

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

For the Year Ended December 31, 2006



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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

ORGANIZATION
2006

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Koenen ¹	January 2008
2nd District	Jeff Lopez	January 2008
3rd District	Donna Halvorson	January 2007
4th District	Jim Dahlvang	January 2008
5th District	Gene Van Binsbergen ²	January 2010
Officers		
Elected		
Attorney	Dwayne Knutsen	January 2007
Auditor/Treasurer	Jon Clauson	January 2007
Coroner	Ron Jones, M.D.	January 2007
County Recorder and Registrar of Titles	Jan Lenning	January 2007
Sheriff	Stacy Tufto	January 2007
Appointed		
Assessor	Carol Schultz	Indefinite
Highway Engineer	Steve Kubista	Indefinite
Probation Officer	Midge Christianson	Indefinite
Veterans Service Officer	Dennis Anderson	Indefinite
Family Services Director	Betty Christensen	Indefinite

¹Chair 2006

²Chair 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which

consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 22, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(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, 2006. 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, 2006) by \$56,415,512 (net assets). Of this amount, \$14,012,942 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net assets increased by \$1,349,264. The increase is a combination of additional capital assets and budget savings from operations.
- As of the close of the 2006 fiscal year, Chippewa County governmental funds ending fund balances were \$13,566,110 compared to \$13,810,029 in 2005. Approximately 40.6 percent of the amount (\$5,509,033) is available for spending at Chippewa County's discretion (unreserved, undesignated fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The budgetary statements referred to earlier in connection with the major governmental funds are presented immediately following the notes to the financial statements. Combining statements can be found on Statements 1 through 3 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chippewa County, assets exceeded liabilities by \$56,415,512 on December 31, 2006.

Capital assets of \$41,994,602 (land; buildings; machinery and equipment; infrastructure; improvements to land; and construction in progress, net of accumulated depreciation) represent the largest portion of net assets (74.44 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Less than one percent of Chippewa County's net assets represent resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14,012,942) may be used to meet the government's ongoing obligations to citizens and creditors.

	Governmental Activities	
	2006	2005
Net Assets		
Assets		
Current and other assets	\$ 16,139,435	\$ 15,907,752
Capital assets	<u>41,994,602</u>	<u>40,289,852</u>
Total Assets	<u>\$ 58,134,037</u>	<u>\$ 56,197,604</u>
Liabilities		
Long-term liabilities	\$ 667,966	\$ 603,358
Other liabilities	<u>1,050,559</u>	<u>527,998</u>
Total Liabilities	<u>\$ 1,718,525</u>	<u>\$ 1,131,356</u>
Net Assets		
Invested in capital assets	\$ 41,994,602	\$ 40,289,852
Restricted	407,968	458,429
Unrestricted	<u>14,012,942</u>	<u>14,317,967</u>
Total Net Assets	<u>\$ 56,415,512</u>	<u>\$ 55,066,248</u>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--is 25 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 2.45 percent (\$56,415,512 for 2006 compared to \$55,066,248 for 2005). Key elements in this increase in net assets are as follows:

Changes in Net Assets		
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	\$ 1,355,717	\$ 1,211,140
Operating grants and contributions	5,447,844	5,236,674
Capital grants and contributions	1,321,928	1,365,299
General revenues		
Property taxes	5,305,620	4,815,793
Other	2,441,473	2,154,834
Total Revenues	<u>\$ 15,872,582</u>	<u>\$ 14,783,740</u>
Expenses		
General government	\$ 2,684,429	\$ 2,517,721
Public safety	1,873,313	1,961,036
Highways and streets	3,573,382	2,882,427
Sanitation	208,853	179,363
Human services	4,134,855	4,024,439
Health	107,463	107,463
Culture and recreation	371,007	336,536
Conservation of natural resources	1,419,203	551,063
Economic development	148,705	36,314
Interest	2,108	2,340
Total Expenses	<u>\$ 14,523,318</u>	<u>\$ 12,598,702</u>
Increase in Net Assets	\$ 1,349,264	\$ 2,185,038
Net Assets - January 1	<u>55,066,248</u>	<u>52,881,210</u>
Net Assets - December 31	<u>\$ 56,415,512</u>	<u>\$ 55,066,248</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Chippewa County's governmental funds reported combined ending fund balances of \$13,566,110, a decrease of \$243,919, or 1.77 percent, in comparison with the prior year. Of the combined ending fund balances, \$13,040,189 represents unreserved fund balance, which is available for spending at the County Board's discretion. The remainder of the fund balance, \$525,921, is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law or grant agreements.

The General Fund is the main operating fund for the County. At the end of 2006, it had an unreserved fund balance of \$3,917,678. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund's unreserved fund balance represents 60.62 percent of total General Fund expenditures. During 2006, the ending fund balance increased by \$188,038. The primary reasons for the increase were higher than anticipated interest revenue, Huber fees, and special assessments.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,334,002 at the end of 2006, representing 63.69 percent of its annual expenditures. The ending fund balance decreased by \$512,366 during 2006, primarily due to money paid for road construction, the construction of a salt shed, a lower tax levy, and higher fuel costs.

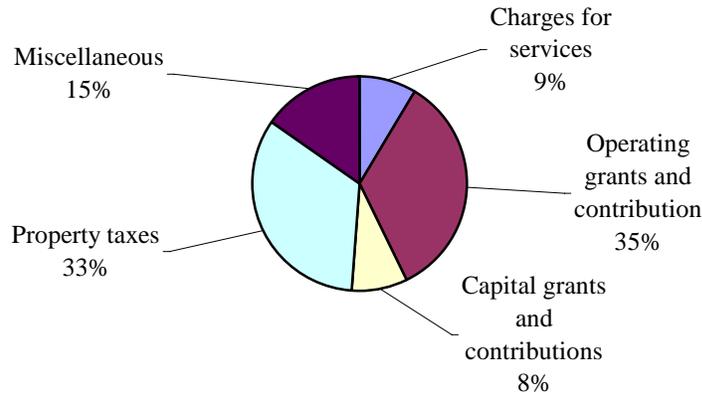
The Family Services Special Revenue Fund had an unreserved fund balance of \$3,005,202 at the end of 2006, representing 70.97 percent of its annual expenditures. The ending fund balance increased by \$139,068 during 2006, primarily due to lower than anticipated cost for out-of-home placements and lower than anticipated mental health costs.

The Ditch Special Revenue Fund has an unreserved fund balance of \$2,783,307 at the end of 2006. The ending fund balance decreased by \$58,659 during 2006, primarily due to the 137 ditch systems needing more maintenance and repair than was anticipated and expenditures for a bridge replacement on Joint County Ditch #7 of Chippewa, Kandiyohi, and Renville Counties.

