STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

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 150 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 700 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, 2014

Audit Practice Division
Office of the State Auditor
State of Minnesota

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

ORGANIZATION
2014

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	Patrick Bruflat	Indefinite
Data Processing	Ken Menning	Indefinite

*Chair 2014

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County
Montevideo, Minnesota

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, 2014, 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 17, 2015, 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 17, 2015

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(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, 2014. 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, 2014) by $65,855,521 (net position). Of this amount, $9,840,168 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors.

- Chippewa County's total net position increased by $1,110,519. The increase is from additional capital assets.

- As of the close of the 2014 fiscal year, Chippewa County's governmental funds' ending fund balances were $13,315,454 compared to $14,346,287 in 2013. Approximately 23.4 percent of the amount ($3,119,853) 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 $65,855,521 on December 31, 2014.

Capital assets of $51,086,005 (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, 7.5 percent represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position ($9,840,168) may be used to meet the government's ongoing obligations to citizens and creditors.

Net Position

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	$ 16,800,680	$ 16,753,209
Capital assets	51,086,005	50,229,964
Total Assets	$ 67,886,685	$ 66,983,173
Liabilities		
Other liabilities	$ 539,989	$ 733,514
Long-term liabilities	1,491,175	1,504,657
Total Liabilities	$ 2,031,164	$ 2,238,171
Net Position		
Investment in capital assets	$ 51,086,005	$ 50,229,964
Restricted	4,929,348	1,169,511
Unrestricted	9,840,168	13,345,527
Total Net Position	$ 65,855,521	$ 64,745,002

Unrestricted net position at December 31, 2014--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 14.9 percent of the net position.

Governmental Activities

The County's activities increased net position by 1.72 percent ($65,855,521) for 2014 compared to $64,745,002 for 2013. Key elements in this increase in net position are as follows:

Changes in Net Position

	2014	2013
Revenues		
Program revenues		
Charges for services	$ 2,255,054	$ 2,349,451
Operating grants and contributions	6,200,569	5,957,931
Capital grants and contributions	58,453	601,547
General revenues		
Property taxes	8,438,126	8,033,307
Other	1,237,695	1,299,412
Total Revenues	$ 18,189,897	$ 18,241,648
Expenses		
General government	$ 3,460,503	$ 3,777,792
Public safety	2,530,056	2,819,930
Highways and streets	3,978,901	3,470,757
Sanitation	273,583	270,931
Human services	4,802,596	4,860,088
Health	127,508	123,794
Culture and recreation	442,167	384,877
Conservation of natural resources	1,403,700	1,262,516
Economic development	50,388	79,545
Interest	9,976	10,167
Total Expenses	$ 17,079,378	$ 17,060,397
Increase in Net Position	$ 1,110,519	$ 1,181,251
Net Position - January 1	64,745,002	63,563,751
Net Position - December 31	$ 65,855,521	$ 64,745,002

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 $13,315,454, a decrease of $1,030,833, or 7.2 percent, in comparison with the prior year. Of the combined ending fund balances, $9,810,792 represents unrestricted fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, $3,504,662, 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 2014, it had an unrestricted fund balance of $3,119,853. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 40.8 percent of total General Fund expenditures. During 2014, the ending fund balance increased by $68,610. Examples of contributing factors to this increase are planned building improvements to the Courthouse and Community Service Center were completed for less than included in the budget.

The Road and Bridge Special Revenue Fund had an unrestricted fund balance of $3,345,730 at the end of 2014, representing 72.3 percent of its annual expenditures. The ending fund balance decreased by $810,369 during 2014, primarily due to payment of restricted construction funds that were received in 2013 but paid out in 2014 and the grading of County Road 35 and County Road 39, which were paid entirely with County funds.

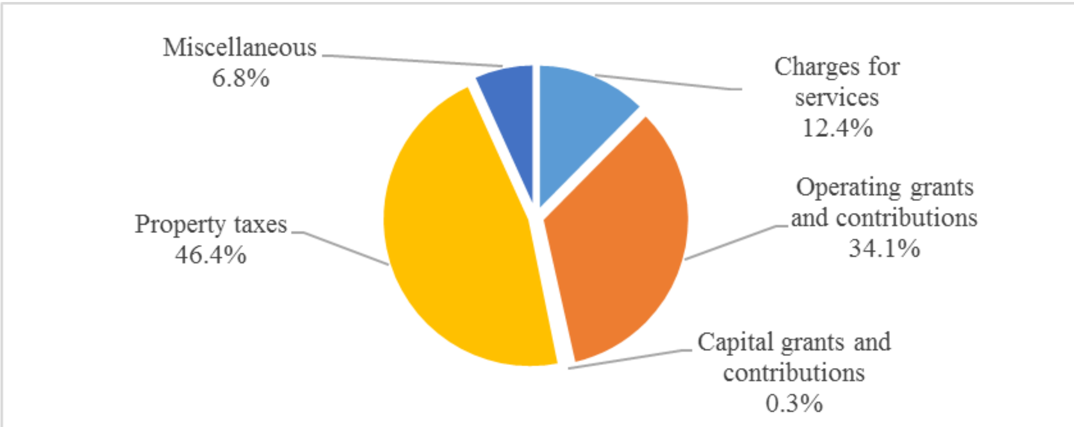
The Family Services Special Revenue Fund had an unrestricted fund balance of $3,345,209 at the end of 2014, representing 68.0 percent of its annual expenditures. The ending fund balance decreased by $75,792 during 2014. The decrease was largely due to unanticipated severance pay for employees leaving the agency, equipment, and security improvements to the Community Service Center.

The Ditch Revenue Special Revenue Fund has a fund balance of $2,479,216 at the end of 2014. The ending fund balance decreased by $213,282 during 2014, the reduction is due to exceedingly wet conditions during the year that resulted in higher than anticipated repair costs.

