u>	<u>\$ 16,782,021</u>
Increase in Net Position	\$ 1,181,251	\$ 1,414,834
Net Position - January 1	<u>63,563,751</u>	<u>62,148,917</u>
Net Position - December 31	<u>\$ 64,745,002</u>	<u>\$ 63,563,751</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of \$14,346,287, an increase of \$245,613, or 1.8 percent, in comparison with the prior year. Of the combined ending fund balances, \$12,966,444 represents unrestricted fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$1,379,843, is either nonspendable or is restricted to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2013, it had an unrestricted fund balance of \$3,051,658. 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 41.1 percent of total General Fund expenditures. During 2013, the ending fund balance decreased by \$116,218. Examples of contributing factors to this decline are lower than expected interest earned on investments due to the erosion of investment rates experienced during 2013 and expenditures for capital repairs to the Courthouse and the Community Service Center.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of \$3,801,571 at the end of 2013, representing 69.4 percent of its annual expenditures. The ending fund balance increased by \$673,385 during 2013, primarily due to the construction projects not being completed in 2013. Funding in the amount of \$367,567 was received in 2013 but was not paid out until 2014. The remaining portion of the fund balance growth is attributed to no seal coating projects in 2013.

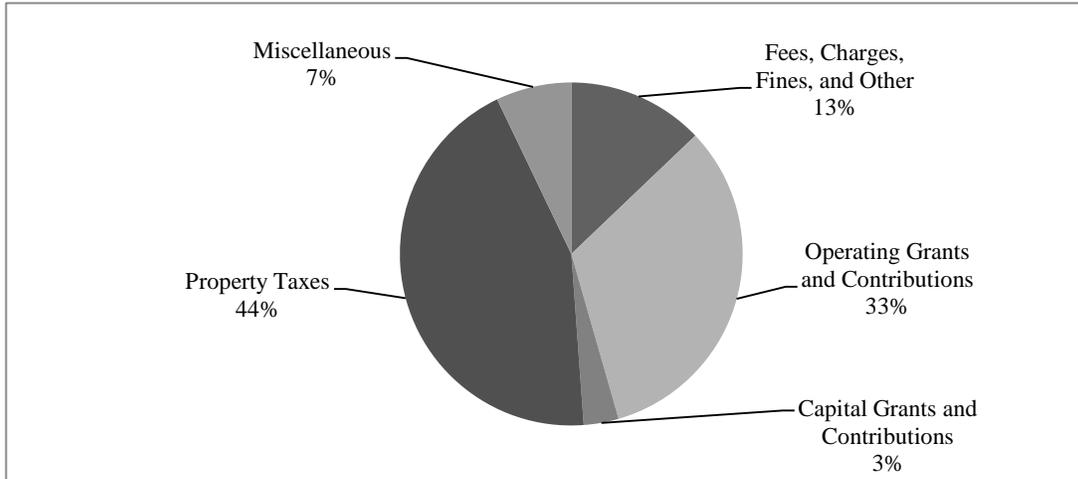
The Family Services Special Revenue Fund had an unrestricted fund balance of \$3,420,717 at the end of 2013, representing 68.8 percent of its annual expenditures. The ending fund balance decreased by \$312,887 during 2013. The decrease was largely due to expenditures relative to the renovation project that was begun in 2012 and was completed in 2013.

The Ditch Revenue Special Revenue Fund has an unrestricted fund balance of \$2,692,498 at the end of 2013. The ending fund balance increased by \$1,333 during 2013, primarily due to the increase in revenues received from ditch liens assessed during 2013.

GOVERNMENTAL ACTIVITIES

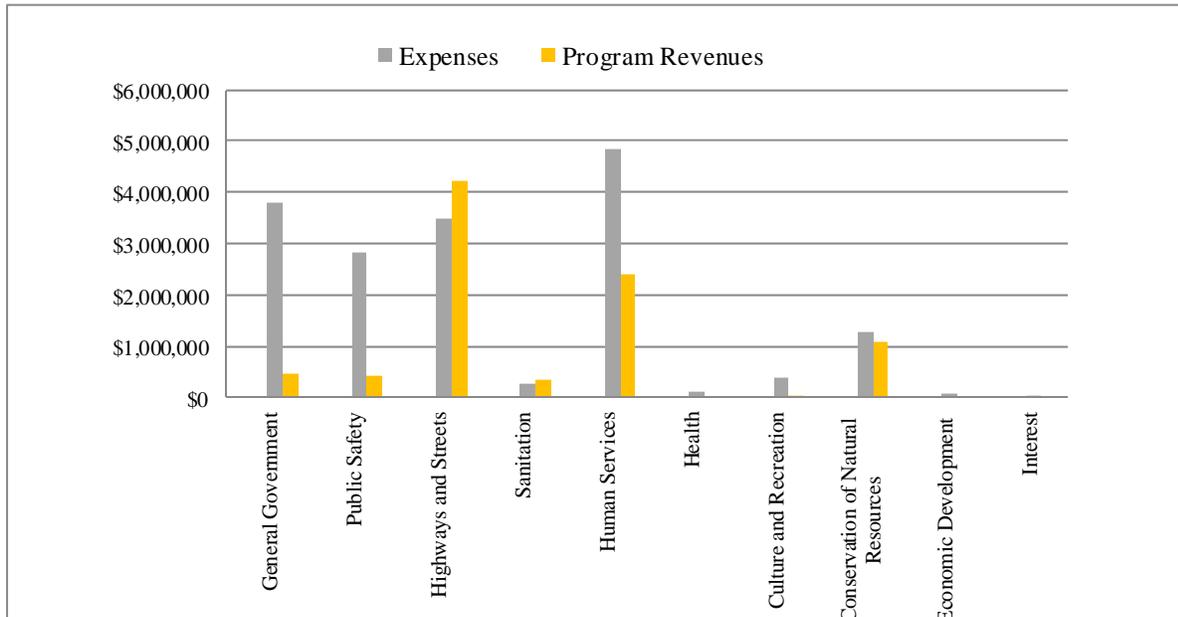
The County's total revenues were \$18,241,648. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2013.