GOVERNMENTAL ACTIVITIES

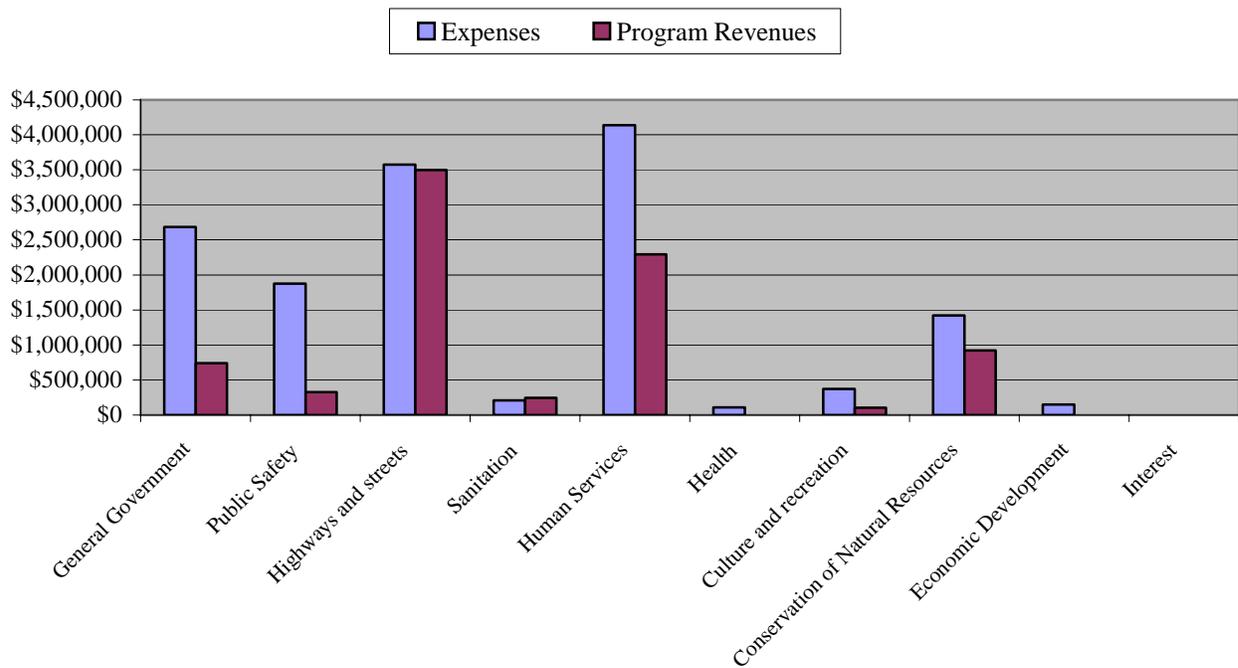
The County's total revenues were \$15,872,582. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2006.

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 2006 was \$14,523,318. However, as shown on the Statement of Activities, Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes was \$5,305,620 because some of the cost was paid by those who directly benefited from the programs (\$1,355,717) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,769,772). The County paid for the remaining “public benefit” portion of governmental activities with \$7,747,093 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as grants and contributions not restricted to specific programs and interest.

Table 3 presents the cost of each of the County’s program functions as well as each function’s net cost (total cost, less revenues generated by the activity). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>
General government	\$ 2,684,429	\$ 1,945,777
Public safety	1,873,313	1,547,580
Highways and streets	3,573,382	75,114
Sanitation	208,853	(35,612)
Human services	4,134,855	1,843,609
Health	107,463	107,463
Culture and recreation	371,007	266,928
Conservation of natural resources	1,419,203	496,157
Economic development	148,705	148,705
Interest	2,108	2,108
Totals	<u>\$ 14,523,318</u>	<u>\$ 6,397,829</u>

General Fund Budgetary Highlights

Over the course of the year, the County Board increased the General Fund budget by \$247,200. The actual charges to appropriations (expenditures) were \$766,986 over the approved budget amounts. Several factors affecting those budget variances were:

- Big Bend Streambank Stabilization Project (\$196,858) reported as current conservation of natural resources expenditures. Chippewa County serves as a pass-through agent for funds raised by local entities to match funds provided by the Army Corps of Engineers. Funds were received and disbursed to the Army Corps of Engineers but were not included in the 2006 budget.

- Chippewa River Watershed Project (\$431,298) reported as intergovernmental conservation of natural resources expenditures. Chippewa County serves as a pass-through agent for grant funds received from the federal government. Funds are turned over to Prairie Country Resource Conservation and Development Council (RC&D) for administration. Prairie Country RC&D provides day to day financial administration and audit oversight. The Prairie Country RC&D Board of Directors conduct onsite inspections of the progress of projects identified in the grant agreements. The receipt and disbursement of grant funds were not reflected in the 2006 budget.
- Cross Country Trailblazers Snowmobile Club (\$9,627). Chippewa County serves as a pass-through agent for grant in aid funds received from the Minnesota Department of Natural Resources. Upon receipt of funds from the State, those funds are disbursed to the Snowmobile Club as a reimbursement for the club's expenses in maintaining the snowmobile trail within the club's designated trail area. The receipt and disbursement of grant funds were not reflected in the 2006 budget.
- Water Planning (\$72,060) reported as current conservation of natural resources expenditures. Several environmental grant programs are received and disbursed through the Water Planning Budget item; the receipt and disbursement of funds were not reflected in the 2006 budget. Examples of grant programs are: Water Quality, 2004 Challenge Grant, 2005 Local Water Plan Management Practices Base Grant, 2005 Shoreland Grant, 2005 Individual Septic Treatment Grant, 2006 Local Water Plan Management Practices Base Grant, and 2006 Wetlands Conservation Act Grant.
- Land and Resource Management (\$77,576) reported as current conservation of natural resources expenditures. Grant funds are received and disbursed through the Land and Resource Management department budget. Examples are the Hawk Creek Septic System Loan program and the Chippewa River Septic Loan program. The receipt and disbursement of funds were not reflected in the 2006 budget.
- Resources available for appropriation were \$1,312,023 above the budgeted amount. The most significant positive variance (\$1,344,121) occurred in intergovernmental revenue. Disparity Reduction Aid and Market Value Aid (\$357,858) were classified as intergovernmental aid as opposed to taxes. Several pass-through state grant program funds were not reflected in either receipt or expenditure budgets (\$403,864); this includes program funds from the Minnesota Department of Natural Resources, Library, and Big Bend Streambank Stabilization Project. There were also federal grants received not reflected in the budget (\$469,532) for the Help America Vote Act and the Chippewa Watershed Project. Additionally, reimbursements for services and payments in lieu of tax were higher than expected (\$103,352). Investment earnings (\$302,604) were significantly higher than anticipated due to improved interest rates over those of 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2006, totaled \$41,994,602 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$1,704,750, or 4.23 percent from the previous year. The major capital asset events were:

Construction of highways and streets	\$	2,693,977
Purchase of highway equipment		369,468

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

	2006	2005
Land and right-of-way	\$ 1,428	\$ 1,428
Infrastructure	36,342	34,578
Buildings	2,372	2,387
Machinery and equipment	1,728	1,798
Construction in progress	124	99
Total	\$ 41,994	\$ 40,290

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

Long-Term Debt

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's officials considered many factors when setting the 2007 budget, tax rates, and fees that will be charged for the year.

- The unemployment rate for Chippewa County at the end of 2006 was 3.8 percent. This compares favorably with the state unemployment rate of 4.0 percent and shows a decrease from the County's 4.1 percent rate of one year ago. This could impact the level of services requested by County residents.

- The County General Fund expenditures for 2007 are budgeted to increase 12.77 percent (\$695,738) over the 2006 original budget. The 2007 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 13.45 percent (\$260,815) over the 2006 original budget.
- The 2007 property tax levy for the County increased 4.96 percent (\$292,850) from 2006. The increase is due to several factors: reductions in state aids and reserve fund use; and increases in courtroom security, civil commitment costs, personal services, other services, and capital outlay.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Assets

Cash and pooled investments	\$ 7,227,345
Investments	6,648,934
Receivables - net	2,078,743
Inventories	176,711
Prepaid items	7,702
Capital assets	
Non-depreciable capital assets	1,551,667
Depreciable capital assets - net of accumulated depreciation	<u>40,442,935</u>
Total Assets	<u>\$ 58,134,037</u>

Liabilities

Accounts payable and other current liabilities	\$ 339,558
Unearned revenue	650,000
Long-term liabilities	
Due within one year	61,001
Due in more than one year	<u>667,966</u>
Total Liabilities	<u>\$ 1,718,525</u>