GOVERNMENTAL ACTIVITIES

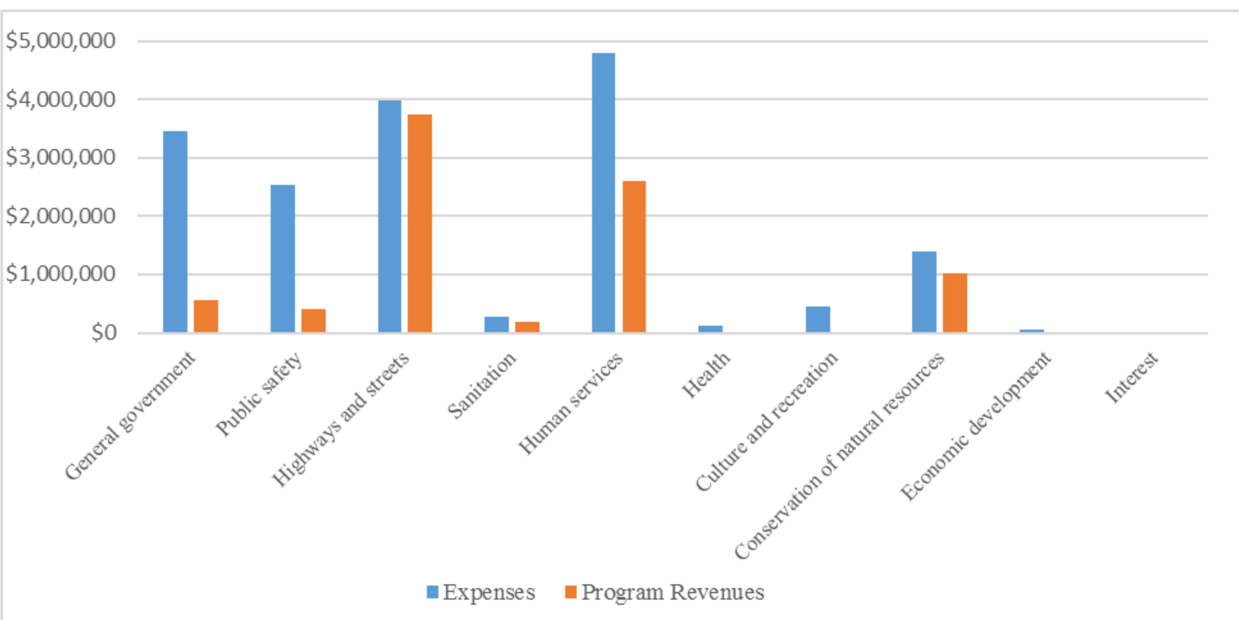
The County's total revenues were $18,189,897. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2014.

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 2014 was $17,079,378. 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 $8,565,302 because some of the cost was paid by those who directly benefited from the programs, $2,255,054, or by other governments and organizations that subsidized certain programs with grants and contributions, $6,259,022. The County paid for the remaining "public benefit" portion of governmental activities with $9,675,821 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

	2014	
	Total Cost of Services	Net Cost of Services
General government	$ 3,460,503	$ (2,893,910)
Public safety	2,530,056	(2,118,765)
Highways and streets	3,978,901	(237,798)
Sanitation	273,583	(85,500)
Human services	4,802,596	(2,211,802)
Health	127,508	(127,508)
Culture and recreation	442,167	(439,839)
Conservation of natural resources	1,403,700	(389,816)
Economic development	50,388	(50,388)
Interest	9,976	(9,976)
Totals	$ 17,079,378	$ (8,565,302)

General Fund Budgetary Highlights

Actual revenues exceeded budgeted revenues by $391,594. 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 $986,086. Several factors affecting over budget variances were:

County Auditor/Treasurer	$ 8,000	Actuarial Valuation (OPEB)
Accounting and Auditing	2,000	Additional Audit Expense
Geographic Information Systems	15,000	Contract Payments
Building and Plant	534,500	Building and Plant
Veterans Service Officer	4,084	Driver Hire and Professional Services
Deputy Registrar - License Bureau	500	Maintenance Contract
Other General Government	20,930	Demolition Expenses, Court-Ordered Payment, Additional Pass-Through Payment
D.A.R.E. Program	500	Miscellaneous Supplies
Coroner	5,200	Professional Services
Jail	60,000	Overtime, Prisoner Board
Emergency Management	13,847	Equipment
Safety Management	1,789	Professional Services
Dispatch	35,500	Maintenance Contracts
Hazardous Waste	10,025	Contract Payments
Recycling	34,028	New Recycling Agreement
Solid Waste	25,000	Contract Payments
Airport	4,747	Capital Expenses and Maintenance
Parks	15,000	Ground Improvements
Agricultural Inspector	416	Additional Supplies
Weed Control	5,415	Equipment Maintenance and Repairs
Water Planning	62,800	In-Kind Contribution
Land and Resource Management	125,000	Septic Loan Repayment
County Farm	805	Other Services
Other Economic Development	1,000	Increased Appropriations

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2014, totaled $51,086,005 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased $856,041, or 1.7 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

	2014	2013
Land and right-of-way	$ 1,692,312	$ 1,692,312
Infrastructure	43,593,388	42,248,281
Buildings	3,418,303	3,043,824
Machinery and equipment	2,207,082	2,264,709
Construction in progress	174,920	980,838
Total	$ 51,086,005	$ 50,229,964

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 bonded 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 2015 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2014 was 3.9 percent. This compares with the state unemployment rate of 3.7 percent and national unemployment rate of 5.6 percent. This shows a moderate decrease from the County’s 4.5 percent rate of one year ago. The economic recovery continues, however, at a very slow rate.

- The 2015 property tax levy for the County increased 4.64 percent ($399,271) from 2014. 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, Community Services Center, and County Office Building); 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, 2014

