

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

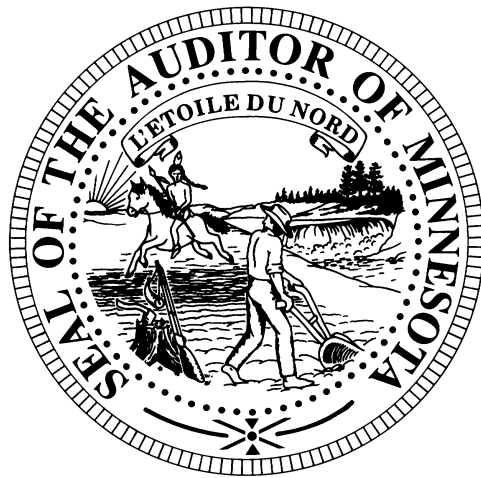
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

For the Year Ended December 31, 2004



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

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

ORGANIZATION
2004

Office	Name	Term Expires
Commissioners		
1st District	Kenneth Koenen	January 2005
2nd District	Jeff Lopez ²	January 2005
3rd District	Donna Halvorson	January 2007
4th District	Jim Dahlvang	January 2005
5th District	Gene Van Binsbergen ¹	January 2007
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 2005

²Chair 2004

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chippewa County

We have audited the basic 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, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 governmental activities, each major fund, and the aggregate remaining fund information of Chippewa County as of December 31, 2004, and the 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. The supplementary 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 November 21, 2005, on our consideration of Chippewa County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

The Auditor/Treasurer of Chippewa County offers readers of Chippewa County's financial statement this narrative overview and analysis of the financial activities of Chippewa County for the fiscal year ended December 31, 2004. I encourage readers to consider the information presented here in conjunction with the financial statements 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, 2004) by \$52,881,210 (net assets). Of this amount, \$14,266,441 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.
- Chippewa County's total net assets increased by \$1,059,318. The increase is a combination of additional capital assets and budget savings from operations.
- As of the close of the 2004 fiscal year, Chippewa County governmental funds ending fund balances were \$13,644,137 compared to \$12,828,131 in 2003. Approximately 95 percent of the amount (\$12,979,340) is available for spending at Chippewa County's discretion (unreserved fund balance).
- At the end of the current fiscal year (December 31, 2004), Chippewa County does not have any bonded debt.

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).

Both of the government-wide financial statements distinguish functions of Chippewa County that are principally supported by taxes and intergovernmental revenues (governmental activities) and from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (program revenues). 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 in 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 three fund types: General, special revenue, and fiduciary. 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 and Road and Bridge, Family Services, and Ditch Special Revenue Funds, 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 Exhibit 3 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 proprietary funds.

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 that is 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 statements referred to earlier in connection with the major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found in Exhibit 5 and Schedules 1 through 4 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 \$52,881,210 on December 31, 2004.

Capital assets, net of \$38,592,044 (land, buildings, machinery and equipment, infrastructure, improvements to land, and construction in progress, less any related debt used to acquire assets that is still outstanding) represents the largest portion of net assets (72.98 percent). Chippewa County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Less than .05 percent of Chippewa County's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14,266,441) may be used to meet the government's ongoing obligations to citizens and creditors.

Chippewa County Net Assets

	Governmental Activities	
	2004	2003
Assets		
Current and other assets	\$ 15,411,152	\$ 15,237,727
Capital assets	<u>38,592,044</u>	<u>38,130,012</u>
Total Assets	<u>\$ 54,003,196</u>	<u>\$ 53,367,739</u>
Liabilities		
Long-term liabilities	\$ 613,333	\$ 499,571
Other liabilities	<u>508,653</u>	<u>1,046,276</u>
Total Liabilities	<u>\$ 1,121,986</u>	<u>\$ 1,545,847</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 38,592,044	\$ 38,130,012
Restricted	22,725	49,812
Unrestricted	<u>14,266,441</u>	<u>13,642,068</u>
Total Net Assets	<u>\$ 52,881,210</u>	<u>\$ 51,821,892</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 26.9 percent of the net assets.

Governmental Activities

The County's activities increased net assets by two percent (\$52,881,210 for 2004 compared to \$51,821,892 for 2003). Key elements in this increase in net assets are as follows:

Chippewa County		
Changes in Net Assets		
	2004	2003
Revenues		
Program revenues		
Charges for services	\$ 1,126,523	\$ 1,050,336
Operating grants and contributions	3,978,915	4,057,696
Capital grants and contributions	1,444,934	1,326,142
General revenues		
Property taxes	4,460,123	4,123,702
Other	2,063,703	2,168,856
	\$ 13,074,198	\$ 12,726,732
Expenses		
General government	\$ 2,461,455	\$ 2,292,019
Public safety	1,666,726	1,156,015
Highways and streets	2,695,612	2,748,176
Sanitation	489,441	431,629
Human services	3,811,115	3,844,552
Health	107,463	129,221
Culture and recreation	345,056	359,334
Conservation of natural resources	387,403	676,555
Economic development	50,609	44,856
	\$ 12,014,880	\$ 11,682,357
Increase in Net Assets	\$ 1,059,318	\$ 1,044,375
Net Assets - January 1	51,821,892	50,777,517
Net Assets - December 31	\$ 52,881,210	\$ 51,821,892

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 \$13,644,137, an increase of \$816,006, or 5.98 percent, in comparison with the prior year as restated. Of the combined ending fund balances, \$12,979,340 represents unreserved fund balance which is available for spending at the County Board's discretion. The remainder of the fund balance, \$644,797, 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 2004, it had an unreserved fund balance of \$3,771,560. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 74.84 percent of total General Fund expenditures. During 2004, the ending fund balance decreased by \$221,689. The primary reasons for this decrease were reductions in County Program Aid from the State of Minnesota, higher than anticipated costs associated to boarding prisoners, and lower than anticipated interest revenue.