Net Assets

Invested in capital assets	\$ 41,994,602
Restricted for	
Highways and streets	215,745
Public safety	12,829
Conservation of natural resources	42,467
Human services	23,087
Other purposes	113,840
Unrestricted	<u>14,012,942</u>
Total Net Assets	<u>\$ 56,415,512</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	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
<u>Functions/Programs</u>				
Governmental activities				
General government	\$ 2,684,429	\$ 467,638	\$ 271,014	\$ -
Public safety	1,873,313	130,677	195,056	-
Highways and streets	3,573,382	150,949	2,025,391	1,321,928
Sanitation	208,853	195,188	49,277	-
Human services	4,134,855	189,868	2,101,378	-
Health	107,463	-	-	-
Culture and recreation	371,007	19	104,060	-
Conservation of natural resources	1,419,203	221,378	701,668	-
Economic development	148,705	-	-	-
Interest	2,108	-	-	-
Total Governmental Activities	\$ 14,523,318	\$ 1,355,717	\$ 5,447,844	\$ 1,321,928
 General revenues				
Property taxes				\$ 5,305,620
Mortgage registry and deed tax				7,945
Payments in lieu of tax				115,458
Grants and contributions not restricted to specific programs				1,386,558
Unrestricted investment earnings				663,556
Miscellaneous				267,956
Total general revenues				\$ 7,747,093
Change in net assets				\$ 1,349,264
Net Assets - Beginning				55,066,248
Net Assets - Ending				\$ 56,415,512

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, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
Assets					
Cash and pooled investments	\$ 3,639,143	\$ 355,355	\$ 2,867,236	\$ 288,570	\$ 7,150,304
Undistributed cash in agency funds	38,560	6,916	16,690	175	62,341
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	12,500	-	-	-	12,500
Investments	500,200	3,637,034	11,700	2,500,000	6,648,934
Taxes receivable					
Prior	57,043	14,547	33,214	-	104,804
Special assessments receivable					
Prior	6,634	-	-	-	6,634
Noncurrent	250,361	-	-	740,485	990,846
Accounts receivable	6,906	1,336	7,320	726	16,288
Accrued interest receivable	92,946	52,374	163	708	146,191
Due from other funds	374	817	-	-	1,191
Due from other governments	64,203	366,972	280,543	102,262	813,980
Inventories	-	176,711	-	-	176,711
Prepaid items	7,702	-	-	-	7,702
Total Assets	<u>\$ 4,678,572</u>	<u>\$ 4,612,162</u>	<u>\$ 3,216,966</u>	<u>\$ 3,632,926</u>	<u>\$ 16,140,626</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 99,268	\$ 13,917	\$ 114,588	\$ 1,049	\$ 228,822
Salaries payable	13,124	1,061	5,329	-	19,514
Contracts payable	-	36,427	-	-	36,427
Due to other funds	817	134	-	240	1,191
Due to other governments	13,706	831	35,383	4,875	54,795
Deferred revenue - unavailable	368,462	338,473	33,377	843,455	1,583,767
Deferred revenue - unearned	-	650,000	-	-	650,000
Total Liabilities	\$ 495,377	\$ 1,040,843	\$ 188,677	\$ 849,619	\$ 2,574,516
Fund Balances					
Reserved for					
Encumbrances	\$ 41,314	\$ -	\$ -	\$ -	\$ 41,314
Inventories	-	176,711	-	-	176,711
Prepaid items	7,702	-	-	-	7,702
Missing heirs	6,761	-	-	-	6,761
Recorder's technology fund	52,345	-	-	-	52,345
Recorder's compliance fund	52,149	-	-	-	52,149
Sheriff's contingency	5,796	-	-	-	5,796
Unclaimed property	154	-	-	-	154
Gun permit fees	7,033	-	-	-	7,033
Highway allotments	-	60,606	-	-	60,606
Septic/sewer loans	47,211	-	-	-	47,211
Election equipment grant	2,585	-	-	-	2,585
Unspent grant monies	42,467	-	23,087	-	65,554
Unreserved					
Designated for future expenditures	3,865,684	1,654,100	1,400,000	-	6,919,784
Designated for capital expenditures	-	-	100,000	-	100,000
Designated for out-of-home care	-	-	500,000	-	500,000
Designated for caregiver program	-	-	11,372	-	11,372
Undesignated	51,994	1,679,902	993,830	2,783,307	5,509,033
Total Fund Balances	\$ 4,183,195	\$ 3,571,319	\$ 3,028,289	\$ 2,783,307	\$ 13,566,110
Total Liabilities and Fund Balances	\$ 4,678,572	\$ 4,612,162	\$ 3,216,966	\$ 3,632,926	\$ 16,140,626

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$ 13,566,110
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	41,994,602
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,583,767
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	\$ (430,073)
Loans payable	(298,894)
	<u>(728,967)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 56,415,512</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 2,987,641	\$ 677,305	\$ 1,642,868	\$ -	\$ 5,307,814
Special assessments	131,948	-	-	175,130	307,078
Licenses and permits	18,088	-	-	-	18,088
Intergovernmental	2,182,780	3,720,044	2,512,716	-	8,415,540
Charges for services	610,480	83,709	63,005	-	757,194
Gifts and contributions	20,052	-	27,594	-	47,646
Investment earnings	302,604	154,147	344	118,060	575,155
Miscellaneous	306,619	135,048	126,863	-	568,530
Total Revenues	\$ 6,560,212	\$ 4,770,253	\$ 4,373,390	\$ 293,190	\$ 15,997,045
Expenditures					
Current					
General government	\$ 2,772,808	\$ -	\$ -	\$ -	\$ 2,772,808
Public safety	1,718,539	-	-	-	1,718,539
Highways and streets	-	4,989,663	-	-	4,989,663
Sanitation	206,366	-	-	-	206,366
Human services	-	-	4,126,859	-	4,126,859
Culture and recreation	108,235	-	-	-	108,235
Conservation of natural resources	728,664	-	-	351,849	1,080,513
Economic development	148,705	-	-	-	148,705
Intergovernmental	764,817	245,252	107,463	-	1,117,532
Debt service					
Principal	11,813	-	-	-	11,813
Interest	2,108	-	-	-	2,108
Total Expenditures	\$ 6,462,055	\$ 5,234,915	\$ 4,234,322	\$ 351,849	\$ 16,283,141
Excess of Revenues Over (Under) Expenditures	\$ 98,157	\$ (464,662)	\$ 139,068	\$ (58,659)	\$ (286,096)
Other Financing Sources (Uses)					
Loans issued	89,881	-	-	-	89,881
Net Change in Fund Balances	\$ 188,038	\$ (464,662)	\$ 139,068	\$ (58,659)	\$ (196,215)
Fund Balances - January 1	3,995,157	4,083,685	2,889,221	2,841,966	13,810,029
Increase (decrease) in reserved for inventories	-	(47,704)	-	-	(47,704)
Fund Balances - December 31	\$ 4,183,195	\$ 3,571,319	\$ 3,028,289	\$ 2,783,307	\$ 13,566,110

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (196,215)**

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

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

Deferred revenue - December 31	\$ 1,583,767	
Deferred revenue - January 1	<u>(1,616,846)</u>	(33,079)

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

Expenditures for general capital assets and infrastructure	\$ 3,257,122	
Current year depreciation	<u>(1,552,372)</u>	1,704,750

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

Principal repayments		
Loans payable		11,813

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

Debt issued		
Loans issued		(89,881)

Septic/ISTS loans previously reported in the government-wide statements were adjusted to match audited liability balance.		9,418
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (9,838)	
Change in inventories	<u>(47,704)</u>	<u>(57,542)</u>

Change in net assets of governmental activities (Exhibit 2) **\$ 1,349,264**

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FIDUCIARY FUNDS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 1,689,397	\$ 789,633
Investments	9,749,715	-
Accrued interest receivable	70,596	-
Total Assets	\$ 11,509,708	\$ 789,633
<u>Liabilities</u>		
Due to other governments	-	\$ 789,633
<u>Net Assets</u>		
Net assets held in trust for pool participant	\$ 11,509,708	

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Investment Trust</u>
<u>Additions</u>	
Contributions from participants	\$ 41,181,645
Investment earnings	<u>384,168</u>
Total Additions	\$ 41,565,813
<u>Deductions</u>	
Distributions to participants	<u>42,246,995</u>
Change in Net Assets	\$ (681,182)
Net Assets - Beginning of the Year	<u>12,190,890</u>
Net Assets - End of the Year	<u>\$ 11,509,708</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

The County has no proprietary funds.