Assets		
Cash and pooled investments	$	7,979,294
Investments		5,402,469
Receivables		3,249,043
Inventories		155,662
Prepaid items		14,212
Capital assets		
Non-depreciable capital assets		1,867,232
Depreciable capital assets - net of accumulated depreciation		49,218,773
Total Assets	**$**	**67,886,685**
Liabilities		
Accounts payable and other current liabilities	$	354,202
Unearned revenue		7,500
Advance from other governments		178,287
Long-term liabilities		
Due within one year		154,066
Due in more than one year		1,059,355
Other postemployment benefits liability		277,754
Total Liabilities	**$**	**2,031,164**
Net Position		
Investment in capital assets	$	51,086,005
Restricted for		
General government		494,054
Public safety		109,312
Highways and streets		1,631,499
Human services		27,507
Conservation of natural resources		2,666,976
Unrestricted		9,840,168
Total Net Position	**$**	**65,855,521**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Primary government					
Governmental activities					
General government	$ 3,460,503	$ 447,072	$ 119,521	$ -	$ (2,893,910)
Public safety	2,530,056	176,136	235,155	-	(2,118,765)
Highways and streets	3,978,901	301,774	3,380,876	58,453	(237,798)
Sanitation	273,583	188,083	-	-	(85,500)
Human services	4,802,596	375,748	2,215,046	-	(2,211,802)
Health	127,508	-	-	-	(127,508)
Culture and recreation	442,167	328	2,000	-	(439,839)
Conservation of natural resources	1,403,700	765,913	247,971	-	(389,816)
Economic development	50,388	-	-	-	(50,388)
Interest	9,976	-	-	-	(9,976)
Total Governmental Activities	**$ 17,079,378**	**$ 2,255,054**	**$ 6,200,569**	**$ 58,453**	**$ (8,565,302)**
General Revenues					
Property taxes					$ 8,438,126
Mortgage registry and deed tax					6,583
Payments in lieu of tax					116,945
Grants and contributions not restricted to specific programs					786,342
Unrestricted investment income					20,047
Miscellaneous					288,873
Gain on disposal of capital assets					18,905
Total general revenues					**$ 9,675,821**
Change in net position					**$ 1,110,519**
Net Position - Beginning					**64,745,002**
Net Position - Ending					**$ 65,855,521**

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

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, 2014

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Assets					
Cash and pooled investments	$ 3,435,473	$ 447,787	$ 3,575,796	$ 418,490	$ 7,877,546
Undistributed cash in agency funds	58,701	12,407	13,905	1,496	86,509
Petty cash and change funds	2,100	-	100	-	2,200
Departmental cash	13,039	-	-	-	13,039
Investments	500,200	2,902,269	-	2,000,000	5,402,469
Taxes receivable					
Prior	55,514	13,985	25,523	-	95,022
Special assessments receivable					
Prior	27,685	-	-	254	27,939
Noncurrent	371,410	-	-	777,606	1,149,016
Accounts receivable	15,404	2,042	900	-	18,346
Loans receivable	36,939	-	-	-	36,939
Accrued interest receivable	2,731	2,213	-	-	4,944
Due from other governments	59,694	1,675,283	106,087	75,773	1,916,837
Inventories	-	155,662	-	-	155,662
Prepaid items	12,657	1,555	-	-	14,212
Total Assets	**$ 4,591,547**	**$ 5,213,203**	**$ 3,722,311**	**$ 3,273,619**	**$ 16,800,680**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 126,070	$ 23,081	$ 103,754	$ 667	$ 253,572
Salaries payable	17,500	1,165	409	-	19,074
Due to other governments	24,163	149	41,622	15,622	81,556
Unearned revenue	7,500	-	-	-	7,500
Advance from other governments	-	-	178,287	-	178,287
Total Liabilities	**$ 175,233**	**$ 24,395**	**$ 324,072**	**$ 16,289**	**$ 539,989**
Deferred Inflows of Resources					
Unavailable revenue	**$ 455,739**	**$ 1,685,861**	**$ 25,523**	**$ 778,114**	**$ 2,945,237**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 3
(Continued)

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Liabilities, Deferred Inflows of Resources, and Fund Balances (Continued)					
Fund Balances					
Nonspendable					
Prepaid items	$ 12,657	$ 1,555	$ -	$ -	$ 14,212
Loans receivable	36,939	-	-	-	36,939
Inventories	-	155,662	-	-	155,662
Missing heirs	7,163	-	-	-	7,163
Unclaimed property	154	-	-	-	154
Restricted for					
Law library	68,460	-	-	-	68,460
Enhanced 911	100,420	-	-	-	100,420
Sheriff's contingency	4,444	-	-	-	4,444
Recorder's technology fund	233,968	-	-	-	233,968
Recorder's compliance fund	183,301	-	-	-	183,301
Law enforcement - drug task force	4,294	-	-	-	4,294
Prosecutorial purposes	1,162	-	-	-	1,162
Septic/sewer loans	187,760	-	-	-	187,760
Food Stamp Enhancement Bonus	-	-	27,507	-	27,507
Ditch maintenance and repairs	-	-	-	2,479,216	2,479,216
Assigned for					
Road and bridge	-	2,472,700	-	-	2,472,700
Capital land	-	117,376	-	-	117,376
Capital equipment	-	755,654	-	-	755,654
Human services	-	-	2,520,209	-	2,520,209
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	3,119,853	-	-	-	3,119,853
Total Fund Balances	**$ 3,960,575**	**$ 3,502,947**	**$ 3,372,716**	**$ 2,479,216**	**$ 13,315,454**
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	**$ 4,591,547**	**$ 5,213,203**	**$ 3,722,311**	**$ 3,273,619**	**$ 16,800,680**

EXHIBIT 4

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES DECEMBER 31, 2014

Fund balance - total governmental funds (Exhibit 3)		**$ 13,315,454**
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.		51,086,005
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,945,237
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	$ (605,413)	
OPEB liability	(277,754)	
Compensated absences	(608,008)	(1,491,175)
Net Position of Governmental Activities (Exhibit 1)		**$ 65,855,521**