Table 1
Revenues by Source



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

Table 2
Expenses and Program Revenues



The cost of all governmental activities in 2013 was \$17,060,397. 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 \$8,151,468 because some of the cost was paid by those who directly benefited from the programs (\$2,349,451) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,559,478). The County paid for the remaining “public benefit” portion of governmental activities with \$9,332,719 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**

	2013	
	Total Cost of Services	Net Cost of Services
General government	\$ 3,777,792	\$ (3,328,537)
Public safety	2,819,930	(2,406,442)
Highways and streets	3,470,757	757,048
Sanitation	270,931	85,576
Human services	4,860,088	(2,467,527)
Health	123,794	(123,794)
Culture and recreation	384,877	(384,857)
Conservation of natural resources	1,262,516	(193,223)
Economic development	79,545	(79,545)
Interest	10,167	(10,167)
	\$ 17,060,397	\$ (8,151,468)

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by \$345,218. Items contributing to this were septic system loan payments, pass-through environmental grants, in lieu of tax payments, and insurance trust dividends.

Over the course of the year, the County Board increased the General Fund expenditure budget by \$909,902. Several factors affecting over budget variances were:

Commissioners	\$ 10,419	Professional services
Data Processing	15,844	Hardware/software purchases
Geographic Information Systems	19,705	Software enhancements
Sheriff	194,102	ARMER purchases
Airport	12,000	Additional maintenance
Community Development	19,840	Economic development appropriation
Prairie 5	10,585	Bus purchase
Septic Loan Repayments	92,056	Pass-through assessments not budgeted

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2013, totaled \$50,229,964 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,357,797, or 2.8 percent, from the previous year. The major capital asset events were the ongoing highway construction projects and infrastructure additions.

Capital Assets at Year-End Net of Depreciation

	2013	2012
Land and right-of-way	\$ 1,692,312	\$ 1,692,312
Infrastructure	42,248,281	41,165,233
Buildings	3,043,824	3,139,968
Machinery and equipment	2,264,709	2,809,892
Construction in progress	980,838	64,762
Total	<u>\$ 50,229,964</u>	<u>\$ 48,872,167</u>

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

Long-Term Debt

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's officials considered many factors when setting the 2013 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2013 was 4.5 percent. This compares with the state unemployment rate of 4.6 percent and national unemployment rate of 6.7 percent. This shows a moderate decrease from the County's 5.1 percent rate of one year ago. The economic recovery continues, however, at a very slow rate.
- The 2014 property tax levy for the County increased 5.3 percent (\$432,910) from 2013. The increase is due to several factors: reductions in interest earnings, increases in civil commitment costs, personal services, capital outlay costs to maintain aging County buildings (Courthouse and Community Services Center), further reductions in property tax credits from the State of Minnesota, and reduced use of cash reserves in the General Revenue Fund.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Assets

Cash and pooled investments	\$ 7,611,848
Investments	6,917,008
Receivables - net	2,064,273
Inventories	139,830
Prepaid items	20,250
Capital assets	
Non-depreciable capital assets	2,673,150
Depreciable capital assets - net of accumulated depreciation	<u>47,556,814</u>
Total Assets	<u>\$ 66,983,173</u>

Liabilities

Accounts payable and other current liabilities	\$ 542,975
Unearned revenue	12,252
Advance from other governments	178,287
Long-term liabilities	
Due within one year	124,895
Due in more than one year	<u>1,379,762</u>
Total Liabilities	<u>\$ 2,238,171</u>

Net Position

Net investment in capital assets	\$ 50,229,964
Restricted for	
General government	474,115
Public safety	94,715
Highways and streets	367,567
Human services	27,791
Conservation of natural resources	205,323
Unrestricted	<u>13,345,527</u>
Total Net Position	<u>\$ 64,745,002</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 3,777,792	\$ 442,513	\$ 6,742	\$ -	\$ (3,328,537)
Public safety	2,819,930	162,140	251,348	-	(2,406,442)
Highways and streets	3,470,757	241,207	3,385,051	601,547	757,048
Sanitation	270,931	356,507	-	-	85,576
Human services	4,860,088	384,368	2,008,193	-	(2,467,527)
Health	123,794	-	-	-	(123,794)
Culture and recreation	384,877	20	-	-	(384,857)
Conservation of natural resources	1,262,516	762,696	306,597	-	(193,223)
Economic development	79,545	-	-	-	(79,545)
Interest	10,167	-	-	-	(10,167)
Total Governmental Activities	\$ 17,060,397	\$ 2,349,451	\$ 5,957,931	\$ 601,547	\$ (8,151,468)
General Revenues					
Property taxes					\$ 8,033,307
Mortgage registry and deed tax					6,847
Payments in lieu of tax					116,978
Grants and contributions not restricted to specific programs					782,701
Unrestricted investment income					19,226
Miscellaneous					344,110
Gain on disposal of capital assets					29,550
Total general revenues					\$ 9,332,719
Change in net position					\$ 1,181,251
Net Position - Beginning					63,563,751
Net Position - Ending					\$ 64,745,002