Additionally, the County reports the following fund types:

Fiduciary Funds

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, 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 2006 were \$365,210.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles.

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

3. Inventories

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

5. Compensated Absences

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Deferred Revenue

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

7. Long-Term Obligations

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

At December 31, 2006, Chippewa County reports no bonded debt.

8. Fund Equity

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

9. Use of Estimates

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 6,462,055	\$ 5,695,069	\$ 766,986
Ditch	351,849	185,000	166,849

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 7,227,345
Investments	6,648,934
Statement of fiduciary net assets	
Cash and pooled investments	2,479,030
Investments	9,749,715
Total Cash and Investments	\$ 26,105,024

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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 by 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, 2006, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes their 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.

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.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

possession of an outside party. The County's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2006, \$5,262,648 of Federal Home Loan Bank Bonds held by the County were subject to custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's deposit and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Rate Risk Maturity Date	
Investments					
U.S. government agency securities					
Government National Mortgage Association	N/R	N/A	<5%	11/15/2008	\$ 267
Federal Home Loan Bank Bond	AAA	S&P		08/27/2007	\$ 494,375
Federal Home Loan Bank Bond	AAA	S&P		10/29/2007	491,250
Federal Home Loan Bank Bond	AAA	S&P		10/30/2007	630,598
Federal Home Loan Bank Bond	AAA	S&P		11/27/2007	585,598
Federal Home Loan Bank Bond	AAA	S&P		01/23/2008	782,752
Federal Home Loan Bank Bond	AAA	S&P		02/06/2008	820,575
Federal Home Loan Bank Bond	AAA	S&P		08/14/2008	1,957,500
Total Federal Home Loan Bank			23.2%		\$ 5,762,648

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Investment pools/mutual funds					
MAGIC Fund	N/R	N/A	N/A	N/A	\$ 8,640,307
Total investments					\$ 14,403,222
Checking					800,244
Petty cash and change funds					2,200
Departmental cash					12,500
Savings					2,374,958
Certificates of deposit					8,511,900
Total Cash and Investments					<u>\$ 26,105,024</u>

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

S&P – Standard & Poor's

2. Receivables

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 104,804	\$ -
Special assessments	997,480	990,846
Accounts	16,288	-
Interest	146,191	-
Due from other governments	813,980	-
Total Receivables - Net	<u>\$ 2,078,743</u>	<u>\$ 990,846</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 936,647	\$ -	\$ -	\$ 936,647
Right-of-way	491,493	-	-	491,493
Construction in progress	99,095	41,757	17,325	123,527
Total capital assets not depreciated	\$ 1,527,235	\$ 41,757	\$ 17,325	\$ 1,551,667
Capital assets depreciated				
Buildings	\$ 8,390,027	\$ 164,295	\$ 13,653	\$ 8,540,669
Machinery and equipment	4,267,003	374,418	392,607	4,248,814
Infrastructure	44,702,914	2,693,977	-	47,396,891
Total capital assets depreciated	\$ 57,359,944	\$ 3,232,690	\$ 406,260	\$ 60,186,374
Less: accumulated depreciation for				
Buildings	\$ 6,003,440	\$ 178,776	\$ 13,653	\$ 6,168,563
Machinery and equipment	2,469,459	443,479	392,607	2,520,331
Infrastructure	10,124,428	930,117	-	11,054,545
Total accumulated depreciation	\$ 18,597,327	\$ 1,552,372	\$ 406,260	\$ 19,743,439
Total capital assets depreciated, net	\$ 38,762,617	\$ 1,680,318	\$ -	\$ 40,442,935
Capital Assets, Net	\$ 40,289,852	\$ 1,722,075	\$ 17,325	\$ 41,994,602

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

General government	\$ 145,778
Public safety	104,778
Highways and streets, including depreciation of infrastructure assets	1,235,441
Sanitation	1,848
Human services	34,934
Culture and recreation	23,333
Conservation of natural resources	6,260
Total Depreciation Expense - Governmental Activities	\$ 1,552,372

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Ditch	\$ 134 240
Total General Fund		\$ 374
Road and Bridge	General	817
Total Due To/From Other Funds		\$ 1,191

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

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities
Accounts	\$ 228,822
Salaries	19,514
Contracts	36,427
Due to other governments	54,795
Total Payables	\$ 339,558

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Construction and Other Significant Commitments

The government has active construction projects as of December 31, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Vehicle purchases	\$ -	\$ 41,314
Roads and bridges	692,105	187,545

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, 2006
Hawk Creek Loan	2014	\$ 13,921	2%	\$ 125,605	\$ 96,507
Hawk Creek Continuation Loan	2016	8,024	2%	72,399	72,399
Chippewa River Watershed Continuation Loan	2016	7,521	2%	67,862	67,862
Chippewa Watershed Loan	-	-	-	62,126	62,126
Total				\$ 327,992	\$ 298,894

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 230,244	\$ 89,881	\$ 21,231	\$ 298,894	\$ 24,854
Compensated absences	420,235	9,838	-	430,073	36,147
Long-Term Liabilities	<u>\$ 650,479</u>	<u>\$ 99,719</u>	<u>\$ 21,231</u>	<u>\$ 728,967</u>	<u>\$ 61,001</u>

5. Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 24,854	\$ 4,612
2008	25,354	4,112
2009	25,864	3,602
2010	26,383	3,083
2011	26,914	2,552
2012 - 2016	107,399	5,129
Total	<u>\$ 236,768</u>	<u>\$ 23,090</u>

Clean water loans in the amount of \$62,126 are not included in the debt service requirements because a fixed repayment schedule is not available.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description

All full-time and certain part-time employees of Chippewa County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and 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.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

2. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 204,889	\$ 51,951	\$ 24,302
2005	186,155	40,812	24,799
2004	180,345	39,805	25,377

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$6,176, \$6,183, and \$5,830, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Subsequent Event

Conduit Debt

On August 1, 2007, Chippewa County issued Gross Revenue Hospital Bonds, Series 2007, in the amount of \$36,565,000 for the Chippewa County-Montevideo Hospital, a joint powers board formed by Chippewa County and the City of Montevideo, to finance the acquisition, construction and equipping of a new hospital. These bonds are not direct or contingent liabilities of the County. Revenues from the facilities constructed with bond proceeds are pledged for the total payment of principal and interest on the bonds.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risks, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

C. Contingent Liabilities

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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

D. Joint Ventures

Countryside Public Health Service

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

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

Region 6W Community Corrections

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

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

Chippewa County's contribution of \$94,080 to Region 6W Community Corrections is shown as an intergovernmental expenditure in the General Fund. Complete financial statements of Region 6W Community Corrections can be obtained at 1215 Black Oak Avenue, P. O. Box 551, Montevideo, Minnesota 56265.

Montevideo-Chippewa Airport Commission

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Montevideo-Chippewa Airport Commission (Continued)

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

Chippewa County-Montevideo Hospital

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

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

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

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

Control of the PLYP is vested in a joint board, which is composed of one County Commissioner from each participating county. An advisory board has also been established, which is composed of the directors of the Kandiyohi County Community Corrections Agency and the Region 6W Community Corrections Agency, and the directors of the family services or human services departments of the counties participating in the agreement. The PLYP is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

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

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

Southwestern Minnesota Adult Mental Health Consortium Board

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

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.