The Road and Bridge Special Revenue Fund had an unreserved fund balance of \$3,869,169 at the end of 2004, representing 113 percent of its annual expenditures. The ending fund balance increased by \$511,223 during 2004, primarily due to funds on hand for uncompleted road construction projects.

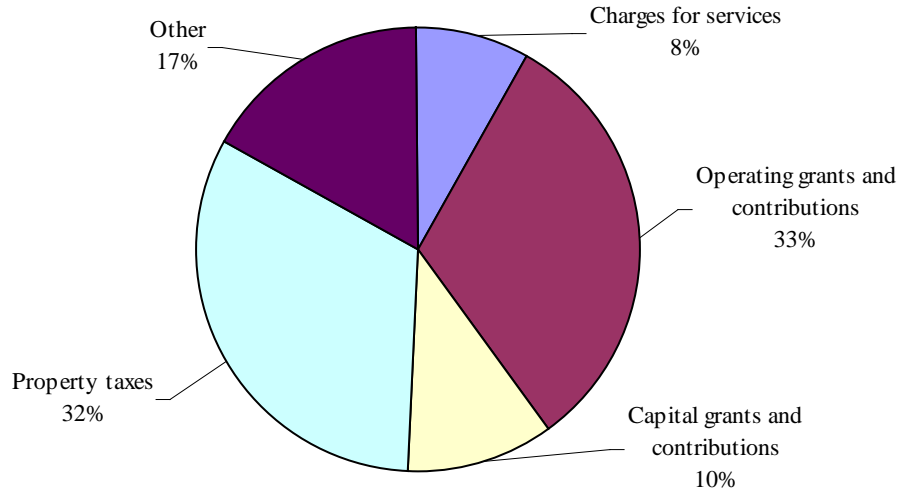
The Family Services Special Revenue Fund had an unreserved fund balance of \$2,667,953 at the end of 2004, representing 69.24 percent of its annual expenditures. The ending fund balance increased by \$325,618 during 2004, primarily due to lower than anticipated out-of-home placements.

The Ditch Special Revenue Fund has an unreserved fund balance of \$2,670,658 at the end of 2004. The ending fund balance increased by \$200,854 during 2004, primarily due to the 137 ditch systems needing less maintenance than was anticipated.

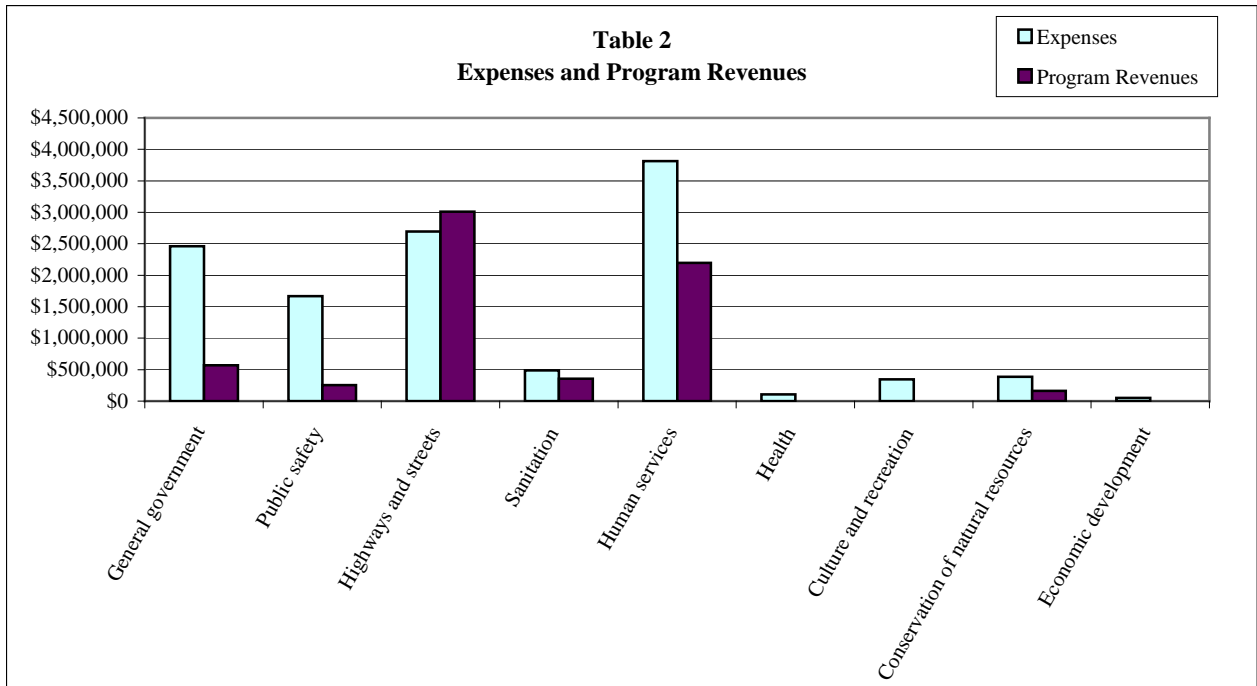
GOVERNMENTAL ACTIVITIES

The County's total revenues were \$13,074,198. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2004.