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, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 3,415,633	\$ 290,271	\$ 3,587,784	\$ 170,325	\$ 7,464,013
Undistributed cash in agency funds	81,119	19,447	36,041	1,582	138,189
Petty cash and change funds	2,100	-	100	-	2,200
Departmental cash	7,446	-	-	-	7,446
Investments	515,485	3,901,523	-	2,500,000	6,917,008
Taxes receivable					
Prior	65,408	16,268	30,692	-	112,368
Special assessments receivable					
Prior	25,917	-	-	105	26,022
Noncurrent	471,826	-	-	631,417	1,103,243
Accounts receivable	6,343	7,558	23,533	-	37,434
Loans receivable	50,252	-	-	-	50,252
Accrued interest receivable	2,503	2,677	-	1,260	6,440
Due from other funds	-	3,215	-	-	3,215
Due from other governments	84,643	449,259	170,199	24,413	728,514
Inventories	-	139,830	-	-	139,830
Prepaid items	15,902	4,348	-	-	20,250
Total Assets	<u>\$ 4,744,577</u>	<u>\$ 4,834,396</u>	<u>\$ 3,848,349</u>	<u>\$ 3,329,102</u>	<u>\$ 16,756,424</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 243,150	\$ 35,560	\$ 151,629	\$ 3,719	\$ 434,058
Salaries payable	19,925	1,305	1,513	-	22,743
Contracts payable	-	40,911	-	-	40,911
Due to other funds	3,112	-	-	103	3,215
Due to other governments	11,463	832	32,968	-	45,263
Unearned revenue	7,500	-	4,752	-	12,252
Advance from other governments	-	-	178,287	-	178,287
Total Liabilities	<u>\$ 285,150</u>	<u>\$ 78,608</u>	<u>\$ 369,149</u>	<u>\$ 3,822</u>	<u>\$ 736,729</u>
Deferred Inflows of Resources					
Unavailable revenue	<u>\$ 567,462</u>	<u>\$ 442,472</u>	<u>\$ 30,692</u>	<u>\$ 632,782</u>	<u>\$ 1,673,408</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>					
(Continued)					
Fund Balances					
Nonspendable					
Prepaid items	\$ 15,902	\$ 4,348	\$ -	\$ -	\$ 20,250
Loans receivable	50,252	-	-	-	50,252
Inventories	-	139,830	-	-	139,830
Restricted for					
Missing heirs	22,047	-	-	-	22,047
Law library	72,286	-	-	-	72,286
Enhanced 911	87,533	-	-	-	87,533
Sheriff's contingency	2,734	-	-	-	2,734
Recorder's technology fund	211,420	-	-	-	211,420
Recorder's compliance fund	158,331	-	-	-	158,331
Drug task force forfeitures	4,294	-	-	-	4,294
Attorney's forfeited property	10,031	-	-	-	10,031
Unclaimed property	154	-	-	-	154
Septic/sewer loans	205,323	-	-	-	205,323
Unspent grant monies	-	-	27,791	-	27,791
Future County construction	-	367,567	-	-	367,567
Assigned for					
Road and bridge	-	2,987,999	-	-	2,987,999
Capital land	-	165,641	-	-	165,641
Capital equipment	-	647,931	-	-	647,931
Conservation of natural resources	-	-	-	2,692,498	2,692,498
Human services	-	-	2,595,717	-	2,595,717
Capital expenditures	-	-	100,000	-	100,000
Out-of-home care	-	-	500,000	-	500,000
Out-of-home prevention services	-	-	125,000	-	125,000
Children's mental health	-	-	100,000	-	100,000
Unassigned	3,051,658	-	-	-	3,051,658
Total Fund Balances	\$ 3,891,965	\$ 4,313,316	\$ 3,448,508	\$ 2,692,498	\$ 14,346,287
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,744,577	\$ 4,834,396	\$ 3,848,349	\$ 3,329,102	\$ 16,756,424

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2013**

Fund balance - total governmental funds (Exhibit 3)	\$ 14,346,287
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	50,229,964
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,673,408
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	\$ (639,953)
OPEB liability	(224,772)
Compensated absences	(639,932)
	<u>(1,504,657)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 64,745,002</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch Revenue</u>	<u>Total</u>
Revenues					
Taxes	\$ 4,800,538	\$ 1,128,696	\$ 2,109,589	\$ 412	\$ 8,039,235
Special assessments	197,598	-	-	481,526	679,124
Licenses and permits	11,615	18,000	-	-	29,615
Intergovernmental	1,204,650	4,742,026	2,158,093	-	8,104,769
Charges for services	556,837	29,429	215,672	81,928	883,866
Gifts and contributions	1,115	-	4,634	-	5,749
Investment earnings	12,052	5,961	-	1,240	19,253
Miscellaneous	465,258	206,757	168,696	-	840,711
Total Revenues	\$ 7,249,663	\$ 6,130,869	\$ 4,656,684	\$ 565,106	\$ 18,602,322
Expenditures					
Current					
General government	\$ 3,285,255	\$ -	\$ -	\$ -	\$ 3,285,255
Public safety	2,476,782	-	-	-	2,476,782
Highways and streets	-	5,131,397	-	-	5,131,397
Sanitation	269,505	-	-	-	269,505
Human services	-	-	4,701,857	-	4,701,857
Culture and recreation	356,422	-	-	-	356,422
Conservation of natural resources	537,419	-	-	563,773	1,101,192
Economic development	79,545	-	-	-	79,545
Capital outlay	-	-	143,920	-	143,920
Intergovernmental	344,117	341,954	123,794	-	809,865
Debt service					
Principal	81,889	-	-	-	81,889
Interest	10,167	-	-	-	10,167
Total Expenditures	\$ 7,441,101	\$ 5,473,351	\$ 4,969,571	\$ 563,773	\$ 18,447,796
Excess of Revenues Over (Under) Expenditures	\$ (191,438)	\$ 657,518	\$ (312,887)	\$ 1,333	\$ 154,526
Other Financing Sources (Uses)					
Loans issued	\$ 53,720	\$ -	\$ -	\$ -	\$ 53,720
Sale of capital assets	21,500	8,050	-	-	29,550
Total Other Financing Sources (Uses)	\$ 75,220	\$ 8,050	\$ -	\$ -	\$ 83,270
Net Change in Fund Balances	\$ (116,218)	\$ 665,568	\$ (312,887)	\$ 1,333	\$ 237,796
Fund Balances - January 1	4,008,183	3,639,931	3,761,395	2,691,165	14,100,674
Increase (decrease) in inventories	-	7,817	-	-	7,817
Fund Balances - December 31	\$ 3,891,965	\$ 4,313,316	\$ 3,448,508	\$ 2,692,498	\$ 14,346,287

**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, 2013**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 237,796

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.