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General	Road and Bridge	Family Services	Ditch Revenue	Total
Revenues					
Taxes	$ 5,176,801	$ 1,183,607	$ 2,100,946	$ 702	$ 8,462,056
Special assessments	198,514	-	-	498,576	697,090
Licenses and permits	9,960	18,000	-	-	27,960
Intergovernmental	1,260,248	2,279,244	2,365,863	-	5,905,355
Charges for services	585,217	67,676	231,200	88,959	973,052
Gifts and contributions	8,842	-	11,102	-	19,944
Investment earnings	10,775	7,711	-	3,508	21,994
Miscellaneous	409,818	237,346	144,548	-	791,712
Total Revenues	**$ 7,660,175**	**$ 3,793,584**	**$ 4,853,659**	**$ 591,745**	**$ 16,899,163**
Expenditures					
Current					
General government	$ 3,651,919	$ -	$ -	$ -	$ 3,651,919
Public safety	2,332,236	-	-	-	2,332,236
Highways and streets	-	4,275,870	-	-	4,275,870
Sanitation	271,677	-	-	-	271,677
Human services	-	-	4,796,245	-	4,796,245
Culture and recreation	442,138	-	-	-	442,138
Conservation of natural resources	501,270	-	-	805,027	1,306,297
Economic development	50,388	-	-	-	50,388
Capital outlay	-	-	5,698	-	5,698
Intergovernmental					
General government	234,142	-	-	-	234,142
Highways and streets	-	354,165	-	-	354,165
Health	-	-	127,508	-	127,508
Conservation of natural resources	71,934	-	-	-	71,934
Debt service					
Principal	83,571	-	-	-	83,571
Interest	9,976	-	-	-	9,976
Total Expenditures	**$ 7,649,251**	**$ 4,630,035**	**$ 4,929,451**	**$ 805,027**	**$ 18,013,764**
Excess of Revenues Over (Under) Expenditures	**$ 10,924**	**$ (836,451)**	**$ (75,792)**	**$ (213,282)**	**$ (1,114,601)**
Other Financing Sources (Uses)					
Loans issued	$ 49,031	$ -	$ -	$ -	$ 49,031
Proceeds from the sale of capital assets	8,655	10,250	-	-	18,905
Total Other Financing Sources (Uses)	**$ 57,686**	**$ 10,250**	**$ -**	**$ -**	**$ 67,936**
Net Change in Fund Balances	**$ 68,610**	**$ (826,201)**	**$ (75,792)**	**$ (213,282)**	**$ (1,046,665)**
Fund Balances - January 1	**3,891,965**	**4,313,316**	**3,448,508**	**2,692,498**	**14,346,287**
Increase (decrease) in inventories	**-**	**15,832**	**-**	**-**	**15,832**
Fund Balances - December 31	**$ 3,960,575**	**$ 3,502,947**	**$ 3,372,716**	**$ 2,479,216**	**$ 13,315,454**

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

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, 2014

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (1,046,665)**
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	$ 2,945,237	
Unavailable revenue - January 1	(1,673,408)	1,271,829
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	$ 2,999,822	
Net book value of disposed assets	(168,042)	
Current year depreciation	(1,975,739)	856,041
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		83,571
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		(49,031)
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	$ 15,832	
Change in OPEB liability	(52,982)	
Change in compensated absences	31,924	(5,226)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 1,110,519**

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, 2014

	Investment Trusts	Agency
Assets		
Cash and pooled investments	$ 1,695,031	$ 737,579
Investments	17,942,104	20,813
Accrued interest	30,926	-
Total Assets	**$ 19,668,061**	**$ 758,392**
Liabilities		
Due to other governments	-	**$ 758,392**
Net Position		
Net position, held in trust	**$ 19,668,061**	

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

		Investment Trusts
Additions		
Contributions from participants	$	42,319,719
Interest		252,659
Total Additions	**$**	**42,572,378**
Deductions		
Distribution to participants		42,595,865
Change in net position	**$**	**(23,487)**
Net Position - Beginning of the Year		**19,691,548**
Net Position - End of the Year	**$**	**19,668,061**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures and Jointly-Governed Organization

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.

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      1. Government-Wide Statements (Continued)

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

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

      2. Fund Financial Statements

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

         The County reports the following major governmental funds:

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

1. Summary of Significant Accounting Policies

   B. Basic Financial Statements

      2. Fund Financial Statements (Continued)

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

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

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

The County has no proprietary funds.

Additionally, the County reports the following fund types:

Fiduciary Funds

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, 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, 2014, 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 2014 were $10,775.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments (Continued)

Chippewa County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission. The investment in the pool is measured at the amortized cost per share provided by the pool, which would closely approximate fair value.

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 prior taxes receivable.

Special assessments receivable consist of prior special assessments payable in the years 2001 through 2014 and noncurrent special assessments payable in 2015 and after.

3. Inventories and Prepaid Items

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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

3. Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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:

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

5. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

1. Summary of Significant Accounting Policies

   D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

      6. 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.

      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, 2014, Chippewa County reported no bonded debt.

      8. 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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

8. Deferred Outflows/Inflows of Resources (Continued)

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.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

9. Classification of Net Position

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

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.

10. 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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. 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 (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 (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.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity (Continued)

11. 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.

12. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

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	$	7,979,294
Investments		5,402,469
Statement of fiduciary net position		
Cash and pooled investments		2,432,610
Investments		17,962,917
Total Cash and Investments	$	33,777,290

Checking	$	2,544,314
Petty cash and change funds		2,200
Departmental cash		13,039
Savings		5,642,062
Money market		8,924,341
Certificates of deposit		13,104,314
Investments		3,547,020
Total Cash and Investments	$	33,777,290

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.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

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

2. Detailed Notes on All Funds

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

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

            (4) bankers' acceptances of United States banks;

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

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

Interest Rate Risk

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

At December 31, 2014, the County had the following investments:

	Fair Value	Less Than 1 Year	1 - 5 Years	5+ Years
U.S. agency securities	$ 3,547,020	$ -	$ 498,850	$ 3,048,170
MAGIC Fund	8,924,341	8,924,341	-	-
Total Investments	$ 12,471,361	$ 8,924,341	$ 498,850	$ 3,048,170

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. The County's exposure to credit risk at December 31, 2014, is as follows:

	Moody Rating	Fair Value
U.S. government agency securities	AAA	$ 3,547,020
MAGIC Fund	N/R	8,924,341
Total		$ 12,471,361

N/R - Not rated

Custodial Credit Risk

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

Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2014, $3,547,020 of Federal Home Loan Bank Bonds and Federal National Mortgage Bonds owned by the County were subject to custodial credit risk.