**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. During 2004, Highways and Streets (Road and Bridge Department) received higher amounts of state funding for road construction projects that result in higher-than-normal program revenues. The remaining funds show typical levels of program revenues.



The cost of all governmental activities in 2004 was \$12,014,880. However, as shown on the Statement of Activities in Exhibit 2, the amount that Chippewa County taxpayers ultimately financed these activities through County taxes was \$4,460,123 because some of the cost was paid by those who directly benefited from the programs (\$1,126,523) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,423,849). The County paid for the remaining “public benefit” portion of governmental activities with \$6,523,826 in general revenues, primarily taxes (some of which could only be used 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 four largest 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	Net Cost of Services
	2004	2004
General government	\$ 2,461,455	\$ 1,892,151
Public safety	1,666,726	1,410,424
Highways and streets	2,695,612	(312,334)
Human services	3,811,115	1,612,873
All others	1,379,972	861,394
Totals	\$ 12,014,880	\$ 5,464,508

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$ 6,310,107
Investments	7,216,947
Receivables - net	1,682,642
Inventories	201,456
Capital assets	
Non-depreciable capital assets	1,520,057
Depreciable capital assets - net of accumulated depreciation	<u>37,071,987</u>
Total Assets	<u>\$ 54,003,196</u>

Liabilities

Accounts payable and other current liabilities	\$ 353,755
Unearned revenue	154,898
Long-term liabilities	
Due within one year	45,930
Due in more than one year	<u>567,403</u>
Total Liabilities	<u>\$ 1,121,986</u>

Net Assets

Invested in capital assets	\$ 38,592,044
Restricted for	
Highways and streets	7,995
Public safety	4,386
Other purposes	10,344
Unrestricted	<u>14,266,441</u>
Total Net Assets	<u>\$ 52,881,210</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	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	\$ 2,461,455	\$ 484,515	\$ 84,789	\$ -
Public safety	1,666,726	81,883	131,163	43,256
Highways and streets	2,695,612	130,972	1,475,296	1,401,678
Sanitation	489,441	99,781	258,356	-
Human services	3,811,115	221,634	1,976,608	-
Health	107,463	-	-	-
Culture and recreation	345,056	-	-	-
Conservation of natural resources	387,403	107,738	52,703	-
Economic development	50,609	-	-	-
Total Governmental Activities	\$ 12,014,880	\$ 1,126,523	\$ 3,978,915	\$ 1,444,934
 General revenues				
Property taxes				\$ 4,460,123
Mortgage registry and deed tax				10,511
Payments in lieu of tax				59,701
Grants and contributions not restricted to specific programs				1,591,423
Unrestricted investment earnings				203,712
Miscellaneous				196,979
Taxes - other				1,377
Total general revenues				\$ 6,523,826
Change in net assets				\$ 1,059,318
Net Assets - Beginning				51,821,892
Net Assets - Ending				\$ 52,881,210

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, 2004**

	General	Road and Bridge	Family Services	Ditch	Total Governmental Funds
Assets					
Cash and pooled investments	\$ 3,315,098	\$ 45,326	\$ 2,563,988	\$ 315,719	\$ 6,240,131
Undistributed cash in agency funds	31,423	7,185	16,379	46	55,033
Petty cash and change funds	2,000	100	100	-	2,200
Departmental cash	12,743	-	-	-	12,743
Investments	500,200	4,405,047	11,700	2,300,000	7,216,947
Taxes receivable					
Prior	47,915	14,419	30,407	-	92,741
Special assessments receivable					
Prior	3,612	-	-	2,585	6,197
Noncurrent	-	-	-	807,553	807,553
Accounts receivable	12,353	321	1,958	350	14,982
Accrued interest receivable	42,470	23,993	71	-	66,534
Loans receivable	196,302	-	-	-	196,302
Due from other funds	552	283	-	-	835
Due from other governments	53,484	160,057	224,598	60,194	498,333
Inventories	-	201,456	-	-	201,456
Total Assets	\$ 4,218,152	\$ 4,858,187	\$ 2,849,201	\$ 3,486,447	\$ 15,411,987

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<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	\$ 80,407	\$ 14,121	\$ 80,544	\$ 2,103	\$ 177,175
Salaries payable	10,382	310	5,379	-	16,071
Contracts payable	-	115,981	-	-	115,981
Due to other funds	283	92	110	350	835
Due to other governments	233,183	2,617	25,272	-	261,072
Deferred revenue - unavailable	51,527	146,548	30,407	813,336	1,041,818
Deferred revenue - unearned	51,910	63,452	39,536	-	154,898
Total Liabilities	\$ 427,692	\$ 343,121	\$ 181,248	\$ 815,789	\$ 1,767,850
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 436,445	\$ -	\$ -	\$ 436,445
Inventories	-	201,456	-	-	201,456
Missing heirs	6,762	-	-	-	6,762
Law library	4,129	-	-	-	4,129
Recorder's equipment	3,582	-	-	-	3,582
Sheriff's contingency	4,386	-	-	-	4,386
Unclaimed property	41	-	-	-	41
Highway allotments	-	7,996	-	-	7,996
Unreserved					
Designated for future expenditures	939,031	2,026,000	900,000	-	3,865,031
Designated for capital expenditures	1,122,940	-	100,000	-	1,222,940
Designated for workers' compensation	96,801	-	-	-	96,801
Designated for County library	104,775	-	-	-	104,775
Designated for economic development	62,651	-	-	-	62,651
Designated for cemetery	714	-	-	-	714
Designated for landfill	1,075,202	-	-	-	1,075,202
Designated for insurance contingencies	184,967	-	-	-	184,967
Designated for water quality	184,479	-	-	-	184,479
Designated for out-of-home care	-	-	500,000	-	500,000
Undesignated	-	1,843,169	1,167,953	2,670,658	5,681,780
Total Fund Balances	\$ 3,790,460	\$ 4,515,066	\$ 2,667,953	\$ 2,670,658	\$ 13,644,137
Total Liabilities and Fund Balances	\$ 4,218,152	\$ 4,858,187	\$ 2,849,201	\$ 3,486,447	\$ 15,411,987