Unavailable revenue - December 31	\$ 1,673,408	
Unavailable revenue - January 1	<u>(2,063,632)</u>	(390,224)

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

Expenditures for general capital assets and infrastructure	\$ 3,618,028	
Net book value of disposed assets	(229,339)	
Current year depreciation	<u>(2,030,892)</u>	1,357,797

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

Principal repayments		
Loans payable		81,889

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

Debt issued		
Loans issued		(53,720)

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	\$ 7,817	
Change in OPEB liability	(35,864)	
Change in compensated absences	<u>(24,240)</u>	<u>(52,287)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,181,251

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

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FIDUCIARY FUNDS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2013**

	Investment Trusts	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 3,042,730	\$ 884,362
Investments	16,614,768	20,708
Accrued interest	34,050	-
Total Assets	\$ 19,691,548	\$ 905,070
<u>Liabilities</u>		
Due to other governments	-	\$ 905,070
<u>Net Position</u>		
Net position, held in trust	\$ 19,691,548	

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Investment Trusts</u>
<u>Additions</u>	
Contributions from participants	\$ 42,892,126
Interest	(302,635)
Total Additions	\$ 42,589,491
<u>Deductions</u>	
Distribution to participants	41,130,987
Change in net position	\$ 1,458,504
Net Position - Beginning of the Year	18,233,044
Net Position - End of the Year	\$ 19,691,548

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.6. in the notes to the financial statements for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, 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 2013 were \$12,052.

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).

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

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

At December 31, 2013, Chippewa County reported no bonded debt.

8. Classification of Net Position

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

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

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

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

9. Classification of Fund Balances

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 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 that 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 7,611,848
Investments	6,917,008
Statement of fiduciary net position	
Cash and pooled investments	3,927,092
Investments	16,635,476
Total Cash and Investments	\$ 35,091,424
Checking	\$ 4,228,250
Petty cash and change funds	2,200
Departmental cash	7,446
Savings	2,739,138
Money market	10,797,036
Certificates of deposit	14,028,033
Investments	3,289,321
Total Cash and Investments	\$ 35,091,424

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

At December 31, 2013, the County had the following investments:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>5+ Years</u>
U.S. agency securities	\$ 3,289,321	\$ -	\$ 483,790	\$ 2,805,531
MAGIC Fund	10,797,036	10,797,036	-	-
Total Investments	\$ 14,086,357	\$ 10,797,036	\$ 483,790	\$ 2,805,531

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, 2013, is as follows:

	<u>S&P Rating</u>	<u>Fair Value</u>
U.S. government agency securities	AA+	\$ 3,289,321
MAGIC Fund	N/R	10,797,036
Total		\$ 14,086,357

N/R - Not rated

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2013, \$3,289,321 of Federal Home Loan Bank Bonds and Federal National Mortgage Bonds owned by the County were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2013, by issuer, not including negotiable certificates of deposit:

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 2,805,531
Federal National Mortgage Association	483,790
MAGIC Fund	10,797,036

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

c. External Investment Pool

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

Cash and pooled investments	
Belonging to the County	\$ 7,611,848
Held in trust for the Hospital	<u>3,042,730</u>
Total Cash and Pooled Investments	<u>\$ 10,654,578</u>

2. Receivables

Receivables as of December 31, 2013, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 112,368	\$ -
Special assessments	1,129,265	1,103,243
Accounts	37,434	-
Interest	6,440	-
Loans	50,252	36,939
Due from other governments	<u>728,514</u>	<u>-</u>
Total Receivables - Net	<u>\$ 2,064,273</u>	<u>\$ 1,140,182</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,200,819	\$ -	\$ -	\$ 1,200,819
Right-of-way	491,493	-	-	491,493
Construction in progress	64,762	919,690	3,614	980,838
Total capital assets not depreciated	<u>\$ 1,757,074</u>	<u>\$ 919,690</u>	<u>\$ 3,614</u>	<u>\$ 2,673,150</u>
Capital assets depreciated				
Buildings	\$ 10,282,566	\$ 112,664	\$ -	\$ 10,395,230
Machinery and equipment	6,852,116	319,081	455,272	6,715,925
Infrastructure	58,521,802	2,270,207	-	60,792,009
Total capital assets depreciated	<u>\$ 75,656,484</u>	<u>\$ 2,701,952</u>	<u>\$ 455,272</u>	<u>\$ 77,903,164</u>
Less: accumulated depreciation for				
Buildings	\$ 7,142,598	\$ 208,808	\$ -	\$ 7,351,406
Machinery and equipment	4,042,224	634,925	225,933	4,451,216
Infrastructure	17,356,569	1,187,159	-	18,543,728
Total accumulated depreciation	<u>\$ 28,541,391</u>	<u>\$ 2,030,892</u>	<u>\$ 225,933</u>	<u>\$ 30,346,350</u>
Total capital assets depreciated, net	<u>\$ 47,115,093</u>	<u>\$ 671,060</u>	<u>\$ 229,339</u>	<u>\$ 47,556,814</u>
Capital Assets, Net	<u>\$ 48,872,167</u>	<u>\$ 1,590,750</u>	<u>\$ 232,953</u>	<u>\$ 50,229,964</u>

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

General government	\$ 149,310
Public safety	387,549
Highways and streets, including depreciation of infrastructure assets	1,407,774
Sanitation	1,848
Human services	23,789
Culture and recreation	28,455
Conservation of natural resources	32,167
Total Depreciation Expense - Governmental Activities	<u>\$ 2,030,892</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue Fund	General Fund	\$ 3,112
	Ditch Revenue Special Revenue Fund	103
Total		\$ 3,215

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

C. Liabilities

1. Payables

Payables at December 31, 2013, were as follows:

	Governmental Activities
Accounts	\$ 434,058
Salaries	22,743
Contracts	40,911
Due to other governments	45,263
Total Payables	\$ 542,975