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2005:

Total assets	\$ 1,148,132
Total liabilities	497,546
Total equity	650,586
Total revenues	1,960,287
Total expenditures	1,671,076
Net increase to fund balance	289,211

The Board reported no long-term obligations at December 31, 2005.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. 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.

E. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. The County made no contributions to the Project in 2006.

Minnesota River Board

The Minnesota River Board promotes orderly water quality improvements and management of the Minnesota River watersheds. The County made no contributions to the Board in 2006.

Western Plains Library System

Chippewa County, along with several cities and other counties, participates in the Western Plains Library System in order to provide efficient and improved regional public library service. The financial activities of the Western Plains Library System are reported as part of the Pioneerland Regional Library System, and financial information for the Western Plains Library System is not available.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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

F. Agriculture Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,308,864	\$ 3,308,864	\$ 2,987,641	\$ (321,223)
Special assessments	85,050	85,050	131,948	46,898
Licenses and permits	7,625	7,625	18,088	10,463
Intergovernmental	838,659	838,659	2,182,780	1,344,121
Charges for services	514,952	514,952	610,480	95,528
Gifts and contributions	12,500	12,500	20,052	7,552
Investment earnings	150,000	150,000	302,604	152,604
Miscellaneous	330,539	330,539	306,619	(23,920)
Total Revenues	\$ 5,248,189	\$ 5,248,189	\$ 6,560,212	\$ 1,312,023
Expenditures				
Current				
General government				
Commissioners	\$ 213,063	\$ 218,708	\$ 204,864	\$ 13,844
Law library	44,100	62,600	60,342	2,258
Auditor/treasurer	350,598	362,354	348,050	14,304
License center	123,558	126,921	127,061	(140)
Assessor	223,338	239,298	238,026	1,272
Elections	215,831	215,831	206,489	9,342
Accounting and auditing	30,000	51,000	32,397	18,603
Data processing	239,812	242,034	229,348	12,686
Central services	36,000	46,700	41,034	5,666
Attorney	278,779	278,779	251,332	27,447
Recorder	218,449	222,953	219,083	3,870
Geographic information systems	1,000	12,000	11,614	386
Buildings and plant	425,746	430,280	434,485	(4,205)
Veterans service officer	142,369	144,591	130,984	13,607
County car	2,160	3,160	3,077	83
Cafeteria	17,800	18,300	18,173	127
Other general government	104,155	64,555	216,449	(151,894)
Total general government	\$ 2,666,758	\$ 2,740,064	\$ 2,772,808	\$ (32,744)
Public safety				
Sheriff	\$ 791,694	\$ 800,762	\$ 793,282	\$ 7,480
Boat and water safety	1,276	1,676	1,589	87
Dispatch	204,352	209,386	166,873	42,513
Safety management	6,500	6,500	6,434	66
Victim witness program	45,160	45,160	47,564	(2,404)
Coroner	9,000	11,500	11,350	150
Jail	643,206	649,372	675,838	(26,466)
DARE program	2,650	2,650	1,250	1,400
Civil defense	13,732	13,732	14,359	(627)
Total public safety	\$ 1,717,570	\$ 1,740,738	\$ 1,718,539	\$ 22,199

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 54,000	\$ 56,000	\$ 50,355	\$ 5,645
Recycling	123,320	153,320	153,192	128
Hazardous waste	3,000	3,000	2,819	181
Total sanitation	\$ 180,320	\$ 212,320	\$ 206,366	\$ 5,954
Health				
Ambulance	\$ 5,000	\$ 5,000	-	\$ 5,000
Culture and recreation				
Historical society	\$ 20,250	\$ 20,250	\$ 20,250	\$ -
Fairgrounds	18,000	18,000	18,000	-
Airport	20,000	20,000	18,228	1,772
Parks	8,000	8,000	5,356	2,644
Regional library	38,096	38,096	45,551	(7,455)
Other	850	850	850	-
Total culture and recreation	\$ 105,196	\$ 105,196	\$ 108,235	\$ (3,039)
Conservation of natural resources				
Extension	\$ 81,808	\$ 84,419	\$ 86,777	\$ (2,358)
Soil and water conservation	64,000	64,000	64,000	-
Agricultural inspection	-	6,641	-	6,641
Weed control	57,009	58,120	54,063	4,057
County farm	5,300	10,300	9,247	1,053
Water planning	9,450	9,450	81,510	(72,060)
Big Bend project	-	-	196,858	(196,858)
Land resource management	154,183	157,546	235,122	(77,576)
Other	2,050	2,050	1,087	963
Total conservation of natural resources	\$ 373,800	\$ 392,526	\$ 728,664	\$ (336,138)
Economic development				
Community development	\$ 35,000	\$ 35,000	\$ 20,935	\$ 14,065
Prairie Five	6,000	6,000	3,249	2,751
Ethanol plant appropriation	-	100,000	100,000	-
Other	24,705	24,705	24,521	184
Total economic development	\$ 65,705	\$ 165,705	\$ 148,705	\$ 17,000
Intergovernmental				
Public safety	\$ 94,081	\$ 94,081	\$ 94,080	\$ 1
Culture and recreation	\$ 239,439	\$ 239,439	\$ 239,439	\$ -

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Intergovernmental (Continued)				
Conservation of natural resources	\$ -	\$ -	\$ 431,298	\$ (431,298)
Debt service				
Principal	\$ -	\$ -	\$ 11,813	\$ (11,813)
Interest	\$ -	\$ -	\$ 2,108	\$ (2,108)
Total Expenditures	\$ 5,447,869	\$ 5,695,069	\$ 6,462,055	\$ (766,986)
Excess of Revenues Over (Under) Expenditures	\$ (199,680)	\$ (446,880)	\$ 98,157	\$ 545,037
Other Financing Sources (Uses)				
Loans issued	-	-	89,881	89,881
Net Change in Fund Balance	\$ (199,680)	\$ (446,880)	\$ 188,038	\$ 634,918
Fund Balance - January 1	3,995,157	3,995,157	3,995,157	-
Fund Balance - December 31	\$ 3,795,477	\$ 3,548,277	\$ 4,183,195	\$ 634,918

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 758,542	\$ 758,542	\$ 677,305	\$ (81,237)
Intergovernmental	3,378,558	4,395,958	3,720,044	(675,914)
Charges for services	-	-	83,709	83,709
Investment earnings	75,000	75,000	154,147	79,147
Miscellaneous	175,000	300,000	135,048	(164,952)
Total Revenues	\$ 4,387,100	\$ 5,529,500	\$ 4,770,253	\$ (759,247)
Expenditures				
Current				
Highways and streets				
Administration	\$ 237,181	\$ 237,181	\$ 184,795	\$ 52,386
Maintenance	1,154,047	1,289,047	919,265	369,782
Construction	2,503,501	3,853,501	3,514,962	338,539
Equipment and maintenance shops	323,371	392,371	370,641	21,730
Total highways and streets	\$ 4,218,100	\$ 5,772,100	\$ 4,989,663	\$ 782,437
Intergovernmental	250,000	250,000	245,252	4,748
Total Expenditures	\$ 4,468,100	\$ 6,022,100	\$ 5,234,915	\$ 787,185
Net Change in Fund Balance	\$ (81,000)	\$ (492,600)	\$ (464,662)	\$ 27,938
Fund Balance - January 1	4,083,685	4,083,685	4,083,685	-
Increase (decrease) in reserved for inventories	-	-	(47,704)	(47,704)
Fund Balance - December 31	\$ 4,002,685	\$ 3,591,085	\$ 3,571,319	\$ (19,766)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,841,396	\$ 1,841,396	\$ 1,642,868	\$ (198,528)
Intergovernmental	2,311,986	2,311,986	2,512,716	200,730
Charges for services	65,062	65,062	63,005	(2,057)
Gifts and contributions	8,000	8,000	27,594	19,594
Investment earnings	100	100	344	244
Miscellaneous	105,100	105,100	126,863	21,763
Total Revenues	\$ 4,331,644	\$ 4,331,644	\$ 4,373,390	\$ 41,746
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,166,357	\$ 1,166,357	\$ 1,119,081	\$ 47,276
Social services	3,201,855	3,201,855	3,007,778	194,077
Total human services	\$ 4,368,212	\$ 4,368,212	\$ 4,126,859	\$ 241,353
Intergovernmental				
Health	107,463	107,463	107,463	-
Total Expenditures	\$ 4,475,675	\$ 4,475,675	\$ 4,234,322	\$ 241,353
Net Change in Fund Balance	\$ (144,031)	\$ (144,031)	\$ 139,068	\$ 283,099
Fund Balance - January 1	2,889,221	2,889,221	2,889,221	-
Fund Balance - December 31	\$ 2,745,190	\$ 2,745,190	\$ 3,028,289	\$ 283,099