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$ 13,644,137
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.	38,592,044
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	1,041,818
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(396,789)</u>
Net assets of governmental activities (Exhibit 1)	<u><u>\$ 52,881,210</u></u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Road and Bridge</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 2,341,325	\$ 647,122	\$ 1,472,670	\$ -	\$ 4,461,117
Special assessments	81,191	-	-	217,854	299,045
Licenses and permits	11,080	-	-	-	11,080
Intergovernmental	1,396,746	3,110,865	2,467,233	-	6,974,844
Charges for services	421,486	33,471	67,206	-	522,163
Gifts and contributions	25,344	-	16,615	-	41,959
Investment earnings	109,148	56,956	503	37,105	203,712
Miscellaneous	431,607	88,925	154,428	-	674,960
Total Revenues	\$ 4,817,927	\$ 3,937,339	\$ 4,178,655	\$ 254,959	\$ 13,188,880
Expenditures					
Current					
General government	\$ 2,322,781	\$ -	\$ -	\$ -	\$ 2,322,781
Public safety	1,561,011	-	-	-	1,561,011
Highways and streets	-	3,153,557	-	-	3,153,557
Sanitation	488,052	-	-	-	488,052
Human services	-	-	3,745,574	-	3,745,574
Culture and recreation	321,723	-	-	-	321,723
Conservation of natural resources	231,500	-	-	54,105	285,605
Economic development	50,609	-	-	-	50,609
Intergovernmental	63,940	258,678	107,463	-	430,081
Total Expenditures	\$ 5,039,616	\$ 3,412,235	\$ 3,853,037	\$ 54,105	\$ 12,358,993
Net Change in Fund Balance	\$ (221,689)	\$ 525,104	\$ 325,618	\$ 200,854	\$ 829,887
Fund Balance - January 1	4,012,149	4,003,843	2,342,335	2,469,804	12,828,131
Increase (decrease) in reserved for inventories	-	(13,881)	-	-	(13,881)
Fund Balance - December 31	\$ 3,790,460	\$ 4,515,066	\$ 2,667,953	\$ 2,670,658	\$ 13,644,137

**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, 2004**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	829,887
Amounts reported for governmental activities in the statement of activities are different because:		
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, infrastructure, and other related capital assets adjustment	\$ 1,896,840	
Current year depreciation	<u>(1,434,808)</u>	462,032
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(206,184)
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	\$ (12,536)	
Change in inventories	<u>(13,881)</u>	<u>(26,417)</u>
Change in net assets of governmental activities (Exhibit 2)	\$	<u>1,059,318</u>

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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, 2004**

	Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 50,891	\$ 758,527
Investments	12,392,570	-
Accrued interest receivable	159,347	-
Total Assets	\$ 12,602,808	\$ 758,527
<u>Liabilities</u>		
Due to other governments	-	\$ 758,527
<u>Net Assets</u>		
Net assets held in trust for pool participant	\$ 12,602,808	

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Investment Trust
<u>Additions</u>	
Contributions from participants	\$ 27,824,143
Investment earnings	327,586
Total Additions	\$ 28,151,729
<u>Deductions</u>	
Distributions to participants	28,416,707
Change in Net Assets	\$ (264,978)
Net Assets--Beginning of the Year	12,867,786
Net Assets--End of the Year	\$ 12,602,808

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004. 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 which are described in Note 5.C. The County also participates in jointly-governed organizations which are described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about Chippewa County. These statements include the financial activities of the overall County government,

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities normally are supported by taxes and intergovernmental revenue.

In the government-wide statement of net 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, net of related debt; (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 to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are 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, 2004, 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 2004 were \$103,433.

**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, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

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 on 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.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 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, 2004, 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 5,039,616	\$ 4,423,142	\$ 616,474
Family Services Special Revenue	3,853,037	3,801,473	51,564

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental activities	
Cash and pooled investments	\$ 6,310,107
Investments	7,216,947
Fiduciary funds	
Investment trust funds	
Cash and pooled investments	50,891
Investments	12,392,570
Agency funds	758,527
	\$ 26,729,042
Total Cash and Investments	\$ 26,729,042

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Auditor/Treasurer. At December 31, 2004, County bank deposits were \$16,159,694. The carrying amount of the County's deposits totaled \$15,478,446. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 428,134
Collateralized with securities held by the pledging financial institution's agent in the County's name	15,731,560
	\$ 16,159,694
Total covered deposits	\$ 16,159,694
Uncollateralized	-
Total	\$ 16,159,694