2. Advances From Other Governments

Chippewa County is the designated fiscal host for the Southwest Minnesota Regional Minnesota Family Investment Program/Divisionary Work Program (MFIP/DWP) Partnership. This is a 14-county partnership created to administer MFIP/DWP funds. The participating counties advanced funds to Chippewa County for cash flow purposes. The funds will be returned when the partnership is dissolved.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
Hawk Creek Loan (SRF0074)	2014	\$ 13,921	2.0	\$ 125,605	\$ 6,892
Hawk Creek Continuation Loan (SRF0119)	2016	8,024	2.0	72,398	23,253
Chippewa River Watershed Continuation Loan (SRF0122)	2016	7,521	2.0	67,862	21,795
Hawk Creek Watershed Loan (SRF0158)	2020	27,956	2.0	252,241	169,605
Chippewa River Watershed Loan (SRF0159)	2019	22,889	2.0	206,522	138,863
Chippewa River Continuation Loan (SRF0207)	2023	11,745	2.0	105,970	86,428
Hawk Creek Watershed Continuation Loan (SRF0231)	2023	19,595	2.0	176,800	71,784
Chippewa River Watershed Loan (SRF0232)	2021	11,526	2.0	208,000	114,783
Hawk Creek Watershed Loan (SRF277)	2026	14,408	2.0	260,000	6,550
Total				<u>\$ 1,475,398</u>	<u>\$ 639,953</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 668,122	\$ 53,720	\$ 81,889	\$ 639,953	\$ 76,574
Compensated absences	615,692	24,240	-	639,932	48,321
Net OPEB liability	188,908	35,864	-	224,772	-
Long-Term Liabilities	<u>\$ 1,472,722</u>	<u>\$ 113,824</u>	<u>\$ 81,889</u>	<u>\$ 1,504,657</u>	<u>\$ 124,895</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

<u>Year Ending December 31</u>	Loans Payable	
	Principal	Interest
2014	\$ 76,574	\$ 8,521
2015	71,083	7,052
2016	72,512	5,623
2017	58,347	4,243
2018	59,519	3,070
2019 - 2021	108,800	2,701
Total	\$ 446,835	\$ 31,210

Clean water loans (Hawk Creek Watershed and Chippewa River Watershed) in the amount of \$193,118 are not included in the debt service requirements because a fixed repayment schedule is not available.

6. Conduit Debt

In 2007, Chippewa County issued \$36,565,000 of Gross Revenue Hospital Bonds to provide financial assistance to the Montevideo Hospital for the acquisition, construction, and equipping of a new hospital located in the City of Montevideo. 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, 2013, the outstanding principal amount payable was \$34,950,000.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description

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

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

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. 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 remaining year. 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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans (Continued)

2. Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 284,469	\$ 282,061	\$ 277,872
Public Employees Police and Fire Fund	91,117	91,238	89,909
Public Employees Correctional Fund	39,824	39,299	38,223

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 7,777	\$ 7,777
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Pension Plans and Other Postemployment Benefits (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description

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

The contribution requirements of the plan members and the County are established and may be amended by the Chippewa County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2013, there were approximately 130 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	82,617
Interest on net OPEB obligation		8,501
Adjustment to ARC		<u>(11,750)</u>
Annual OPEB cost (expense)	\$	79,368
Contributions made		<u>(43,504)</u>
Increase in net OPEB obligation	\$	35,864
Net OPEB Obligation - Beginning of Year		<u>188,908</u>
Net OPEB Obligation - End of Year	\$	<u><u>224,772</u></u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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 2013 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 80,913	\$ 33,112	40.9%	\$ 152,455
December 31, 2012	80,083	43,630	54.5	188,908
December 31, 2013	79,368	43,504	54.8	224,772

Funded Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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, 2013, was 24 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$470,000 per claim in 2013 and \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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

C. Joint Ventures

Countryside Public Health Service

Chippewa County participates with Big Stone, Lac qui Parle, Swift, and Yellow Medicine Counties in a joint venture to provide community health services. The governing board consists of 11 members, 3 from Chippewa County and 2 from each of the other participating counties.

Chippewa County's contribution to the Countryside Public Health Service of \$123,794 is shown as an intergovernmental expenditure in the Family Services Special Revenue Fund. Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

Region 6W Community Corrections

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

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

Chippewa County's contribution of \$212,305 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 129 Nichols Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Montevideo-Chippewa Airport Commission

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Montevideo-Chippewa Airport Commission (Continued)

Complete financial statements of the City of Montevideo, which include the Montevideo-Chippewa Airport Commission, can be obtained at Benson Road, Montevideo, Minnesota 56265.

Chippewa County-Montevideo Hospital

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

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

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

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

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

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

Minnesota River Board

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

The management of the Minnesota River Basin is vested in a Board of Directors consisting of one member and an alternate from each Board of County 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 \$656 in 2013.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Board (Continued)

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

Southern Prairie Health Purchasing Alliance

Chippewa County entered into a joint powers agreement on June 26, 2012, with Swift, Kandiyohi, Redwood, Lyon, Lincoln, Murray, Cottonwood, Jackson, Nobles, Rock, and Yellow Medicine Counties to establish the Southern Prairie Health Purchasing Alliance pursuant to the provisions of Minn. Stat. § 471.59. The purpose of the Alliance is to plan, formulate, operate, and govern a rural care delivery system to improve the health and quality of life of the citizens of member counties. The Joint Powers Board is composed of one representative from each county.

Southwest Minnesota Private Industry Council, Inc.

The Southwest Minnesota Private Industry Council, Inc., (SW MN PIC) is a private nonprofit corporation which was created through a Joint Powers Agreement on October 1, 1983, and began operations in 1985 under the Job Training Partnership Act (JTPA) authorized by Congress to administer and operate job training programs in a 14-county area of southwestern Minnesota. These counties include Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Swift, and Yellow Medicine. SW MN PIC is governed by the Chief Elected Official Board which is composed of one representative from each member county. Chippewa County, as fiscal host of the MFIP/DWP Partnership, provided \$1,246,860 to this organization in 2013.