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 150,000	\$ 150,000	\$ 175,130	\$ 25,130
Investment earnings	35,000	35,000	118,060	83,060
Total Revenues	\$ 185,000	\$ 185,000	\$ 293,190	\$ 108,190
Expenditures				
Current				
Conservation of natural resources				
Other	185,000	185,000	351,849	(166,849)
Net Change in Fund Balance	\$ -	\$ -	\$ (58,659)	\$ (58,659)
Fund Balance - January 1	2,841,966	2,841,966	2,841,966	-
Fund Balance - December 31	\$ 2,841,966	\$ 2,841,966	\$ 2,783,307	\$ (58,659)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and the special revenue funds. The expenditure budget is approved at the fund level.

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

Budget Amendment

Fund	Original Budget	Increase (Decrease)	Final Budget
Road and Bridge	\$ 4,468,100	\$ 1,554,000	\$ 6,022,100

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

Fund	Expenditures	Final Budget	Excess
General	\$ 6,462,055	\$ 5,695,069	\$ 766,986
Ditch	351,849	185,000	166,849

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SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

FIDUCIARY FUNDS

Investment Trust Funds

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

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

Agency Funds

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

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

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

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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
DECEMBER 31, 2006**

	Pooled	Investments	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 435,421	\$ 1,253,976	\$ 1,689,397
Investments	-	9,749,715	9,749,715
Accrued interest receivable	4,858	65,738	70,596
Total Assets	\$ 440,279	\$ 11,069,429	\$ 11,509,708
<u>Net Assets</u>			
Net assets held in trust for pool participant	\$ 440,279	\$ 11,069,429	\$ 11,509,708

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Pooled	Investments	Total
<u>Additions</u>			
Contributions from participants	\$ 30,944,242	\$ 10,237,403	\$ 41,181,645
Investment earnings	60,140	324,028	384,168
Total Additions	\$ 31,004,382	\$ 10,561,431	\$ 41,565,813
<u>Deductions</u>			
Distributions to participants	31,604,049	10,642,946	42,246,995
Change in Net Assets	\$ (599,667)	\$ (81,515)	\$ (681,182)
Net Assets--Beginning of the Year	1,039,946	11,150,944	12,190,890
Net Assets--End of the Year	\$ 440,279	\$ 11,069,429	\$ 11,509,708

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 223,436	\$ 1,016,105	\$ 1,039,444	\$ 200,097
<u>Liabilities</u>				
Due to other governments	\$ 223,436	\$ 1,016,105	\$ 1,039,444	\$ 200,097
 <u>MENTAL HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 428,470	\$ 263,084	\$ 259,461	\$ 432,093
<u>Liabilities</u>				
Due to other governments	\$ 428,470	\$ 263,084	\$ 259,461	\$ 432,093
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 41,055	\$ 306,289	\$ 306,160	\$ 41,184
<u>Liabilities</u>				
Due to other governments	\$ 41,055	\$ 306,289	\$ 306,160	\$ 41,184

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 130,743	\$ 12,926,870	\$ 12,941,354	\$ 116,259
<u>Liabilities</u>				
Due to other governments	\$ 130,743	\$ 12,926,870	\$ 12,941,354	\$ 116,259
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 823,704	\$ 14,512,348	\$ 14,546,419	\$ 789,633
<u>Liabilities</u>				
Due to other governments	\$ 823,704	\$ 14,512,348	\$ 14,546,419	\$ 789,633

OTHER SCHEDULE

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Shared Revenue

State

Highway users tax	\$	3,537,342
County program aid		724,160
PERA rate reimbursement		22,736
Disparity reduction aid		98,926
Police aid		40,812
Enhanced 911		86,420
Market value credit		540,736
		540,736

Total Shared Revenue **\$ 5,051,132**

Reimbursement for Services

Minnesota Department of Human Services	\$	980,880
		980,880

Payments

Payments in lieu of taxes	\$	115,458
Local grants		193,430
		193,430

Total Payments **\$ 308,888**

Grants

State

Minnesota Department of		
Human Services	\$	769,340
Natural Resources		105,253
Public Safety		35,173
Water and Soil Resources Board		109,770
Peace Officer Standards and Training Board		2,532
Pollution Control Agency		176,592
		176,592

Total State **\$ 1,198,660**

Federal

Department of		
Agriculture	\$	3,835
Justice		1,916
Transportation		19,111
Health and Human Services		348,713
Homeland Security		12,620
Environmental Protection Agency		303,785
Election Assistance Commission		186,000
		186,000

Total Federal **\$ 875,980**

Total State and Federal Grants **\$ 2,074,640**

Total Intergovernmental Revenue **\$ 8,415,540**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Chippewa County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Chippewa County and are reported in the "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*." We consider some of the deficiencies to be material weaknesses.
- C. No instances of noncompliance material to the financial statements of Chippewa County were disclosed during the audit.
- D. A matter involving internal controls over compliance relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The matter is not a material deficiency.
- E. The Auditor's Report on Compliance for the major federal award programs for Chippewa County expresses an unqualified opinion.
- F. A finding was disclosed that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Non-Point Source Management	CFDA #66.460
Help America Vote Act Requirement Payments	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Chippewa County was determined not to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

99-1 Internal Accounting Controls

Due to the limited number of office personnel within the various County offices and departments, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. We also noted that the payroll clerk function in the Auditor/Treasurer's Office does not have sufficient segregation of duties.

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. The following duties should be segregated if possible:

- Someone independent of the cash collection and receipting function and the cash disbursement function should prepare bank reconciliations. If this is not possible, someone independent of these functions should review the bank reconciliations.
- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.
- Individuals who process vouchers for payments should not also:
 - print or sign checks, or
 - make journal entries.

The County does not segregate the duties of the payroll function. The payroll clerk makes changes and updates the payroll master file, prepares the payroll, and generates the payroll reports and checks with little oversight or review.

We recommend that County management segregate these duties within the accounting functions as much as possible by limiting access to accounting programs commensurate to the employees' duties and job responsibilities. If it is not possible to segregate these duties, County management should be aware of this lack of segregation of duties and implement oversight procedures to ensure the integrity and reliability of the financial information in the accounting system.

Client's Response:

The County is cognizant that due to limited staffing levels, sufficient levels of segregation of duties do not exist for all accounting functions.

00-4 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detail estimated revenue source by fund and the budgeted expenditure by fund, function, and departments are not always clearly documented. In addition, the Board has not developed and adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved budgets did not agree with the recorded budget in the County's general ledger. There are no controls in place to ensure that the County Summary Budget Statement agrees with the accounting system, and Board minutes do not contain complete fund budget information. The General Fund budget was materially misstated by \$446,880 because the County recorded the use of reserves as new revenues. Audit adjustments were required to the budget in order to present the budget in the annual financial statements.