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	1	Category 2	3	Fair Value
Government National Mortgage Association	\$ 1,059	\$ -	\$ -	\$ 1,059
Federal Home Loan Mortgage Corporation	357	-	4,517	4,874
Federal Home Loan Bank bonds	426,672	-	5,404,435	5,831,107
Commercial paper	72,971	-	924,283	997,254
Total Investments	<u>\$ 501,059</u>	<u>\$ -</u>	<u>\$ 6,333,235</u>	\$ 6,834,294
Add				
Change funds and petty cash				2,200
Departmental cash				12,743
Checking				366,546
Certificates of deposit				15,111,900
MAGIC Fund				<u>4,401,359</u>
Total Cash and Investments				<u>\$ 26,729,042</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 92,741	\$ -
Special assessments	813,750	725,529
Accounts	14,982	-
Interest	66,534	-
Loans	196,302	22,926
Due from other governments	498,333	-
Total Receivables - Net	\$ 1,682,642	\$ 748,455

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 936,647	\$ -	\$ -	\$ 936,647
Right-of-way	486,705	-	-	486,705
Construction in progress	194,852	-	98,147	96,705
Total capital assets not depreciated	\$ 1,618,204	\$ -	\$ 98,147	\$ 1,520,057
Capital assets depreciated				
Buildings	\$ 8,378,582	\$ 11,445	\$ -	\$ 8,390,027
Machinery and equipment	4,079,283	189,967	175,647	4,093,603
Infrastructure	40,424,845	1,793,575	-	42,218,420
Total capital assets depreciated	\$ 52,882,710	\$ 1,994,987	\$ 175,647	\$ 54,702,050

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 5,649,544	\$ 176,860	\$ -	\$ 5,826,404
Machinery and equipment	2,299,716	431,400	175,647	2,555,469
Infrastructure	8,421,642	826,548	-	9,248,190
	<u>\$ 16,370,902</u>	<u>\$ 1,434,808</u>	<u>\$ 175,647</u>	<u>\$ 17,630,063</u>
Total accumulated depreciation				
Total capital assets depreciated, net	<u>\$ 36,511,808</u>	<u>\$ 560,179</u>	<u>\$ -</u>	<u>\$ 37,071,987</u>
Capital Assets, Net	<u>\$ 38,130,012</u>	<u>\$ 560,179</u>	<u>\$ 98,147</u>	<u>\$ 38,592,044</u>

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

General government	\$ 150,835
Public safety	107,370
Highways and streets, including depreciation of infrastructure assets	1,049,782
Sanitation	1,848
Family services	92,094
Culture and recreation	23,333
Conservation of natural resources	9,546
	<u>\$ 1,434,808</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,434,808</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 92
	Family Services	110
	Ditch	350
		<u>\$ 552</u>
Total General Fund		\$ 552
Road and Bridge	General	283
		<u>\$ 835</u>
Total Due To/From Other Funds		<u>\$ 835</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

	Governmental Activities
Accounts	\$ 177,175
Salaries	16,071
Contracts	115,981
Due to other governments	44,528
Total Payables	\$ 353,755

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	Spent-to-Date	Remaining Commitment
Roads and bridges	\$ 1,135,452	\$ -
Equipment purchases	-	436,445
Total Construction Commitments	\$ 1,135,452	\$ 436,445

3. Long-Term Debt--Loans Payable

In 2001, the County entered into a loan agreement with the Minnesota Pollution Control Agency for financing of failing septic systems. The loan is secured by special assessments placed on the individual parcels requesting repair of a failing septic system. In 2004, the County entered into another agreement with the Minnesota Pollution Control Agency for septic upgrades in the Chippewa River Watershed. There is no repayment schedule or further information available on these loans at this time.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt--Loans Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
2001 Clean water loans	2014	\$13,550	2.00	\$ 152,368	\$ 152,368
2004 Clean water loans				<u>64,176</u>	<u>64,176</u>
Total				<u>\$ 216,544</u>	<u>\$ 216,544</u>

These loans are reported in the General Fund as due to other governments.

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Clean water loans payable	\$ 115,318	\$ 101,226	\$ -	\$ 216,544	\$ 11,581
Compensated absences	<u>384,253</u>	<u>12,536</u>	<u>-</u>	<u>396,789</u>	<u>34,349</u>
Long-Term Liabilities	<u>\$ 499,571</u>	<u>\$ 113,762</u>	<u>\$ -</u>	<u>\$ 613,333</u>	<u>\$ 45,930</u>

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

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.

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 of service 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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

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.

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 web at 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 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 are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. 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:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, 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
	<u> </u>	<u> </u>	<u> </u>
2004	\$ 180,345	\$ 39,805	\$ 25,377
2003	174,782	36,989	24,845
2002	171,096	38,631	24,204

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, 2004, 2003, and 2002, were \$5,830, \$5,789, and \$5,640, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all risk, 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Countryside Public Health Service

Chippewa County participates with Big Stone, Lac qui Parle, Swift, and Yellow Medicine Counties in a joint venture to provide community health services. The governing board consists of 11 members, three from Chippewa County and two from each of the other participating counties. Chippewa County's contribution to the Countryside Public Health Service of \$107,463 is shown as an intergovernmental expenditure in the Family Services Special Revenue Fund.

Countryside Public Health Service has no long-term debt. Complete financial statements of the Health Service can be obtained at P. O. Box 313, Benson, Minnesota 56215.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Region 6W Community Corrections

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

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

Chippewa County's contribution of \$63,940 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.

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 in-patient and out-patient care to the Chippewa County area. The Hospital Commission consists of seven members--three from Chippewa County, three from the City of Montevideo, and a seventh member appointed by the other six members.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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

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 Detention Center) pursuant to Minn. Stat. § 471.59. The Detention Center 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 Detention Center 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 Detention Center is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

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

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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, 2003:

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

The Board reported no long-term obligations at December 31, 2003.

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

D. Jointly-Governed Organizations

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

Area II Minnesota River Basin Project

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. The County made no contributions to the Project in 2004.

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 2004.

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.

E. Agriculture Best Management Loan Program

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,633,750	\$ 2,633,750	\$ 2,341,325	\$ (292,425)
Special assessments	-	-	81,191	81,191
Licenses and permits	7,425	7,425	11,080	3,655
Intergovernmental	841,014	841,014	1,396,746	555,732
Charges for services	463,050	463,050	421,486	(41,564)
Gifts and contributions	20,500	20,500	25,344	4,844
Investment earnings	200,000	200,000	109,148	(90,852)
Miscellaneous	257,403	257,403	431,607	174,204
Total Revenues	\$ 4,423,142	\$ 4,423,142	\$ 4,817,927	\$ 394,785
Expenditures				
Current				
General government				
Commissioners	\$ 211,148	\$ 211,148	\$ 185,371	\$ 25,777
Law library	35,280	35,280	65,092	(29,812)
County auditor/treasurer	321,493	321,493	332,722	(11,229)
License center	117,325	117,325	114,563	2,762
County assessor	222,041	222,041	217,504	4,537
Elections	14,600	14,600	24,667	(10,067)
Accounting and auditing	20,000	20,000	31,610	(11,610)
Data processing	246,078	246,078	230,298	15,780
Central services	20,000	20,000	115,968	(95,968)
Attorney	231,940	231,940	235,611	(3,671)
Recorder	209,545	209,545	211,528	(1,983)
Buildings and plant	367,227	367,227	358,766	8,461
Veterans service officer	136,342	136,342	126,167	10,175
County car	1,450	1,450	5,564	(4,114)
Cafeteria	17,200	17,200	17,483	(283)
Other general government	10,000	10,000	49,867	(39,867)
Total general government	\$ 2,181,669	\$ 2,181,669	\$ 2,322,781	\$ (141,112)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 547,819	\$ 547,819	\$ 657,592	\$ (109,773)
Boat and water safety	1,475	1,475	1,736	(261)
Dispatch	143,651	143,651	170,577	(26,926)
Safety management	6,425	6,425	7,764	(1,339)
Victim witness program	44,000	44,000	50,724	(6,724)
Coroner	9,000	9,000	8,774	226
County jail	516,275	516,275	616,567	(100,292)
DARE program	1,500	1,500	788	712
Civil defense	12,616	12,616	43,078	(30,462)
Other public safety	-	-	3,411	(3,411)
Total public safety	\$ 1,282,761	\$ 1,282,761	\$ 1,561,011	\$ (278,250)
Sanitation				
Solid waste	\$ 59,500	\$ 59,500	\$ 75,066	\$ (15,566)
Recycling	123,320	123,320	123,356	(36)
Water quality control	9,100	9,100	29,234	(20,134)
Hazardous waste	5,000	5,000	2,747	2,253
Land and resource	151,021	151,021	257,649	(106,628)
Total sanitation	\$ 347,941	\$ 347,941	\$ 488,052	\$ (140,111)
Health				
Ambulance	\$ 6,000	\$ 6,000	\$ -	\$ 6,000
Culture and recreation				
Historical society	\$ 20,250	\$ 20,250	\$ 20,250	\$ -
Fairgrounds	18,000	18,000	18,000	-
Airport	20,000	20,000	20,729	(729)
Parks	7,500	7,500	5,261	2,239
Regional library	249,280	249,280	257,483	(8,203)
Other	26,300	26,300	-	26,300
Total culture and recreation	\$ 341,330	\$ 341,330	\$ 321,723	\$ 19,607

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Extension	\$ 80,000	\$ 80,000	\$ 78,611	\$ 1,389
Soil and water conservation	61,200	61,200	61,200	-
Agricultural inspection	-	-	112	(112)
Geographic information	-	-	76	(76)
Weed control	26,196	26,196	40,231	(14,035)
County farm	3,300	3,300	4,207	(907)
Flood control	-	-	46,937	(46,937)
Other	-	-	126	(126)
Total conservation of natural resources	\$ 170,696	\$ 170,696	\$ 231,500	\$ (60,804)
Economic development				
Community development	\$ 18,500	\$ 18,500	\$ 39,415	\$ (20,915)
SWMIF	3,930	3,930	3,930	-
Prairie Five	-	-	889	(889)
Tourism	6,375	6,375	6,375	-
Total economic development	\$ 28,805	\$ 28,805	\$ 50,609	\$ (21,804)
Intergovernmental				
Public safety	\$ 63,940	\$ 63,940	\$ 63,940	\$ -
Total Expenditures	\$ 4,423,142	\$ 4,423,142	\$ 5,039,616	\$ (616,474)
Net Change in Fund Balance	\$ -	\$ -	\$ (221,689)	\$ (221,689)
Fund Balance - January 1	4,012,149	4,012,149	4,012,149	-
Fund Balance - December 31	\$ 4,012,149	\$ 4,012,149	\$ 3,790,460	\$ (221,689)

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 740,521	\$ 740,521	\$ 647,122	\$ (93,399)
Intergovernmental	2,562,579	2,562,579	3,110,865	548,286
Charges for services	-	-	33,471	33,471
Investment earnings	75,000	75,000	56,956	(18,044)
Miscellaneous	185,000	185,000	88,925	(96,075)
Total Revenues	\$ 3,563,100	\$ 3,563,100	\$ 3,937,339	\$ 374,239
Expenditures				
Current				
Highways and streets				
Administration	\$ 212,943	\$ 212,943	\$ 152,657	\$ 60,286
Maintenance	931,598	931,598	697,017	234,581
Construction	2,879,915	2,879,915	1,953,022	926,893
Equipment and maintenance shops	300,744	300,744	350,861	(50,117)
Total highways and streets	\$ 4,325,200	\$ 4,325,200	\$ 3,153,557	\$ 1,171,643
Intergovernmental	240,000	240,000	258,678	(18,678)
Total Expenditures	\$ 4,565,200	\$ 4,565,200	\$ 3,412,235	\$ 1,152,965
Net Change in Fund Balance	\$ (1,002,100)	\$ (1,002,100)	\$ 525,104	\$ 1,527,204
Fund Balance - January 1	4,003,843	4,003,843	4,003,843	-
Increase (decrease) in reserved for inventories	-	-	(13,881)	(13,881)
Fund Balance - December 31	\$ 3,001,743	\$ 3,001,743	\$ 4,515,066	\$ 1,513,323

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,698,501	\$ 1,698,501	\$ 1,472,670	\$ (225,831)
Intergovernmental	1,921,826	1,921,826	2,467,233	545,407
Charges for services	46,062	46,062	67,206	21,144
Gifts and contributions	10,000	10,000	16,615	6,615
Investment earnings	200	200	503	303
Miscellaneous	101,800	101,800	154,428	52,628
Total Revenues	\$ 3,778,389	\$ 3,778,389	\$ 4,178,655	\$ 400,266
Expenditures				
Current				
Human services				
Income maintenance	\$ 943,602	\$ 943,602	\$ 1,051,178	\$ (107,576)
Social services	2,749,758	2,749,758	2,694,396	55,362
Total human services	\$ 3,693,360	\$ 3,693,360	\$ 3,745,574	\$ (52,214)
Intergovernmental				
Health	108,113	108,113	107,463	650
Total Expenditures	\$ 3,801,473	\$ 3,801,473	\$ 3,853,037	\$ (51,564)
Net Change in Fund Balance	\$ (23,084)	\$ (23,084)	\$ 325,618	\$ 348,702
Fund Balance - January 1	2,342,335	2,342,335	2,342,335	-
Fund Balance - December 31	\$ 2,319,251	\$ 2,319,251	\$ 2,667,953	\$ 348,702

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 201,200	\$ 201,200	\$ 217,854	\$ 16,654
Investment earnings	50,000	50,000	37,105	(12,895)
Miscellaneous	25,000	25,000	-	(25,000)
Total Revenues	\$ 276,200	\$ 276,200	\$ 254,959	\$ (21,241)
Expenditures				
Current				
Conservation of natural resources				
Other	276,200	276,200	54,105	222,095
Net Change in Fund Balance	\$ -	\$ -	\$ 200,854	\$ 200,854
Fund Balance - January 1	2,469,804	2,469,804	2,469,804	-
Fund Balance - December 31	\$ 2,469,804	\$ 2,469,804	\$ 2,670,658	\$ 200,854

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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.

2. Budget Basis of Accounting

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

3. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General	\$ 5,039,616	\$ 4,423,142	\$ 616,474
Family Services Special Revenue	3,853,037	3,801,473	51,564

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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
FIDUCIARY FUNDS
INVESTMENT TRUST FUNDS
DECEMBER 31, 2004**

	Pooled	Investments	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 50,891	\$ -	\$ 50,891
Investments	-	12,392,570	12,392,570
Accrued interest receivable	-	159,347	159,347
Total Assets	\$ 50,891	\$ 12,551,917	\$ 12,602,808
<u>Net Assets</u>			
Net assets held in trust for pool participant	\$ 50,891	\$ 12,551,917	\$ 12,602,808

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Pooled	Investments	Total
<u>Additions</u>			
Contributions from participants	\$ 13,105,431	\$ 14,718,712	\$ 27,824,143
Investment earnings	14,669	312,917	327,586
Total additions	\$ 13,120,100	\$ 15,031,629	\$ 28,151,729
<u>Deductions</u>			
Distributions to participants	15,018,828	13,397,879	28,416,707
Change in Net Assets	\$ (1,898,728)	\$ 1,633,750	\$ (264,978)
Net Assets--Beginning of the Year	1,949,619	10,918,167	12,867,786
Net Assets--End of the Year	\$ 50,891	\$ 12,551,917	\$ 12,602,808

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137,239	\$ 920,980	\$ 878,757	\$ 179,462
<u>Liabilities</u>				
Due to other governments	\$ 137,239	\$ 920,980	\$ 878,757	\$ 179,462
 <u>MENTAL HEALTH</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 318,074	\$ 215,142	\$ 166,545	\$ 366,671
<u>Liabilities</u>				
Due to other governments	\$ 318,074	\$ 215,142	\$ 166,545	\$ 366,671
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 37,994	\$ 370,448	\$ 274,034	\$ 134,408
<u>Liabilities</u>				
Due to other governments	\$ 37,994	\$ 370,448	\$ 274,034	\$ 134,408

**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 100,383	\$ 11,175,452	\$ 11,197,849	\$ 77,986
<u>Liabilities</u>				
Due to other governments	\$ 100,383	\$ 11,175,452	\$ 11,197,849	\$ 77,986
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 593,690	\$ 12,682,022	\$ 12,517,185	\$ 758,527
<u>Liabilities</u>				
Due to other governments	\$ 593,690	\$ 12,682,022	\$ 12,517,185	\$ 758,527

OTHER SCHEDULE

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	2,834,898
County program aid		835,184
PERA rate reimbursement		22,735
Disparity reduction aid		117,810
Police aid		36,990
Enhanced 911		42,369
Market value credit		526,951
		526,951