Separate financial information can be obtained from the Lyon County Government Center, 607 West Main Street, Marshall, Minnesota 56258.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 145A.17 and 471.59 and a joint powers agreement, effective May 31, 2007. The Board comprises one representative from each county to the agreement. The counties in the agreement are Big Stone, Chippewa, Douglas, Grant, Lac qui Parle, Lincoln, Lyon, McLeod, Meeker, Murray, Pipestone, Pope, Redwood, Renville, Stevens, Swift, Traverse, and Yellow Medicine. The purpose of this agreement is to organize, govern, plan, and administer a multi-county based Nurse Family Partnership Program specifically within the jurisdictional boundaries of the counties involved.

Each participating county contributes to the budget of the Supporting Hands Nurse Family Partnership. In 2013, Chippewa County did not make a contribution to the Partnership, as a contribution was made by the Countryside Public Health Service.

McLeod County acts as fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from McLeod County at 830 - 11th Street East, Glencoe, Minnesota 55336.

D. Jointly-Governed Organization

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

Pioneerland Library System

Chippewa County, along with several cities and other counties, participates in the Pioneerland Library System in order to provide efficient and improved regional public library service. Chippewa County's contribution of \$231,910 to Pioneerland Library System is shown as an expenditure in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2013**

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	0.00%	\$ 4,902,246	14.13%
January 1, 2011	-	649,979	649,979	0.00	5,309,097	12.24

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,862,962	\$ 4,862,962	\$ 4,800,538	\$ (62,424)
Special assessments	90,500	90,500	197,598	107,098
Licenses and permits	8,100	8,100	11,615	3,515
Intergovernmental	1,073,244	1,069,244	1,204,650	135,406
Charges for services	515,915	515,915	556,837	40,922
Gifts and contributions	-	-	1,115	1,115
Investment earnings	30,005	30,005	12,052	(17,953)
Miscellaneous	327,719	327,719	465,258	137,539
Total Revenues	\$ 6,908,445	\$ 6,904,445	\$ 7,249,663	\$ 345,218
Expenditures				
Current				
General government				
Commissioners	\$ 250,532	\$ 266,641	\$ 277,060	\$ (10,419)
Courts	5,000	5,000	-	5,000
Law library	39,600	39,600	38,464	1,136
County auditor/treasurer	436,962	439,069	440,834	(1,765)
Deputy registrar - license bureau	177,540	178,601	177,594	1,007
Accounting and auditing	40,000	50,610	35,971	14,639
County assessor	300,175	300,175	295,329	4,846
Elections	32,000	32,000	10,527	21,473
Data processing	241,705	241,705	257,549	(15,844)
Central services	83,600	90,923	83,578	7,345
Attorney	438,035	438,035	374,234	63,801
Recorder	273,387	274,708	271,228	3,480
Buildings and plant	576,082	706,478	667,928	38,550
Veterans service officer	153,437	153,437	148,226	5,211
Geographic information systems	500	500	20,205	(19,705)
Other general government	165,300	323,920	186,528	137,392
Total general government	\$ 3,213,855	\$ 3,541,402	\$ 3,285,255	\$ 256,147

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,136,005	\$ 1,179,196	\$ 1,373,298	\$ (194,102)
Safety management	7,425	8,350	8,297	53
Boat and water safety	1,279	27,300	21,719	5,581
D.A.R.E. program	1,500	1,850	1,804	46
Coroner	15,700	19,800	17,977	1,823
Dispatch	62,350	62,350	60,673	1,677
Jail	861,872	988,750	897,754	90,996
Victim witness program	56,821	56,821	56,329	492
Emergency management	33,903	41,404	38,931	2,473
Total public safety	\$ 2,176,855	\$ 2,385,821	\$ 2,476,782	\$ (90,961)
Sanitation				
Solid waste	\$ 44,400	\$ 85,343	\$ 84,756	\$ 587
Recycling	123,320	177,900	179,298	(1,398)
Hazardous waste	3,200	5,800	5,451	349
Total sanitation	\$ 170,920	\$ 269,043	\$ 269,505	\$ (462)
Culture and recreation				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Regional library	295,952	295,952	261,865	34,087
Parks	40,000	40,000	11,557	28,443
Fairgrounds	47,000	47,000	41,000	6,000
Airport	-	-	12,000	(12,000)
Total culture and recreation	\$ 412,952	\$ 412,952	\$ 356,422	\$ 56,530
Conservation of natural resources				
Extension	\$ 94,083	\$ 112,661	\$ 95,539	\$ 17,122
Soil and water conservation	72,000	72,000	72,000	-
Agricultural inspector	-	1,663	-	1,663
Weed control	62,660	62,660	53,766	8,894
Water planning	11,445	96,950	74,946	22,004
Land resource management	191,367	335,407	239,024	96,383
County farm	-	400	2,144	(1,744)
Total conservation of natural resources	\$ 431,555	\$ 681,741	\$ 537,419	\$ 144,322

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT A-2
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ -	\$ 25,000	\$ 44,840	\$ (19,840)
Prairie Five	-	-	10,585	(10,585)
Other	24,630	24,630	24,120	510
Total economic development	\$ 24,630	\$ 49,630	\$ 79,545	\$ (29,915)
Intergovernmental				
General government	\$ 212,225	\$ 212,305	\$ 212,305	\$ -
Conservation of natural resources	265,453	265,453	131,812	133,641
Total intergovernmental	\$ 477,678	\$ 477,758	\$ 344,117	\$ 133,641
Debt service				
Principal	\$ -	\$ -	\$ 81,889	\$ (81,889)
Interest	-	-	10,167	(10,167)
Total debt service	\$ -	\$ -	\$ 92,056	\$ (92,056)
Total Expenditures	\$ 6,908,445	\$ 7,818,347	\$ 7,441,101	\$ 377,246
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (913,902)	\$ (191,438)	\$ 722,464
Other Financing Sources (Uses)				
Loans issued	\$ -	\$ -	\$ 53,720	\$ 53,720
Proceeds from the sale of capital assets	-	-	21,500	21,500
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 75,220	\$ 75,220
Net Change in Fund Balance	\$ -	\$ (913,902)	\$ (116,218)	\$ 797,684
Fund Balance - January 1	4,008,183	4,008,183	4,008,183	-
Fund Balance - December 31	\$ 4,008,183	\$ 3,094,281	\$ 3,891,965	\$ 797,684