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2014, by issuer, not including negotiable certificates of deposit:

Issuer	Reported Amount
Federal Home Loan Bank	$ 3,048,170
Federal National Mortgage Association	498,850
MAGIC Fund	8,924,341

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 Securities and Exchange Commission. 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	$ 7,979,294
Held in trust for the Hospital	1,695,031
Total Cash and Pooled Investments	$ 9,674,325

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	$ 95,022	$ -
Special assessments	1,176,955	1,149,016
Accounts	18,346	-
Interest	4,944	-
Loans	36,939	22,815
Due from other governments	1,916,837	-
Total Receivables - Net	$ 3,249,043	$ 1,171,831

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, 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	980,838	136,086	942,004	174,920
Total capital assets not depreciated	$ 2,673,150	$ 136,086	$ 942,004	$ 1,867,232
Capital assets depreciated				
Buildings	$ 10,395,230	$ 598,327	$ -	$ 10,993,557
Machinery and equipment	6,715,925	623,469	457,323	6,882,071
Infrastructure	60,792,009	2,583,944	-	63,375,953
Total capital assets depreciated	$ 77,903,164	$ 3,805,740	$ 457,323	$ 81,251,581

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	$ 7,351,406	$ 223,848	$ -	$ 7,575,254
Machinery and equipment	4,451,216	513,054	289,281	4,674,989
Infrastructure	18,543,728	1,238,837	-	19,782,565
Total accumulated depreciation	$ 30,346,350	$ 1,975,739	$ 289,281	$ 32,032,808
Total capital assets depreciated, net	$ 47,556,814	$ 1,830,001	$ 168,042	$ 49,218,773
Capital Assets, Net	$ 50,229,964	$ 1,966,087	$ 1,110,046	$ 51,086,005

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

General government	$ 161,790
Public safety	280,659
Highways and streets, including depreciation of infrastructure assets	1,462,647
Sanitation	1,848
Human services	19,273
Culture and recreation	18,768
Conservation of natural resources	30,754
Total Depreciation Expense - Governmental Activities	$ 1,975,739

B. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities
Accounts	$ 253,572
Salaries	19,074
Due to other governments	81,556
Total Payables	$ 354,202

2. Detailed Notes on All Funds

B. Liabilities (Continued)

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.

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, 2014
Hawk Creek Continuation Loan (SRF0119)	2016	$ 8,024	2.0	$ 72,398	$ 15,654
Chippewa River Watershed Continuation Loan (SRF0122)	2016	7,521	2.0	67,862	14,674
Hawk Creek Watershed Loan (SRF0158)	2020	27,956	2.0	252,241	144,919
Chippewa River Watershed Loan (SRF0159)	2020	22,889	2.0	206,522	118,652
Chippewa River Continuation Loan (SRF0207)	2021	11,745	2.0	105,970	76,362
Hawk Creek Watershed Continuation Loan (SRF0231)	2023	8,252	2.0	74,451	67,655
Chippewa River Watershed Loan (SRF0232)	2024	13,232	2.0	119,391	119,391
Hawk Creek Watershed Loan (SRF277)	2026	14,408	2.0	260,000	48,106
Total				$ 1,158,835	$ 605,413

2. Detailed Notes on All Funds

B. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	$ 639,953	$ 49,031	$ 83,571	$ 605,413	$ 88,915
Compensated absences	639,932	-	31,924	608,008	65,151
Long-Term Liabilities	$ 1,279,885	$ 49,031	$ 115,495	$ 1,213,421	$ 154,066

5. Debt Service Requirements

Year Ending December 31	Loans Payable Principal	Loans Payable Interest
2015	$ 88,915	$ 10,704
2016	90,702	8,917
2017	76,902	7,171
2018	78,448	5,625
2019	80,025	4,049
2020 - 2024	142,315	5,762
Total	$ 557,307	$ 42,228

Clean water loans (Hawk Creek Watershed) in the amount of $48,106 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, 2014, the outstanding principal amount payable was $34,210,000.

2. Detailed Notes on All Funds (Continued)

C. Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consist of taxes, special assessments, and state grants receivable not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues consist of a state grant received but not yet earned. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below by fund:

	Taxes	Special Assessments	Grants and Highway Allotments	Other	Total
Major governmental funds					
General	$ 55,514	$ 399,095	$ -	$ 8,630	$ 463,239
Special Revenue					
Road and Bridge	13,985	-	1,670,113	1,763	1,685,861
Family Services	25,523	-	-	-	25,523
Ditch Revenue	-	778,114	-	-	778,114
Total	$ 95,022	$ 1,177,209	$ 1,670,113	$ 10,393	$ 2,952,737
Liability					
Unearned revenue	$ -	$ -	$ -	$ 7,500	$ 7,500
Deferred inflows of resources					
Unavailable revenue	95,022	1,177,209	1,670,113	2,893	2,945,237
Total	$ 95,022	$ 1,177,209	$ 1,670,113	$ 10,393	$ 2,952,737

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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description (Continued)

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 five years of credited service.

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.

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.

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 remaining 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 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.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

1. Plan Description (Continued)

For 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.

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 were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

3. Pension Plans and Other Postemployment Benefits

A. Defined Pension Benefit Plans

2. Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2014	2013	2012
General Employees Retirement Fund	$ 294,703	$ 284,469	$ 282,061
Public Employees Police and Fire Fund	102,335	91,117	91,238
Public Employees Correctional Fund	40,776	39,824	39,299

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

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.

3. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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, 2014, were:

	Employee	Employer
Contribution amount	$ 7,999	$ 7,999
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

The contribution requirements of the plan members and the County are established and may be amended by the Chippewa County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were approximately 123 participants in the plan.

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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	$	98,372
Interest on net OPEB obligation		10,115
Adjustment to ARC		(14,113)
Annual OPEB cost (expense)	$	94,374
Contributions made		(41,392)
Increase in net OPEB obligation	$	52,982
Net OPEB Obligation - Beginning of Year		224,772
Net OPEB Obligation - End of Year	$	277,754

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

Fiscal Year Ended		Annual OPEB Cost		Employer Contribution	Percentage Contributed		Net OPEB Obligation
December 31, 2012	$	80,083	$	43,630	54.5%	$	188,908
December 31, 2013		79,368		43,504	54.8		224,772
December 31, 2014		94,374		41,392	43.9		277,754

3. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $774,945 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $774,945. The covered payroll (annual payroll of active employees covered by the plan) was $5,761,635, and the ratio of the UAAL to the covered payroll was 13.5 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.

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, 2014, 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 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years.

3. Pension Plans and Other Postemployment Benefits

   C. Other Postemployment Benefits (OPEB)

      Actuarial Methods and Assumptions (Continued)

      The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, 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.

      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 $480,000 per claim in 2014 and $490,000 per claim in 2015. 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.

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

B. Contingent Liabilities

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

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

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

C. Joint Ventures

Countryside Public Health Service

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

Chippewa County's contribution to the Countryside Public Health Service of $127,508 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.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Region 6W Community Corrections (Continued)

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

Chippewa County's contribution of $234,142 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.

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

Chippewa County-Montevideo Hospital

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

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

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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

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

Financing is provided by charges for services to member and nonmember Counties.