We recommend the County Board adopt and record in their minutes fund budgets by major revenue source and estimated expenditures by function and department for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger. In addition, we also recommend that the County Board develop and adopt budget policy and procedures to include the following elements:

- which funds require budgets,
- the legal level of budgetary control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- procedures for monitoring the budget.

Client's Response:

General Fund use of reserves has been reported in the budgeting process for a significant number of years without comment. The County will implement changes in reporting reserve use beginning with the 2008 budget. A summary budget will be listed in the County Board minutes as part of the final tax levy approval in December. As soon as practicable the County Board will adopt a budget policy and procedures document.

05-1 Travel Expenditure Reimbursements

The County travel policy states that the County will reimburse its representatives and employees for ordinary and necessary expenses incurred while attending to official County business. While testing expenditures, we noted some reimbursed exceptions, indicating a lack of itemization and verification of travel expenditures.

- Meals are charged to hotel bills, thereby allowing claims without verification to bypass the travel reimbursement system.
- One voucher for travel to NACO did not have all supporting documentation present. A meal for \$14.50 was reimbursed without documentation.
- On a hotel bill from Chicago, there was \$31.10 of restaurant charges for which there were no receipts.

It appears that the current travel policy of the County is not functioning in a manner consistent with Minn. Stat. § 471.41, which states that, “Every member of such board who shall audit and allow any claim required to be itemized, without the same having been first duly itemized and verified, shall be guilty of a gross misdemeanor.”

We recommend that the County follow Minn. Stat. §§ 471.38 and 471.41 and allow to be paid only claims that have the proper itemization, supporting documentation attached, and have been properly audited and verified by the officer authorized by law to audit and allow claims to be paid.

Client’s Response:

The County will consider policy changes to comply with Minn. Stat. §§ 471.38 and 471.41.

ITEMS ARISING THIS YEAR

06-1 Adding New Vendors to the Accounting System

The County does not have any procedures for determining how new vendors are added to the accounts payable system or if the new vendors added are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. In addition, periodically a report called “Vendors Added List by Number” should be printed and reviewed by someone independent of the accounts payable system. That person should document the review by signing off on the report.

Also, when invoices are submitted for vendors that have not previously done business with the County, some procedures should be required to verify whether the vendor is legitimate. Procedures could include looking up the vendor in the phone book or on the internet or requiring the company to send information about their business. Periodically, the vendor listing should be reviewed for old, unused vendors, and those vendors should be removed from the system.

Client’s Response:

The vendor list is purged periodically. The supervisor/employee responsible for the submission of the voucher for payment is responsible for determining that the vendor is legitimate and that the delivery of goods or services contained in that voucher are actually delivered.

06-2 Controls Over the Accounting System Journal Entry Function

The County limits access to the accounting system journal entry function to select County employees. Five employees in the County have access to this function. The journal entries made to the accounting system are not reviewed or approved by anyone.

The ability to make journal entries on the accounting system is a powerful function because it allows those employees to make changes to the system. To prevent abuse of this function, access should be limited to those employees whose job duties require them to have this access.

We recommend the County strengthen the controls over the journal entries by reevaluating who has access to the journal entry function and determine whether there is a logical need for those employees to have access to this function. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This person should obtain an understanding of the journal entry and its purpose before approval. The approval could be documented by signature on a journal entry form or a printed copy of the journal entry could be made. Supporting documentation or sufficient explanation should be attached to or included on the journal entry form to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner that allows for their review should questions arise. A report should be generated from the accounting system that lists all journal entries made. The person charged with review and approval of journal entries should periodically review this report. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

The County will reevaluate employees having authorization to complete journal entries and will implement procedures to review journal entries made during the month.

06-3 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the County is required to keep records of its capital assets, including infrastructure. The County maintains its capital asset records on a separate spreadsheet system. Capital asset additions and deletions are entered in to this system, and depreciation is calculated by the system. Capital asset

policies utilized by the County in maintaining the capital asset system have not been formally approved. A capital assets policy should be adopted that defines the County's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

It is not clear how the costs of replaced infrastructure assets are being deleted, if at all. The County is carrying a significant amount of fully depreciated assets. Typically, a capital asset still in use should not be considered fully depreciated. For significant assets, the estimated useful lives assigned to capital assets should be reconsidered. At the time of re-determination, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

We recommend the County Board establish a capital assets policy to define the County's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered.

Department heads should report capital asset additions and deletions to the person maintaining the capital asset records at least annually. Also, we recommend a physical inventory of capital assets be performed periodically. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Each asset should be counted at least once every four years. Some critical capital assets may need more frequent accounting.

Client's Response:

The County will consider modifications to the capital asset policy to account for capital assets that have reached the end of their scheduled useful lives but remain in use.

06-4 Computer System Controls

Risk management begins with a risk assessment of the County's computer system to identify those risks that could negatively influence computer operations. Internal controls should be implemented to reduce the identified risks. Internal controls implemented should be documented in a well-maintained policies and procedures manual, which should be communicated to the County's staff. Staff's adherence to these policies and procedures should be monitored.

Proper controls should be maintained over the computer system to allow for proper financial reporting. The County does not maintain error logs, segregate duties over the control of the computer system, require strong passwords, or update its disaster recovery plan. The County also does not have a limit on the number of devices signed onto or a limit on security officer device access.

We recommend the County take steps to improve the control over its computer systems by reviewing and maintaining error logs, segregating the duties of the information technology staff, requiring passwords that are longer and include more randomized characters, and updating its disaster recovery plan.

We also recommend the County Board develop a plan to ensure that internal controls are in place to reduce the risk associated with the County's computer systems. Because computer systems are ever changing, the County should include in its plan periodic reassessment of risk to ensure existing internal controls are still effective.

Client's Response:

Information technology staff is comprised of two employees. In order to provide uninterrupted service for all departments during leaves (sick, vacation) both employees are assigned full access to the I-Series and personal computer network. The disaster recovery plan was reviewed and tested in October 2006 and found to be adequate. The format for passwords was changed on August 10, 2007, making them more restrictive pursuant to State Auditor's Office recommendations. Logs containing information on software updates, errors, and file restorations, etc. have been implemented as of September 15, 2007.

06-5 Accounting Policies and Procedures Manual

The County does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this documentation is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the County's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the County's internal control system and can help to avoid circumvention of County policies.

We recommend the County establish an accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the County Board to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support for controls.

Client's Response:

The County will draft and seek County Board approval as soon as practicable.

06-6 Financial Reporting

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

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

Schedule 6
(Continued)

The County's accounting system has been upgraded to accommodate the modified accrual and the full accrual bases of accounting in separate general ledger systems to allow for the preparation of the annual financial statements in accordance with generally accepted accounting principles for governments.

In order to utilize this upgrade to generate materially correct financial statements, the first step is for counties to change their accounting practices and account structure to be compliant with County Financial Accounting and Reporting Standards (COFARS). The second step is to code receipt and disbursement accounts with certain prescribed codes to allow for the detailed accounts to be summarized as required in the financial statements. This process is called mapping the general ledger accounts. The last step is to prepare modified accrual and full accrual adjusting journal entries to convert the cash basis information in the accounting system to the necessary basis of accounting for the County's annual financial report.

During our audit, we noted the following deficiencies that prevented the accounting system from providing accurate modified and full accrual financial statements. These deficiencies resulted in additional audit time because significant audit adjustments were required to correct the financial statements prepared by the County.

- As a result of coding and mapping errors and incomplete accrual adjusting journal entries, the modified accrual basis fund financial statements were materially misstated and needed numerous audit adjustments. The most significant of these audit adjustments related to receivables, payables, and deferred revenue. The net effect of our audit adjustments to the governmental funds financial statements for selected financial statement captions was as follows:

Total Assets	\$	52,047
Total Liabilities		(668,249)
Total Fund Balance		720,296
Total Revenues		931,695
Total Expenditures		211,401
Total Other Financing Sources and Uses		(47,704)

- The full accrual statements prepared by the County were also materially misstated. The County did not accrue and post full accrual journal adjusting entries to convert the modified accrual statements to full accrual financial statements. Entries should have been made to report capital assets and long-term debt and eliminate interfund activities.

We recommend that the County train staff in coding receipts and disbursements and maintaining COFARS compliant accounts in the accounting system with correct mapping to allow for the detail to be summarized as required in the financial statements. This process should be monitored by a knowledgeable person to ensure that the accounts are correctly summarized for financial statement purposes. As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements. When the financial statements are completed by the accounting system, County staff should review the statements to ensure that reported amounts can be traced back to the prepared supporting schedules and worksheets. Finally, the County will need to prepare full accrual journal entries in the separate general ledger accounting system to convert the financial statements from modified accrual to the full accrual basis.

In order to accomplish this, the County Board should ensure that staff assigned to prepare the annual financial statements and the required notes to the financial statements have adequate training and have a good understanding of the requirements of generally accepted accounting principles for governments. In addition, the Board should ensure that staff have the time necessary to complete the draft financial report by the date mutually agreed to with the Office of the State Auditor.

We are available to assist the County with the implementation of these recommendations. If the County intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, it must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the financial statements, including notes. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

As the County has moved through the transition of having the State Auditor's Office staff assist in the preparation of the County's financial statements to one completely prepared by the County, Computer Professionals Unlimited (Jim Benson) has been retained for training and consulting services. This process continues to be ongoing.

06-7 Audit Adjustments

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

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The adjustments resulted from: County staff needing continued guidance on accounting principles and oversight to provide accurate and reliable information; errors made in recording transactions and with mapping of various account codes; controls over calculating the proper amounts of assets and liabilities did not detect a number of errors, which resulted in the client's records overstating assets, fund balance, revenues, and expenditures and understating liabilities; and the County did not consider the need for controls over the recording of certain accounting transactions. The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements may not be fairly presented.

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

Client's Response:

The County will continue to review internal controls and work to design modifications that will increase internal control and the ability to detect errors and misstatements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-8 Subrecipient Monitoring (CFDA #66.460)

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

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, lists the responsibilities of federal grant recipients that pass those grants on to others. One of the responsibilities is to “monitor the activities of subrecipients as necessary to ensure Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” (OMB Circular A-133, § __.400 (d)(3).)

Monitoring activities normally occur throughout the year and may take various forms, such as: reviewing financial and performance reports submitted by the subrecipient; performing site visits at the subrecipient to review financial and programmatic records and observe operations; maintaining regular contact with the subrecipients, and making appropriate inquiries concerning program activities.

We recommend the County comply with the subrecipient monitoring requirements of OMB Circular A-133 by using some or all of the methods listed above.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Chippewa County Auditor/Treasurer Jon Clauson.

Action Planned:

Reviewing of financial and performance reports submitted by Prairie Country RC&D, site visits, and continue regular contact with the Prairie Country RC&D concerning program activities. We will review the single audit performed on the Prairie Country RC&D.

Completion Date:

September 2007

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Depository Pledge Agreement

The Depository Pledge Agreement between the County and all depositories states that, “The Depositor shall give written notice of such failure, insolvency, or breach. In the event Bank shall fail to promptly cure such failure, insolvency, or breach, it shall be the duty of Trustees, on demand of Depositor (supported by proper evidence of any previously-listed circumstances), to surrender the previously described collateral to the Depositor.”

Minn. Stat. § 118A.03, subd. 4, states: “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

Pledge agreements have been previously executed by banks used by the County. Language in Article V. has been updated per State Auditor recommendation. Updated agreements have been delivered to banks for execution. As of September 15, 2007, all but one have been returned.

PREVIOUSLY REPORTED ITEMS RESOLVED

Collateral Pledged to Secure Deposits (05-2)

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2005, were insufficient for the amount on deposit at the Citizens State Bank by \$657,537.

Resolution

The County Auditor/Treasurer monitors the deposits in designated depositories to ensure that County funds are fully protected as required by Minn. Stat. § 118A.03.

Assignment of Collateral (05-3)

The County did not have a pledge agreement with Prairie Sun Bank, nor did the County have a safekeeping agreement for collateral pledged to the bank to address Minnesota statutory requirements. The County received a "Pledge Receipt" from First Tennessee Bank when Prairie Sun Bank pledged collateral to the County.

Resolution

The County Auditor/Treasurer complies with Minnesota statutes.

Prompt Payment Language in Contracts (05-4)

During our contract compliance testing, we noted that contract CP 05-3A did not ". . . require the prime contractor to pay any subcontractor within ten days of the prime contractor's receipt of payment from the municipality for undisputed services provided by the subcontractor," as required by Minn. Stat. § 471.425, subd. 4a.

Resolution

The County complies with Minn. Stat. § 471.425, subd. 4a, by implementing statutory language in contracts to ensure compliance.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

Schedule 6
(Continued)

If applicable for Chippewa County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2007 and 2008, respectively.

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OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Chippewa County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2006, and have issued our report thereon dated October 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Chippewa County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 04-1.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 22, 2007

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Chippewa County

Compliance

We have audited the compliance of Chippewa County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Chippewa County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Chippewa County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Chippewa County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 06-8 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of and for the year ended December 31, 2006, and have issued our report thereon dated October 22, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chippewa County's written response to the finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

October 22, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 7

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	\$ <u>3,835</u>	\$ -
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Local Law Enforcement Block Grant Program	16.592	\$ <u>1,916</u>	\$ -
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,573	\$ -
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	8,339	-
Alcohol Traffic Safety and Drunk Driving	20.601	<u>9,199</u>	<u>-</u>
Total U.S. Department of Transportation		\$ <u>19,111</u>	\$ -
U.S. Environmental Protection Agency			
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grants	66.460	\$ <u>303,785</u>	\$ <u>303,785</u>
Election Assistance Commission			
Passed Through Office of the Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	\$ <u>183,415</u>	\$ -
U.S. Department of Health and Human Services			
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 14,931	\$ -
Temporary Assistance for Needy Families (TANF)	93.558	93,012	-
Child Care and Development Block Grant	93.575	86,413	-
Foster Care - Title IV-E	93.658	38,020	-
Social Services Block Grant	93.667	108,552	-
Chafee Foster Care Independence Program	93.674	2,076	-
Block Grants for Community Mental Health Services	93.958	<u>5,709</u>	<u>-</u>
Total U.S. Department of Health and Human Services		\$ <u>348,713</u>	\$ -

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 7
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Homeland Security			
Passed Through United Way			
Emergency Food and Shelter National Board Program	97.024	\$ 1,703	\$ -
Passed Through Minnesota Department of Public Safety			
Hazard Mitigation Grant	97.039	4,930	-
Homeland Security Grant Program	97.067	5,987	-
Total U.S. Department of Homeland Security		\$ 12,620	\$ -
Total Federal Awards		\$ 873,395	\$ 303,785

Notes to Schedule of Expenditures of Federal Awards.

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Chippewa County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to the timing difference in revenue recognition under the modified accrual basis, expenditures do not equal federal revenues reported in the financial statements. In 2006, there is also \$2,585 more reported in the federal revenues in the financial statements due to unspent grant funds.
3. During 2006, \$303,785 of CFDA No. 66.460 was passed through to a subrecipient.
4. Pass-through grant numbers were not assigned by the pass-through agencies.