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,153,122	\$ 1,153,122	\$ 1,128,696	\$ (24,426)
Licenses and permits	14,500	14,500	18,000	3,500
Intergovernmental	4,939,228	4,939,228	4,742,026	(197,202)
Charges for services	-	-	29,429	29,429
Investment earnings	95,000	95,000	5,961	(89,039)
Miscellaneous	152,000	152,000	206,757	54,757
Total Revenues	\$ 6,353,850	\$ 6,353,850	\$ 6,130,869	\$ (222,981)
Expenditures				
Current				
Highways and streets				
Maintenance	\$ 1,224,650	\$ 1,224,650	\$ 1,157,248	\$ 67,402
Engineering/construction	3,983,800	3,983,800	3,228,422	755,378
Administration	266,625	266,625	256,472	10,153
Equipment and shop	469,625	469,625	489,255	(19,630)
Total highways and streets	\$ 5,944,700	\$ 5,944,700	\$ 5,131,397	\$ 813,303
Intergovernmental				
Highways and streets	354,000	354,000	341,954	12,046
Total Expenditures	\$ 6,298,700	\$ 6,298,700	\$ 5,473,351	\$ 825,349
Excess of Revenues Over (Under)				
Expenditures	\$ 55,150	\$ 55,150	\$ 657,518	\$ 602,368
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	8,050	8,050
Net Change in Fund Balance	\$ 55,150	\$ 55,150	\$ 665,568	\$ 610,418
Fund Balance - January 1	3,639,931	3,639,931	3,639,931	-
Increase (decrease) in inventories	-	-	7,817	7,817
Fund Balance - December 31	\$ 3,695,081	\$ 3,695,081	\$ 4,313,316	\$ 618,235

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,105,358	\$ 2,105,358	\$ 2,109,589	\$ 4,231
Intergovernmental	2,230,705	2,230,705	2,158,093	(72,612)
Charges for services	250,715	250,715	215,672	(35,043)
Gifts and contributions	6,000	6,000	4,634	(1,366)
Investment earnings	-	-	-	-
Miscellaneous	82,500	82,500	168,696	86,196
Total Revenues	\$ 4,675,278	\$ 4,675,278	\$ 4,656,684	\$ (18,594)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,477,047	\$ 1,477,047	\$ 1,556,533	\$ (79,486)
Social services	3,368,690	3,368,690	3,145,324	223,366
Total human services	\$ 4,845,737	\$ 4,845,737	\$ 4,701,857	\$ 143,880
Intergovernmental				
Health	121,368	121,368	123,794	(2,426)
Capital outlay				
Human services	-	-	143,920	(143,920)
Total Expenditures	\$ 4,967,105	\$ 4,967,105	\$ 4,969,571	\$ (2,466)
Net Change in Fund Balance	\$ (291,827)	\$ (291,827)	\$ (312,887)	\$ (21,060)
Fund Balance - January 1	3,761,395	3,761,395	3,761,395	-
Fund Balance - December 31	\$ 3,469,568	\$ 3,469,568	\$ 3,448,508	\$ (21,060)

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
DITCH REVENUE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 412	\$ 412
Special assessments	100,000	100,000	481,526	381,526
Charges for services	435,600	435,600	81,928	(353,672)
Investment earnings	10,000	10,000	1,240	(8,760)
Total Revenues	\$ 545,600	\$ 545,600	\$ 565,106	\$ 19,506
Expenditures				
Current				
Conservation of natural resources				
Other	545,600	545,600	563,773	(18,173)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,333	\$ 1,333
Fund Balance - January 1	2,691,165	2,691,165	2,691,165	-
Fund Balance - December 31	\$ 2,691,165	\$ 2,691,165	\$ 2,692,498	\$ 1,333

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2013

1. General Budget Policies

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

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

Budget Amendment

Fund	Original Budget	Revenues Increase (Decrease)	Final Budget
General Fund	\$ 6,908,445	\$ (4,000)	\$ 6,904,445

Fund	Original Budget	Expenditures Increase (Decrease)	Final Budget
General Fund	\$ 6,908,445	\$ 909,902	\$ 7,818,347

2. Excess of Expenditures Over Appropriations

Fund	Expenditures	Final Budget	Excess
Family Services Special Revenue Fund	\$ 4,969,571	\$ 4,967,105	\$ 2,466
Ditch Revenue Special Revenue Fund	563,773	545,600	18,173

3. Budget Basis of Accounting

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

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SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

FIDUCIARY FUNDS

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT B-1

**COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
DECEMBER 31, 2013**

	Pooled	Investments	Total
<u>Assets</u>			
Cash and pooled investments	\$ 3,042,730	\$ -	\$ 3,042,730
Investments	-	16,614,768	16,614,768
Accrued interest	-	34,050	34,050
Total Assets	\$ 3,042,730	\$ 16,648,818	\$ 19,691,548
<u>Net Position</u>			
Net position, held in trust	\$ 3,042,730	\$ 16,648,818	\$ 19,691,548