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

Minnesota River Board

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

The management of the Minnesota River 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 no dues in 2014.

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.

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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 $1,146,755 to this organization in 2014.

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

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 2014, 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.

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

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 $239,330 to Pioneerland Library System is shown as an expenditure in the General Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	$ -	$ 692,892	$ 692,892	0.0%	$ 4,902,246	14.13%
January 1, 2011	-	649,979	649,979	0.0	5,309,097	12.24
January 1, 2014	-	774,945	774,945	0.0	5,761,635	13.50

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

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Taxes	$ 5,247,540	$ 5,238,409	$ 5,176,801	$ (61,608)
Special assessments	90,500	90,500	198,514	108,014
Licenses and permits	9,940	9,940	9,960	20
Intergovernmental	854,175	1,071,734	1,260,248	188,514
Charges for services	531,991	531,991	585,217	53,226
Gifts and contributions	-	-	8,842	8,842
Investment earnings	17,502	17,502	10,775	(6,727)
Miscellaneous	308,505	308,505	409,818	101,313
Total Revenues	**$ 7,060,153**	**$ 7,268,581**	**$ 7,660,175**	**$ 391,594**
Expenditures				
Current				
General government				
Commissioners	$ 262,182	$ 262,182	$ 259,852	$ 2,330
Law library	42,600	42,600	19,862	22,738
County auditor/treasurer	457,875	465,875	461,937	3,938
Deputy registrar - license bureau	188,851	189,351	188,522	829
Accounting and auditing	40,000	42,000	50,477	(8,477)
County assessor	278,662	278,662	259,508	19,154
Elections	46,000	46,000	44,068	1,932
Data processing	271,483	271,483	286,384	(14,901)
Central services	86,945	86,945	65,148	21,797
Attorney	438,035	438,035	381,601	56,434
County attorney forfeitures	-	-	22	(22)
Recorder	285,456	285,456	286,115	(659)
Buildings and plant	645,161	1,179,661	1,092,774	86,887
Veterans service officer	159,991	164,075	165,310	(1,235)
Geographic information systems	15,000	30,000	29,162	838
Other general government	143,100	164,030	61,177	102,853
Total general government	**$ 3,361,341**	**$ 3,946,355**	**$ 3,651,919**	**$ 294,436**

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, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,159,398	$ 1,159,398	$ 1,146,703	$ 12,695
Safety management	7,711	9,500	9,324	176
Boat and water safety	2,000	2,000	10,543	(8,543)
D.A.R.E. program	1,500	2,000	2,024	(24)
Coroner	19,800	25,000	28,093	(3,093)
Dispatch	62,150	97,650	110,886	(13,236)
Jail	869,338	929,338	918,474	10,864
Victim witness program	57,268	57,268	55,062	2,206
Emergency management	33,903	47,750	51,127	(3,377)
Total public safety	**$ 2,213,068**	**$ 2,329,904**	**$ 2,332,236**	**$ (2,332)**
Sanitation				
Solid waste	$ 47,400	$ 72,400	$ 77,382	$ (4,982)
Recycling	122,972	157,000	179,511	(22,511)
Hazardous waste	4,500	14,525	14,784	(259)
Total sanitation	**$ 174,872**	**$ 243,925**	**$ 271,677**	**$ (27,752)**
Culture and recreation				
Historical society	$ 30,000	$ 30,000	$ 30,000	$ -
Regional library	301,355	301,355	289,990	11,365
Parks	40,000	55,000	58,735	(3,735)
Fairgrounds	47,000	47,000	46,541	459
Airport	12,125	16,872	16,872	-
Total culture and recreation	**$ 430,480**	**$ 450,227**	**$ 442,138**	**$ 8,089**
Conservation of natural resources				
Extension	$ 99,911	$ 99,911	$ 100,740	$ (829)
Soil and water conservation	72,000	72,000	72,000	-
Agricultural inspector	(480)	(64)	919	(983)
Weed control	66,585	72,000	28,670	43,330
Water planning	12,200	75,000	82,844	(7,844)
Land resource management	194,718	319,718	214,193	105,525
County farm	1,035	1,840	1,904	(64)
Total conservation of natural resources	**$ 445,969**	**$ 640,405**	**$ 501,270**	**$ 139,135**

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, 2014

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures				
Current (Continued)				
Economic development				
Community development	$ -	$ -	$ 18,260	$ (18,260)
Prairie Five	12,000	12,000	7,000	5,000
Other	23,961	24,961	25,128	(167)
Total economic development	**$ 35,961**	**$ 36,961**	**$ 50,388**	**$ (13,427)**
Intergovernmental				
General government	$ 234,179	$ 234,179	$ 234,142	$ 37
Conservation of natural resources	367,713	367,713	71,934	295,779
Total intergovernmental	**$ 601,892**	**$ 601,892**	**$ 306,076**	**$ 295,816**
Debt service				
Principal	$ -	$ -	$ 83,571	$ (83,571)
Interest	-	-	9,976	(9,976)
Total debt service	**$ -**	**$ -**	**$ 93,547**	**$ (93,547)**
Total Expenditures	**$ 7,263,583**	**$ 8,249,669**	**$ 7,649,251**	**$ 600,418**
Excess of Revenues Over (Under) Expenditures	**$ (203,430)**	**$ (981,088)**	**$ 10,924**	**$ 992,012**
Other Financing Sources (Uses)				
Loans issued	$ -	$ -	$ 49,031	$ 49,031
Proceeds from the sale of capital assets	-	-	8,655	8,655
Total Other Financing Sources (Uses)	**$ -**	**$ -**	**$ 57,686**	**$ 57,686**
Net Change in Fund Balance	**$ (203,430)**	**$ (981,088)**	**$ 68,610**	**$ 1,049,698**
Fund Balance - January 1	**3,891,965**	**3,891,965**	**3,891,965**	**-**
Fund Balance - December 31	**$ 3,688,535**	**$ 2,910,877**	**$ 3,960,575**	**$ 1,049,698**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Taxes	$ 1,210,673	$ 1,210,673	$ 1,183,607	$ (27,066)
Licenses and permits	14,500	14,500	18,000	3,500
Intergovernmental	2,354,352	2,354,352	2,279,244	(75,108)
Charges for services	63,000	63,000	67,676	4,676
Investment earnings	20,000	20,000	7,711	(12,289)
Miscellaneous	171,500	171,500	237,346	65,846
Total Revenues	**$ 3,834,025**	**$ 3,834,025**	**$ 3,793,584**	**$ (40,441)**
Expenditures				
Current				
Highways and streets				
Maintenance	$ 1,546,400	$ 1,546,400	$ 1,400,351	$ 146,049
Engineering/construction	1,609,950	2,125,650	2,094,780	30,870
Administration	272,800	272,800	261,901	10,899
Equipment and shop	613,400	613,400	518,838	94,562
Total highways and streets	**$ 4,042,550**	**$ 4,558,250**	**$ 4,275,870**	**$ 282,380**
Intergovernmental				
Highways and streets	356,000	356,000	354,165	1,835
Total Expenditures	**$ 4,398,550**	**$ 4,914,250**	**$ 4,630,035**	**$ 284,215**
Excess of Revenues Over (Under) Expenditures	**$ (564,525)**	**$ (1,080,225)**	**$ (836,451)**	**$ 243,774**
Other Financing Sources (Uses)				
Proceeds from the sale of assets	-	-	10,250	10,250
Net Change in Fund Balance	**$ (564,525)**	**$ (1,080,225)**	**$ (826,201)**	**$ 254,024**
Fund Balance - January 1	**4,313,316**	**4,313,316**	**4,313,316**	**-**
Increase (decrease) in inventories	**-**	**-**	**15,832**	**15,832**
Fund Balance - December 31	**$ 3,748,791**	**$ 3,233,091**	**$ 3,502,947**	**$ 269,856**

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

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,110,874	$ 2,110,874	$ 2,100,946	$ (9,928)
Intergovernmental	3,185,950	3,185,950	2,365,863	(820,087)
Charges for services	255,040	255,040	231,200	(23,840)
Gifts and contributions	4,500	4,500	11,102	6,602
Miscellaneous	84,200	84,200	144,548	60,348
Total Revenues	**$ 5,640,564**	**$ 5,640,564**	**$ 4,853,659**	**$ (786,905)**
Expenditures				
Current				
Human services				
Income maintenance	$ 1,576,577	$ 1,576,577	$ 1,451,302	$ 125,275
Social services	4,274,364	4,274,364	3,344,943	929,421
Total human services	**$ 5,850,941**	**$ 5,850,941**	**$ 4,796,245**	**$ 1,054,696**
Intergovernmental				
Health	126,270	126,270	127,508	(1,238)
Capital outlay				
Human services	-	-	5,698	(5,698)
Total Expenditures	**$ 5,977,211**	**$ 5,977,211**	**$ 4,929,451**	**$ 1,047,760**
Net Change in Fund Balance	**$ (336,647)**	**$ (336,647)**	**$ (75,792)**	**$ 260,855**
Fund Balance - January 1	**3,448,508**	**3,448,508**	**3,448,508**	**-**
Fund Balance - December 31	**$ 3,111,861**	**$ 3,111,861**	**$ 3,372,716**	**$ 260,855**

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, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ -	$ -	$ 702	$ 702
Special assessments	73,000	73,000	498,576	425,576
Charges for services	413,600	413,600	88,959	(324,641)
Investment earnings	3,500	3,500	3,508	8
Total Revenues	**$ 490,100**	**$ 490,100**	**$ 591,745**	**$ 101,645**
Expenditures				
Current				
Conservation of natural resources				
Other	490,100	490,100	805,027	(314,927)
Net Change in Fund Balance	**$ -**	**$ -**	**$ (213,282)**	**$ (213,282)**
Fund Balance - January 1	**2,692,498**	**2,692,498**	**2,692,498**	**-**
Fund Balance - December 31	**$ 2,692,498**	**$ 2,692,498**	**$ 2,479,216**	**$ (213,282)**

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2014

1. General Budget Policies

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

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

Budget Amendment

	Revenues		
Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 7,060,153	$ 208,428	$ 7,268,581

	Expenditures		
Fund	Original Budget	Increase (Decrease)	Final Budget
General Fund	$ 7,263,583	$ 986,086	$ 8,249,669
Road and Bridge Special Revenue Fund	4,398,550	515,700	4,914,250

2. Excess of Expenditures Over Appropriations

Fund	Expenditures	Final Budget	Excess
Ditch Revenue Special Revenue Fund	$ 805,027	$ 490,100	$ 314,927

3. Budget Basis of Accounting

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

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SUPPLEMENTARY INFORMATION

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FIDUCIARY FUNDS

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT B-1

COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
DECEMBER 31, 2014

	Pooled	Investments	Total
Assets			
Cash and pooled investments	$ 1,695,031	$ -	$ 1,695,031
Investments	-	17,942,104	17,942,104
Accrued interest	-	30,926	30,926
Total Assets	**$ 1,695,031**	**$ 17,973,030**	**$ 19,668,061**
Net Position			
Net position, held in trust	**$ 1,695,031**	**$ 17,973,030**	**$ 19,668,061**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT B-2

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Pooled	Investments	Total
Additions			
Contributions from participants	$ 38,006,166	$ 4,313,553	$ 42,319,719
Investment earnings	-	252,659	252,659
Total Additions	**$ 38,006,166**	**$ 4,566,212**	**$ 42,572,378**
Deductions			
Distributions to participants	39,353,865	3,242,000	42,595,865
Change in Net Position	**$ (1,347,699)**	**$ 1,324,212**	**$ (23,487)**
Net Position - Beginning of the Year	**3,042,730**	**16,648,818**	**19,691,548**
Net Position - End of the Year	**$ 1,695,031**	**$ 17,973,030**	**$ 19,668,061**

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT C-1

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Balance January 1	Additions	Deductions	Balance December 31
COMMUNITY CORRECTIONS				
Assets				
Cash and pooled investments	$ 329,819	$ 1,455,833	$ 1,498,459	$ 287,193
Investments	20,708	105	-	20,813
Total Assets	**$ 350,527**	**$ 1,455,938**	**$ 1,498,459**	**$ 308,006**
Liabilities				
Due to other governments	**$ 350,527**	**$ 1,455,938**	**$ 1,498,459**	**$ 308,006**
STATE REVENUE				
Assets				
Cash and pooled investments	**$ 57,178**	**$ 248,528**	**$ 248,501**	**$ 57,205**
Liabilities				
Due to other governments	**$ 57,178**	**$ 248,528**	**$ 248,501**	**$ 57,205**
TAXES AND PENALTIES				
Assets				
Cash and pooled investments	**$ 276,924**	**$ 20,404,570**	**$ 20,449,490**	**$ 232,004**
Liabilities				
Due to other governments	**$ 276,924**	**$ 20,404,570**	**$ 20,449,490**	**$ 232,004**

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, 2014

	Balance January 1	Additions	Deductions	Balance December 31
SOUTHERN PRAIRIE PURCHASING				
Assets				
Cash and pooled investments	$ **59,693**	$ **581,029**	$ **637,991**	$ **2,731**
Liabilities				
Due to other governments	$ **59,693**	$ **581,029**	$ **637,991**	$ **2,731**
MENTAL HEALTH				
Assets				
Cash and pooled investments	**$ 160,748**	**$ 72,006**	**$ 74,308**	**$ 158,446**
Liabilities				
Due to other governments	**$ 160,748**	**$ 72,006**	**$ 74,308**	**$ 158,446**
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 884,362	$ 22,761,966	$ 22,908,749	$ 737,579
Investments	20,708	105	-	20,813
Total Assets	**$ 905,070**	**$ 22,762,071**	**$ 22,908,749**	**$ 758,392**
Liabilities				
Due to other governments	$ **905,070**	$ **22,762,071**	$ **22,908,749**	$ **758,392**

OTHER SCHEDULES

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

EXHIBIT D-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014

Appropriations and Shared Revenue	
State	
Highway users tax	$ 2,141,805
Market value credit	110,832
PERA rate reimbursement	22,735
Disparity reduction aid	67,565
County program aid	523,280
Police aid	64,736
Enhanced 911	84,346
Aquatic invasive species	16,290
Total appropriations and shared revenue	**$ 3,031,589**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 400,425**
Payments	
Local	
Local grants	$ 61,930
Payments in lieu of taxes	116,945
Total payments	**$ 178,875**
Grants	
State	
Minnesota Department/Board of	
Crime Victim Services	$ 42,000
Public Safety	22,667
Transportation	2,061
Natural Resources	34,099
Human Services	612,450
Veterans Affairs	7,500
Revenue	3,529
Water and Soil Resources	61,120
Pollution Control Agency	136,462
Total state	**$ 921,888**

EXHIBIT D-1
(Continued)

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2014

Grants (Continued)		
Federal		
Department of		
Agriculture	$	184,782
Transportation		58,453
Health and Human Services		1,112,519
Homeland Security		16,824
Total federal	**$**	**1,372,578**
Total state and federal grants	**$**	**2,294,466**
Total Intergovernmental Revenue	**$**	**5,905,355**

EXHIBIT D-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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	**$ 184,782**
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	**$ 58,453**
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	$ 1,692
Temporary Assistance for Needy Families	93.558	99,978
Child Support Enforcement	93.563	278,359
Refugee and Entrant Assistance - State-Administered Programs	93.566	777
Child Care and Development Block Grant	93.575	2,296
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,116
Foster Care - Title IV-E	93.658	79,625
Social Services Block Grant	93.667	88,086
Children's Health Insurance Program	93.767	80
Medical Assistance Program	93.778	560,510
Total U.S. Department of Health and Human Services		**$ 1,112,519**
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	**$ 16,824**
Total Federal Awards		**$ 1,372,578**

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. 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. Subrecipients

   During 2014, the County did not pass any federal money to subrecipients.

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Management and Compliance Section

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CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **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 program is:

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? **Yes**

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: During 2014, the County implemented compensating controls in the Recorder's Office, the Sheriff's Office, the Jail Administration Office, and the Land and Resource Management Office to improve segregation of duties. However, the County's payroll process still lacks proper segregation of duties. This process has one staff person who is responsible for setting up new employees, updating the payroll system for pay rate and deduction changes after the changes are approved, entering the timesheets into the payroll system, and verifying time entered into the payroll system is correct.

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

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

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

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

Client's Response:

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

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustment

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

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

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

Effect: An audit adjustment was necessary in the General Fund to decrease special assessments receivable - noncurrent and deferred inflows of resources - unavailable revenue by $849,200 to adjust the accounts to the correct balances.

Cause: An error occurred in the spreadsheet used to calculate the receivable. The error was not caught during the completion of the fund trial balance.

Recommendation: We recommend that the County review its policies and procedures to ensure balances are properly calculated and recorded.

Client's Response:

The Auditor/Treasurer Office staff will conduct a review of the special assessment receivable reports generated by the property tax system and compare for accuracy to the financial system and sign off that the review has been conducted.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2012-001

Driver Awareness Class

Criteria: As stated in Minn. Stat. § 169.022:

> The provisions of [Minn. Stat., ch. 169] shall be applicable and uniform throughout this state and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. 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 penalty provided for in this chapter for the same offense.

In *State v. Hoben*, 89 N.W.2d 813 (1959), the Minnesota Supreme Court recognized in this language a legislative intent "that the application of its provisions should be uniform throughout the state both as to penalties and procedures." The Supreme Court concluded: "It would be a strange anomaly for the legislature to define a crime specify punishment therefore, provide that its application shall be uniform throughout the state, and then permit a municipality to prosecute that crime as a civil offense."

The Minnesota Attorney General's Office stated "[i]n the specific case of traffic offenses, the legislature has plainly preempted the field of enforcement." December 1, 2003, letter to State Representative Steve Smith (citing Minn. Stat. § 169.022, *Hoben*, and other provisions of Minn. Stat., ch. 169). It noted the strong legislative assertion of state preemption in the area of traffic regulation and concluded that local governments were precluded from creating their own enforcement systems.

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 the December 1, 2003, letter to State Representative Steve Smith, 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, by not offering a Driver Awareness Class in lieu of issuance or court filing of a state uniform traffic ticket.

<u>Client's Response</u>:

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

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Chippewa County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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
Montevideo, Minnesota

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, Minnesota, as of and for the year ended December 31, 2014, 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 17, 2015.

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.

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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and an item that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 1999-001 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 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.

Other Matters

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

Chippewa County's 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*

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 2015

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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
Montevideo, Minnesota

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 the County's major federal program for the year ended December 31, 2014. Chippewa County's major federal program is 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 Chippewa County's major federal program 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 the 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 its major federal program for the year ended December 31, 2014.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 17, 2015