Total Shared Revenue **\$ 4,416,937**

Reimbursement for Services

Minnesota Department of Human Services	\$	1,006,695
		1,006,695

Payments

Payments in lieu of taxes	\$	59,701
Local grants		101,515
		101,515

Total Payments **\$ 161,216**

Grants

State

Minnesota Department/Board of		
Crime Victim Services	\$	16,555
Examining Boards		2,507
Human Services		745,251
Natural Resources		9,421
Public Safety		2,490
Water and Soil Resources		19,686
Veterans Affairs		2,800
Office of Environmental Assistance		49,099
Pollution Control Agency		153,867
		153,867

Total State **\$ 1,001,676**

Federal

Department of		
Agriculture	\$	1,510
Justice		20,169
Transportation		68,709
Health and Human Services		251,629
Homeland Security		46,303
		46,303

Total Federal **\$ 388,320**

Total State and Federal Grants **\$ 1,389,996**

Total Intergovernmental Revenue **\$ 6,974,844**

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**CHIPPEWA COUNTY
MONTEVIDEO, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Internal Accounting Control

Due to the limited number of office personnel within the various Chippewa County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The County will provide as much segregation of duties as possible with the limited staff available.

PREVIOUSLY REPORTED ITEM RESOLVED

Travel Expenditure Reimbursements (02-1)

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 several reimbursed exceptions, indicating a lack of itemization and verification of travel expenditures.

Resolution

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

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

**Highway Planning and Construction (Davis-Bacon Requirements,
CFDA #20.205) (03-1)**

The County did not monitor the compliance requirements for the Davis-Bacon Act. The County received the payroll reports from the contractors on the two projects to show compliance; however, in reviewing the payrolls, it was noted that an employee listed was not paid the appropriate rate.

Resolution

The County established a monitoring system that demonstrates and provides necessary evidence that the Davis-Bacon Act requirements have been adequately monitored.

III. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-2 Collateral Substitution

The procedures used for pledging new collateral and for collateral substitutions changed for Minnwest Bank. The Depository Pledge Agreement states:

Bank may substitute Eligible Securities for any of the Collateral held by Custodian at any time by providing Custodian with a substitution notice signed by an authorized representative of the Bank, provided that the market value of the Collateral following such substitution would equal or exceed the Required Collateral Value. If Bank elects

to require Depositor's written consent on a substitution notice in connection with any substitution complies with the proceeding sentence, Depositor agrees to provide it promptly upon Bank's request.

Minn. Stat. § 118A.03, subd. 5, states: "A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the government entity and receiving confirmation." The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County Attorney review these procedural changes for compliance with Minn. Stat. § 118A.03, subd. 5.

Client's Response:

The County has executed a new pledged security agreement with all County depositories that will conform to state statute.

ITEM ARISING THIS YEAR

04-1 Depository Pledge Agreement

The Depository Pledge Agreement between the County and Minnwest Bank states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default.

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:

The new pledged security agreement contains language that says collateral must be released on demand rather than in three days.

PREVIOUSLY REPORTED ITEMS RESOLVED

Credit Card Claims/Disbursements (03-3)

In some cases, the claims tested during our audit did not have supporting documentation for charges made to the County credit card. One of the claims had proof of charge but not an itemized listing of charges, and one had nothing to support a \$124.38 purchase. Another, at the Hunt Bar and Grill, did not have an itemized receipt attached, and there were numerous purchases for pop, candy, photo frames, and other miscellaneous items without indication of the public purpose being served.

Resolution

The County follows Minn. Stat. §§ 471.38 and 471.41 and allows 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.

Employee Recognition Banquets (03-4)

The Family Services and Road and Bridge Departments held employee recognition banquets. At these banquets, the County paid the cost of the dinner for the employee as well as the costs of door prizes.

Resolution

The County is in compliance with Minn. Stat. § 15.46 and state law and does not provide in-kind benefits to employees unless explicitly authorized to do so by statute.

Suicide Prevention Grants (03-5)

The Chippewa County Road and Bridge Department was given a mini-grant from the Family Services Suicide Prevention Grant. The Road and Bridge Department spent the grant funds on a “Pre-Winter Cool Down.” This included a meal, beverages, door prizes, and other miscellaneous expenses. Family Services held a “Celebrate a Tropical Summer Day.” For this event, grant funds were also spent for meals, beverages, and door prizes.

Resolution

The County discontinued using Suicide Prevention Grant funds for employee social events and prizes.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-4 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form.

The adopted budget does not agree with the revenue and expenditure guidelines on the County's Integrated Financial System (IFS). The IFS general ledger system is the official accounting record for the County, yet it has incomplete and inaccurate budget detail. The revenue and expenditure budgets did not tie to the budget presented on the General Fund and Road and Bridge Fund trial balances prepared by the County. Also, the beginning and ending budget amounts for these funds on the IFS report differed even though there were no budget amendments approved by the Board during the year.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board approved and documented in the Board minutes.

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budgets. We also recommend that any changes to the original budget be approved by formal Board resolution and be so documented.

Client's Response:

Internal controls will be enhanced to provide line item review of departmental budgets as opposed to overall departmental budget review when reviewing departmental budgets. Resolutions will be approved by the County Board when budget excesses are present.

OTHER REQUIRED REPORT

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PATRICIA ANDERSON
STATE AUDITOR

**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, 2004, and have issued our report thereon dated November 21, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 99-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition indicated above is a material weakness.

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 Recommendations as items 03-2 and 04-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 21, 2005