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Pooled	Investments	Total
<u>Additions</u>			
Contributions from participants	\$ 39,273,612	\$ 3,618,514	\$ 42,892,126
Investment earnings	(488)	(302,147)	(302,635)
Total Additions	\$ 39,273,124	\$ 3,316,367	\$ 42,589,491
<u>Deductions</u>			
Distributions to participants	37,750,987	3,380,000	41,130,987
Change in Net Position	\$ 1,522,137	\$ (63,633)	\$ 1,458,504
Net Position - Beginning of the Year	1,520,593	16,712,451	18,233,044
Net Position - End of the Year	<u>\$ 3,042,730</u>	<u>\$ 16,648,818</u>	<u>\$ 19,691,548</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 357,220	\$ 1,419,933	\$ 1,447,334	\$ 329,819
Investments	20,603	105	-	20,708
Total Assets	<u>\$ 377,823</u>	<u>\$ 1,420,038</u>	<u>\$ 1,447,334</u>	<u>\$ 350,527</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 377,823</u>	<u>\$ 1,420,038</u>	<u>\$ 1,447,334</u>	<u>\$ 350,527</u>
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 82,870</u>	<u>\$ 263,769</u>	<u>\$ 289,461</u>	<u>\$ 57,178</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 82,870</u>	<u>\$ 263,769</u>	<u>\$ 289,461</u>	<u>\$ 57,178</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 236,161</u>	<u>\$ 20,033,002</u>	<u>\$ 19,992,239</u>	<u>\$ 276,924</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 236,161</u>	<u>\$ 20,033,002</u>	<u>\$ 19,992,239</u>	<u>\$ 276,924</u>

**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, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<u>SOUTHERN PRAIRIE PURCHASING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 130,372	\$ 1,139,220	\$ 1,209,899	\$ 59,693
<u>Liabilities</u>				
Due to other governments	\$ 130,372	\$ 1,139,220	\$ 1,209,899	\$ 59,693
 <u>MENTAL HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 189,918	\$ 51,514	\$ 80,684	\$ 160,748
<u>Liabilities</u>				
Due to other governments	\$ 189,918	\$ 51,514	\$ 80,684	\$ 160,748
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 996,541	\$ 22,907,438	\$ 23,019,617	\$ 884,362
Investments	20,603	105	-	20,708
Total Assets	\$ 1,017,144	\$ 22,907,543	\$ 23,019,617	\$ 905,070
<u>Liabilities</u>				
Due to other governments	\$ 1,017,144	\$ 22,907,543	\$ 23,019,617	\$ 905,070

OTHER SCHEDULES

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Shared Revenue

State

Highway users tax	\$ 4,035,214
Market value credit	110,815
PERA rate reimbursement	22,735
Disparity reduction aid	67,565
County program aid	523,280
Police aid	72,384
Performance aid	1,706
Enhanced 911	89,821
	89,821

Total shared revenue **\$ 4,923,520**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 325,675
	325,675

Payments

Local

Local grants	\$ 60,335
Payments in lieu of taxes	116,978
	116,978

Total payments **\$ 177,313**

Grants

State

Minnesota Department/Board of	
Crime Victim Services	\$ 42,000
Public Safety	29,651
Transportation	1,198
Natural Resources	45,813
Human Services	532,088
Veterans Affairs	2,298
Water and Soil Resources	54,884
Pollution Control Agency	187,762
	187,762

Total state **\$ 895,694**

Federal

Department of	
Agriculture	\$ 172,425
Transportation	601,547
Health and Human Services	974,080
Homeland Security	34,515
	34,515

Total federal **\$ 1,782,567**

Total state and federal grants **\$ 2,678,261**

Total Intergovernmental Revenue **\$ 8,104,769**

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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	10.561	\$ 172,425
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 601,547
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 2,137
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	113,408
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	1,620
Child Support Enforcement	93.563	271,434
Refugee and Entrant Assistance - State-Administered Programs	93.566	486
Child Care and Development Block Grant	93.575	3,425
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,068
Foster Care - Title IV-E	93.658	56,677
Social Services Block Grant	93.667	92,282
Children's Health Insurance Program	93.767	43
Medical Assistance Program	93.778	431,500
Total U.S. Department of Health and Human Services		\$ 974,080
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 18,138
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	16,377
Total U.S. Department of Homeland Security		\$ 34,515
Total Federal Awards		\$ 1,782,567

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Chippewa County, it is not intended to and does not present the financial position or changes in net position of Chippewa County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	\$	115,028
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5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

6. American Recovery and Reinvestment Act

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Medical Assistance Program	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1999-001

Internal Accounting Controls

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

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

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

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

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

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Identification of Federal Awards (2011-002) (CFDA No. 97.067)

During our previous audit, we noted that the County did not adequately identify amounts received and expended for federal awards on the Schedule of Expenditures of Federal Awards (SEFA).

Resolution

All expenditures of federal awards in the current year were properly identified and reported on the SEFA.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles - Approval of Supporting Documentation (2011-003) (CFDA Nos. 10.561, 93.563, and 93.778)

Of the 40 expenditures tested in our previous audit, 2 time sheets were not approved by a second person.

Resolution

All time sheets that required supervisor approval were signed by a second person.

Eligibility - Intake Function (2011-004) (CFDA No. 93.778)

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

Resolution

Case file reviews were completed during the current year.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-001

Driver Awareness Class

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

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state’s General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the statute.

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

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

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

In January 2014, a judge in the Minnesota Third Judicial District issued a permanent injunction against a similar driver diversion program operated by another Minnesota county. The judge, like the Minnesota Attorney General, concluded that the driver diversion program was not authorized under Minnesota law. The involved county has discontinued its program and has not appealed the decision.

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

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

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

Client’s Response:

The Chippewa County Sheriff continues to anticipate legislative action to provide a clear directive relative to operation of the Driver Awareness Class. Accordingly, he plans to operate the program until such time as a legislative decision is made.

PREVIOUSLY REPORTED ITEMS RESOLVED

Contracts (2011-007)

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. The County did not have this wording in two of four contracts tested in our previous audit.

Resolution

All contracts tested in 2013 had the required wording included.

IC-134 Withholding Affidavit (2011-008)

Final payment was made on one of two contracts tested in our previous audit without receiving the IC-134 Withholding Affidavit form.

Resolution

All completed contracts tested in 2013 had the required IC-134 Withholding Affidavit form on file.



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

Independent Auditor's Report

Board of County Commissioners
Chippewa County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 16, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 1999-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Chippewa County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 2012-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Chippewa County's Response to Findings

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 16, 2014

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

Independent Auditor's Report

Board of County Commissioners
Chippewa County

Report on Compliance for Each Major Federal Program

We have audited Chippewa County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2013. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chippewa County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chippewa County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Chippewa County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 16, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR